

Financial Wisdom Podcast – Fundamentals of Borrowing

Welcome to the Financial Wisdom podcast series – Take Control of your Financial Future.

In this session, we are going to review the fundamentals of borrowing.

The sensible use of debt is part of a sound financial strategy. Debt can enable you to enjoy things that otherwise are currently beyond your reach. Borrowing can also have an ugly side. Too much, too expensive or the wrong kinds of debt can make life miserable. Developing good borrowing habits early can help you avoid a lot of anguish later.

Here are some basics to keep in mind:

Borrowing costs money and that cost is the interest you pay. That is not necessarily bad. It just means that when you pay it back, you have to pay more than you borrowed. The components of a good debt strategy are quite simple:

- First, choose when to borrow and what to borrow for carefully.
- Second, find the best interest rate and terms, based on your needs and wants.
- Third, live up to your repayment responsibilities.
- And finally, periodically review your debt. Refinancing an existing mortgage or an auto loan may save you money.

As with many parts of handling your finances, there are some habits you should develop:

- Never borrow what you cannot repay.
- Never borrow for a luxury if you cannot afford the necessities.
- Prioritize your borrowing.
- And, reserve some borrowing capacity for emergencies.

To prioritize your borrowing, consider the long term benefits that you may get from what you purchase with borrowed money. Here are examples of how to prioritize borrowings:

- Borrowing to pay for a college education is usually considered to be a top priority.
- Most people get a mortgage to buy a home.
- There may be times when you need to borrow for something that is truly necessary, like health care.
- Most people get a loan when they buy a car. Or, they enter into a lease which is another form of borrowing.
- Then we get into areas where it would be nice to have something, but you have to ask if they are really worth the cost of borrowing. This includes major furniture purchases, extravagant vacations and jewelry.

It is important to have a good credit record.

A good credit record does more than make it easier to get a loan. Most lenders use your credit record to determine how much they will lend you, and what rates to charge. A good credit record will save you money.

When you apply for a loan or a credit card, the lender will check your credit record. They will do this by getting a credit report from one or more of the three reporting agencies that track the borrowing habits of almost all Americans.

It's important to make sure your credit report at these agencies is accurate and up to date. There is a program that enables you to receive a free credit report once a year. You can get it by using the website – annualcreditreport.com. You can also get copies directly from the credit agencies, but there may be a small charge unless you have recently been denied credit. Here are their phone numbers:

- TransUnion, whose phone number is [800/888-4213](tel:8008884213),
- Experian at [888/397-3742](tel:8883973742),
- And, Equifax at [800/997-2493](tel:8009972493).

When you do decide to borrow, be sure to consider all the terms.

Comparing credit cards can be confusing. You have to consider interest rates, fees, and associated benefits. The right card for you should reflect how you use it. If you pay the full balance monthly, the interest rate is of little concern and you can focus on any annual fee and benefits such as, airline miles or cash back features. If you carry over balances, the interest rate should be a top concern.

The right mortgage for you should balance interest rate, length, and down payment requirements that fit your situation. Adjustable rate mortgages usually have lower rates, but your payments may rise if interest rates go up. Long-term mortgages usually lock in a higher rate.

If you expect to stay in your current home for only a few years, an adjustable rate mortgage may be best. If an increase in monthly payments would be too painful, look at a fixed rate mortgage or an adjustable one with rate adjustment limits.

Finally, get help if you need it.

Take action immediately if your borrowing is getting out of control. If credit cards are the problem, stop using them, or even cut them up. Contact lenders to develop a workable repayment plan. And, you can consider using a qualified credit counselor if you need help.

In Summary,

Being conservative in your use of borrowing can help you take control of your financial future. Borrowing for the right reasons and living up to your repayment responsibilities can make borrowing a useful financial tool.

Join us again for another Financial Wisdom podcast. And as always, thanks for listening.