

Personal Borrowing

- A Consumer can obtain goods and services in ways other than by using cash.
- They can:
 1. Buy goods on credit
 2. Borrow the money
 3. Rent the goods
 4. Use Hire Purchase



Personal Borrowing

1. Buying on Credit - Buy Now, Pay Later

- You get the good/service now but pay for it later.
- Examples include:
 - i. Credit Cards
 - ii. Credit Purchase
 - iii. Deferred Payments



Personal Borrowing



i. Credit Card

- These allow the retailer to receive payment immediately from the credit card company.
- You can use the good and pay the credit card company what you owe them at a later date.



ii. Credit Purchase

- Eircom and the ESB allow you to use their service now and pay for it at a later date.

Personal Borrowing

iii. Deferred Payment/Instalment Purchase/Rental Purchase

- Here the consumer pays a deposit and then pays the remainder over a number of instalments.
- The consumer is the immediate owner and can benefit from using the good

Personal Borrowing

2. Borrowing

- When one has no cash and can't buy goods on credit they can borrow.
- This means they obtain a lend of money.
- The cost of borrowing is usually lower than hire purchase or deferred payments

□ Reasons for Borrowing

- i. Useful for emergency needs or if you really need a good and don't have the money to pay for it
- ii. Allows you to buy goods/services that you have not been saving for.
- iii. Allows you to use the good whilst still paying for it
- iv. Allows you to take advantage of price reductions
- v. Helps in dealing with temporary budget deficits

Personal Borrowing

❑ Disadvantages of Borrowing

- i. The cost/interest to be paid may be high
- ii. You may be tempted to impulse buy
- iii. Repaying the loan increases spending thus leaving less money available to save
- iv. You may over borrow and not be able to afford the repayments.

Personal Borrowing

- Factors affecting banks decision to grant a loan
 - i. the borrower's creditworthiness
 - ii. the borrower's ability to repay the loan
 - iii. the borrower's collateral
 - iv. the purpose of the loan

Personal Borrowing

- i. The borrower's creditworthiness
 - The borrower must satisfy the lender that they can repay the loan
- i.e. - have a savings record
 - have a reference or a guarantor
 - repaid loans in the past in time and in full
- iii. the borrower's collateral
 - This is security for the lender. They will obtain some sort of asset if you fail to repay the loan.

Personal Borrowing

- Factors people should consider before borrowing
 - i. Can I afford to borrow?
 - ii. Do I really need the goods?
 - iii. Have I alternatives other than borrowing?
 - iv. Can I wait and save for the good?



Personal Borrowing

Where can I borrow from?

1. Banks
2. Building societies
3. Credit unions
4. Money lenders



Personal Borrowing

- Borrowing can be:
 - i. Short-term; - up to 1 year
 - ii. Medium-term; - between 1 & 5 years
 - iii. Long-term; 5 years +

Personal Borrowing

Banks

Type of Loans

- a. Short Term - Bank Overdraft
 - This is available to current account holders.
 - It is suitable if one experiences a temporary cash shortage whilst waiting for wages/payment
- b. Medium Term
 - This type of loan is suitable for purchasing a car, furniture, a computer, etc
- c. Long Term - Mortgage/Debenture
 - This is usually used to buy/extend a house

Personal Borrowing

Building Society Type of Loan



- This is suitable for short term, medium term and long term loans.
- Many people obtain mortgages from building societies



Personal Borrowing

□ Money Lenders

- There are two types:
 - i. Legal Moneylenders
 - ii. Illegal Moneylenders
- People borrow from money lenders because they find it difficult to borrow from financial institutions.

Personal Borrowing

i. Legal Money Lenders

- These are licensed
- They obey proper lending arrangements and can charge high rates of interest (up to 39%)

Personal Borrowing

ii. Illegal Moneylenders

- These are unlicensed
- They break the law by charging any amount of interest and use bullying tactics to enforce payments

eg.: take a person's child benefit or pensions books

- These should be avoided



Personal Borrowing

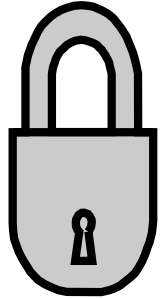
□ Applying for a Loan

- Complete an application form
- Arrange a meeting with a lender



Personal Borrowing

- **What Information is Required by a Lender?**
 - i. Name, address and age of applicant
 - ii. Employment & Income
 - iii. Amount Required
 - iv. Purpose of Loan
 - v. Collateral
 - vi. Other Loans outstanding



Personal Borrowing



Collateral/Security

- When borrowing money, it is sometimes necessary to provide the lender with an asset as collateral/security.

eg.: share certificates, deeds to property, a life assurance policy, etc

- If the borrower fails to repay the loan, the lender will have the right to sell the asset used as security to get back the money they loaned out.

Personal Borrowing

□ Guarantor

- If you have no regular income or are under 18 years of age, you may be required to get a guarantor.
- This is a friend or relative who signs a document agreeing to pay the loan and interest if you do not.