



# What Borrowing Means

At Republic Bank of Chicago



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REPUBLIC BANK OF CHICAGO

# INTRODUCTION TO BORROWING



## BORROWING BASICS



The Lender provides you money and you have to pay it back, usually with interest.

**Credit:** The ability to borrow money

**Debt:** Money you owe a person or business

- You can get help considering the terms
- You can get help completing the application
- Lender will decide if you are a good credit risk
- Lender will not consider credit worthiness of the person helping you
- Ask the person helping you to make timely payments and keep good records



## IF YOU DECIDE TO BORROW MONEY

## WHAT TO DISCUSS



- Why do you need to borrow money?
- Do you have enough money to repay the loan?
- How will you make payments on the loan?
- Will it affect any of your sources of income?
- What is the best borrowing option for your needs?

# Understanding Financial Agreements and Responsibilities



## Co-Borrowing and CoSigning

### Co-Borrowing

- Taking out a loan jointly with others
- You must repay debt even if co-borrower(s) do not

### Cosigning

- Loan proceeds to go to the borrower, not cosigner.
- Cosigner promises to pay debt if borrower does not



## Responsibilities of Person Helping You

- Act in your best interest
- Manage your money and property carefully
- Keep your money and property separate from theirs
- Keep good records
- Include you in decision-making

# Types of Loans

## **Installment Loans**

- Usually repaid in equal payments over set period of time
- Examples include most fixed rate mortgages, auto loans, and student loans

## **Revolving Loans**

- Repaid based on how much you have borrowed
- Examples include most credit cards and home equity lines of credit

## **Secured Loans**

- Require collateral, such as your house, vehicle, or cash
- You lose the collateral if you don't pay as agreed

