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A Few Things You Should Know About Credit

Borrow only what you need and what you can afford to repay.

Before you consider what kind of credit to use, you should determine whether you should use credit at all. Ask about the annual percentage rate (APR) of interest charged, if the interest rate is variable, and what fees are charged, if any.

Installment Loans and Lines of Credit

- **Installment loans:** These are loans that give you a lump sum of money up front, repayable in steady monthly payments with predetermined repayment terms, such as a fixed interest rate. Car loans and mortgages are installment loans, for example.
- **Lines of credit:** These allow you to borrow money up to a certain amount any time you want and generally offer flexible repayment terms. Credit cards offer a line of credit. With both types of credit, the maximum amount you can borrow, or credit limit, depends upon your credit score, income, and other factors that determine your ability to repay.

Secured Versus Unsecured Loans

- **Secured credit** is backed by property you own. For example, a car loan is generally secured credit. If you fail to pay your car loan as promised, the creditor has the right to take your car. This is also the case for home equity loans and mortgages, which are tied to a house. Secured credit is usually less expensive than unsecured credit, but you should carefully consider whether you can afford to lose the property you use to secure the credit in case you experience difficulty paying back your loan.
- **Unsecured credit**, like that offered by credit cards, will usually cost more, but will not place your personal property at risk, except under certain circumstances (e.g., if you file for bankruptcy). Borrowing money is a serious undertaking that comes with important responsibilities.

Loans are Contracts and Carry Important Responsibilities

- **Understand your responsibilities.** Just like with any contract, you need to understand the responsibilities and the consequences if you fail to meet what's required of you. Even a few missed or late payments can affect your credit record and make it harder to get loans in the future and make them more expensive.

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- **If you find yourself having difficulty repaying your loans**, you should act right away to address it. The worst mistake people make is ignoring the problem or hoping it will go away. It won't. Dealing with it early is the best course of action. Below are some warning signs of problems. If these sound familiar, look at the next section for ways to get your finances in order.

Identify the Warning Signs

If any of these reflect your financial situation, you may need help to manage your finances:

- Making only minimum payments month after month, or skipping payments.
- Making late payments.
- Borrowing money to pay your bills.
- Frequently using cash advances from credit cards.
- Applying for new credit to pay off existing credit cards.
- Having little or no cash for your needs.

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