

#### 4. How will borrowing affect your budget?

Before applying for a new loan or making a large purchase on a credit card, think about how the new loan will affect your budget. Will you be able to make the new payment without impacting other loans and routine expenses? If the answer is no, you should not get the loan or make the credit card purchase until you can fit the payment into your budget. If you get a new loan and the payment amount disrupts your budget, causing late or missed payments, it could impact your future ability to borrow by lowering your credit score.

#### 5. Always check with your credit union.

When you are considering borrowing money for an automobile, home improvement, new credit card or any other purpose, always remember to review your options at the credit union. Your credit union typically offers a better value in the form of lower APRs and fees compared to banks and other lenders. As a nonprofit financial institution, our goal is to provide members with access to affordable loans. This is a major benefit of membership, and we hope you always check with the credit union when you need to borrow.



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# BASICS OF BORROWING



Financial Literacy Series

The ability to obtain a reasonably priced loan is one of the foundations for effective money management. Getting a loan at a good rate doesn't just happen. It depends on a variety of factors that you can control.

## Steps For Obtaining A Low-Cost Loan

**1. Review your credit report.** Financial institutions base their decision to approve or disapprove your loan request and the rate you will be charged on your credit score. This score is based on your credit report, which includes: past payment history, bankruptcies, judgments, collections recorded in public records, amount owed on all current loans, length of credit history (the longer, the better), number of new credit accounts (opening too many in a short time can lower the score), number of inquiries for your credit report (a large number of recent inquiries may lower the score), and the number of accounts in use (whether you use them or not, too many open accounts can lower your score).

The law allows you to order one **free** copy of your credit report from each of the three nationwide consumer credit reporting agencies every 12 months. The three companies – Equifax, Experian and TransUnion – have set up a central location where you can order your reports at the same time or one at a time. To order your report, visit [www.annualcreditreport.com](http://www.annualcreditreport.com) or call 1-877-322-8228.

Do not contact the three consumer reporting companies individually.

Please note that your annual credit **report** is free; you may purchase your credit **score** by contacting one of the nationwide consumer credit reporting companies.

**Equifax** - [www.equifax.com](http://www.equifax.com)  
**Experian** - [www.experian.com](http://www.experian.com)  
**TransUnion** - [www.transunion.com](http://www.transunion.com)

You may also purchase a credit score when you request your free annual credit report through [www.annualcreditreport.com](http://www.annualcreditreport.com).

**2. Improve your credit picture.** Once you review your credit report and/or credit score, you can take a variety of steps to make improvements. First, make sure that your credit report is accurate. If not, you may dispute or correct information by contacting the relevant credit agency through the Web site listed above.

The average credit score in the U.S. is around 723. If your score is above the average, you should be in very good shape when you apply for credit. If your score is below this average, here are some steps you can take to raise your score:

- Don't make late payments on your loans, credit cards, utility, phone or other bills.
- Don't "max out" your credit cards, or open and close accounts often.
- Do make the required payments on your current loans a top priority.

**3. Compare rates, terms and fees.** When shopping for a loan, it is important that you compare the rates being offered, terms and any associated fees. You should always compare the annual percentage rate (APR) being offered by various lenders you are considering. The APR is the total cost of the loan including certain fees, expressed as an annual percentage. Regulations require that all financial institutions provide the APR for loans to make it easier for consumers to make comparisons.

It is also important to consider the loan term. Generally, shorter-term loans can be obtained at a lower APR compared to a longer-term loan. When considering the term that is best for you, be sure to take into account the monthly payment. Make sure that you can afford the monthly payment for the term that you select. Monthly payments will be lower for longer terms.