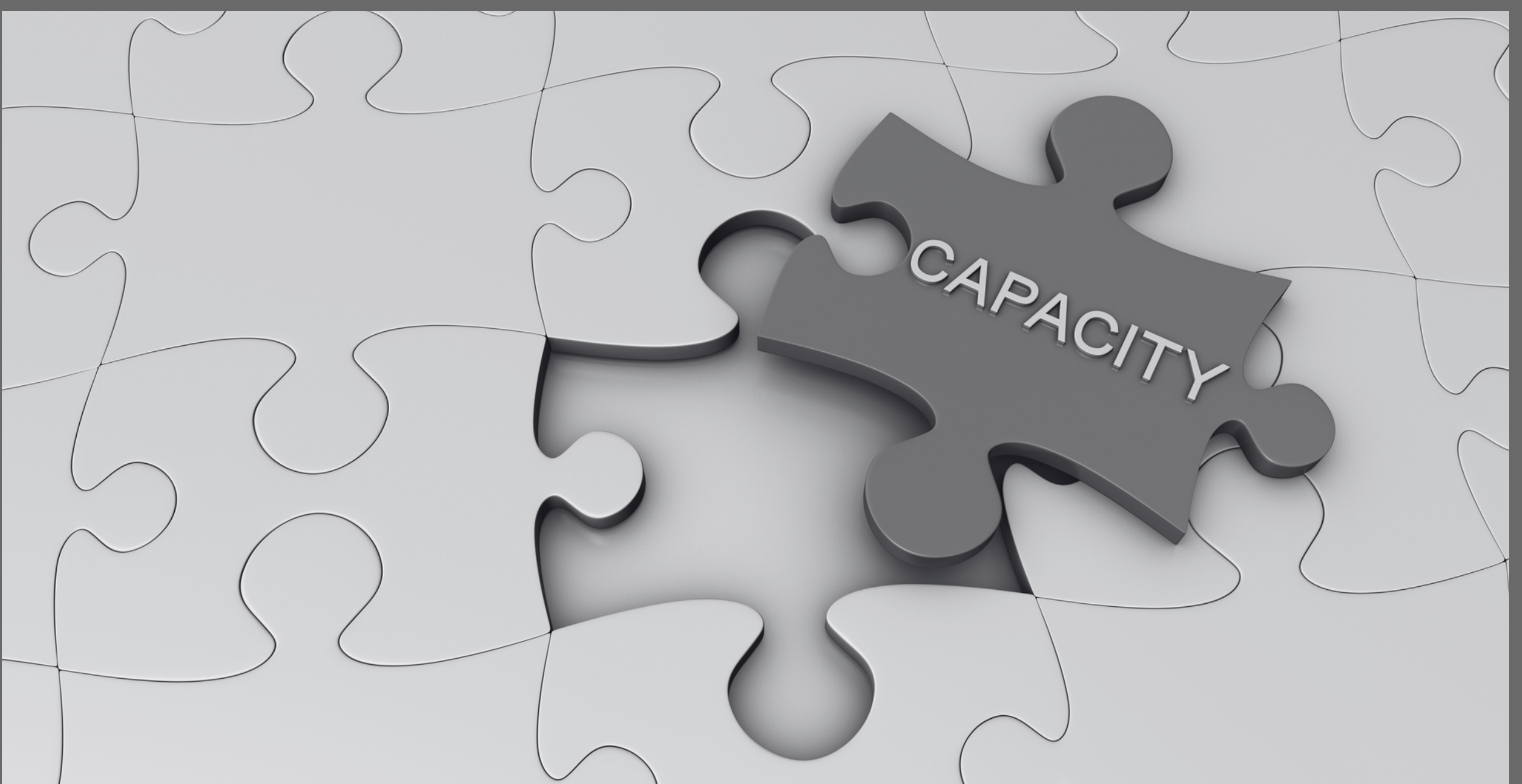
## **Unsecured Loans**

- No collateral
- Often higher interest rates than secured loans

# Capacity

Your present and future ability to meet your payments

- ✓ How much of income goes to pay debt
- ✓ Your debt-to-income ratio
- ✓ How long you have been employed
- ✓ How much money you make each month
- ✓ What your monthly expenses are

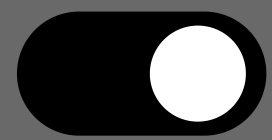
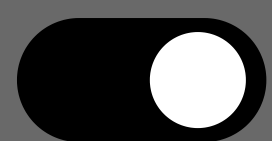




# Capital

The value of your assets and net worth:

- How much money is in your checking and savings accounts
- Your investments and other assets
- Your net worth
- Net Worth = Assets - Liabilities



# Collateral

For secured loans only

- Assets that will secure the loan

For example, your house or money in a bank account

- Depends on the type of loan







## The Cost of Borrowing

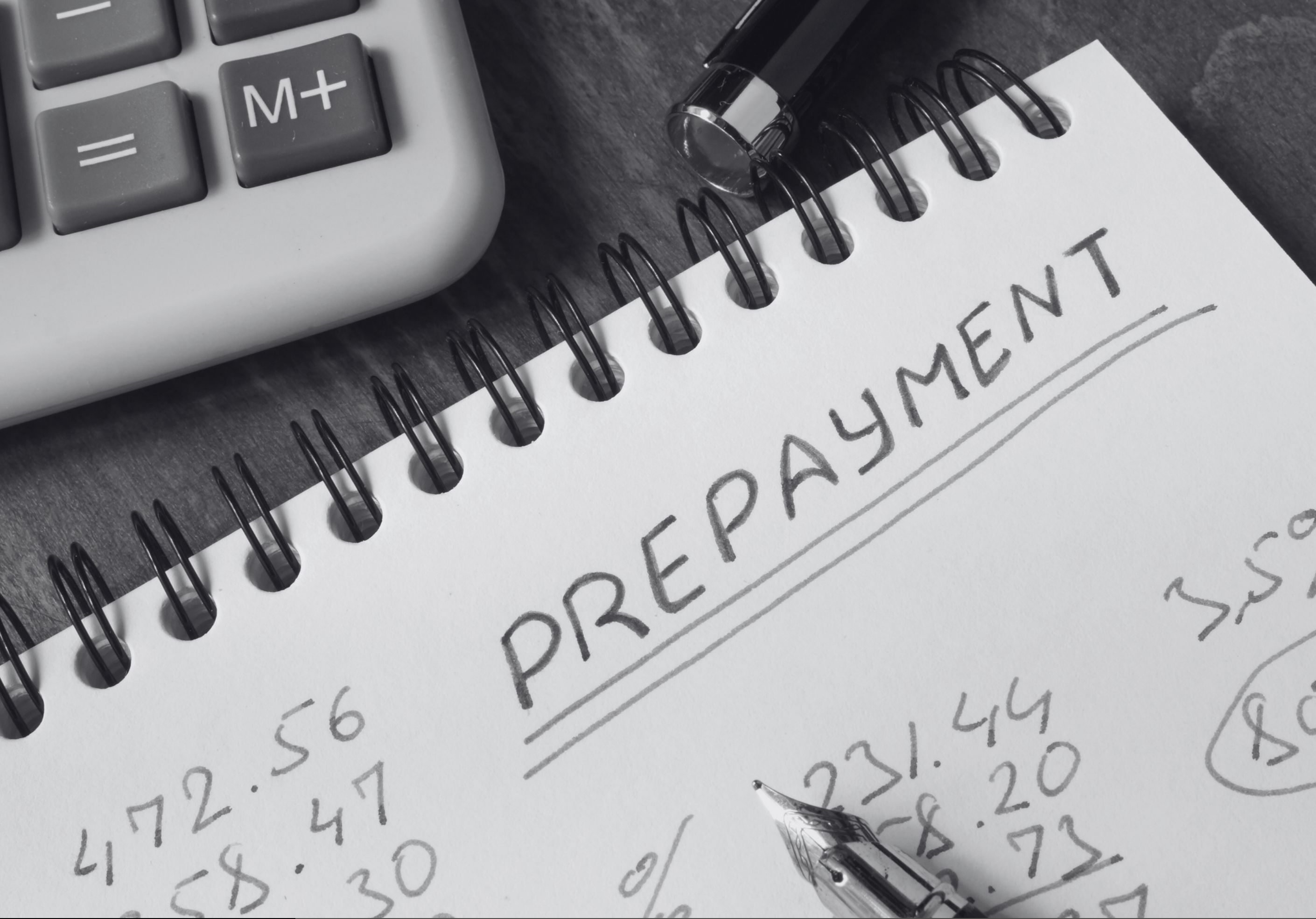
- You generally repay more money than you borrowed
- **Principal:** The money you borrowed
- **Interest:** Amount of money financial institution charges for allowing you to use its money
- **Fees:** May be charges for certain activities like reviewing loan application

# FINANCE CHARGE



Understanding the annual percentage rate and finance charges is crucial for managing credit costs effectively.

| Annual Percentage Rate               | Finance Charge  | Amount Financed                                 | Total of Payments   |
|--------------------------------------|---|---|---|
| Cost of your credit as a yearly rate | Dollar amount the credit will cost<br>$0.12 \times \$5,000 - \$600$ | Amount of credit provided to you on your behalf | Amount you will have paid after you have made all payments as scheduled |
|                                      | <b>\$600.00</b>   | <b>\$5,000.00</b>                               | <b>\$5,600.00</b>   |



# Prepayment

Early repayment of ALL of a loan

- Reduces interest costs
- Pays off the loan

Early repayment of PART of a loan

- Generally reduces interest costs
- Potentially earlier payoff date

Some loans have prepayment penalties; others do not.

*Be sure you can afford the payments before getting a loan. Know how much it will cost and what will happen if you can't pay it back.*

# Factors Lenders May Use In Their Decisions

Key factors lenders may use:

- Your credit (also known as character)
- Your capacity
- Your capital
- Your collateral (for secured loans only)
- Conditions

## Credit/Character

Your credit reports and scores are used to evaluate:

- How you have used credit in the past
- How many credit accounts you have
- Whether you have ever filed for bankruptcy, had property repossessed or foreclosed upon, made late payments, etc.



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