First United Bank
Putting You First

The Ins And Outs Of Loans

Sometime in your life, you'll need a large sum of money all at once and will need to consider getting a loan. If you want to buy a car, a house or even start a business, it's extremely likely that you'll need to borrow money from a bank in order to do so. When a bank or other financial institution lends you money, you have a certain amount of time to reimburse it by making monthly payments. In return for using its money (or more accurately, its customers' money), the bank charges you interest (usually a percentage added on to the initial loan amount – see sidebar). Here are some of the kinds of loans that you may need in the future:

- **Personal Loans** – These loans are typically used to buy items for personal use, such as a car or a boat. They can also be used to pay unexpected medical bills and even to combine multiple debts into one loan (with a single loan payment).
- **Mortgage Loans** – A mortgage loan is used to purchase a home. Once you've owned a house for a while, you can "refinance" your mortgage, which means you reapply for a mortgage loan when interest rates are lower than on your current loan.
- **Agricultural Loans** – These types of loans are used to purchase agricultural equipment, land and supplies that farmers need to operate their farm.
- **Commercial Loans** – Commercial loans are used by business owners to buy property, equipment and supplies to run their business.

INTERESTING INFORMATION ABOUT INTEREST

So what does it take to borrow money? The answer, ironically, is more money. You can borrow money, but in return, you have to pay it back along with a little extra. That extra amount is called interest. Interest is your way of rewarding the lender over time for giving you its money in advance. The higher the rate, the more you pay. Here's a basic example.

> You borrow $10,000 at an annual interest rate of 5% for three years.
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> **10,000 X .05 X 3 = $1,500 in interest.**
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> The total amount you end up paying back is the original amount (known as the principal – in this case $10,000) plus the interest ($1,500) for a total of $11,500.

Did You Know? You can also *earn* interest when you put your money into a deposit account, such as a savings account, CD or IRA.

TYPES OF LOANS

Fixed-Rate Loans Versus Variable-Rate Loans

Fixed-rate loans are those that keep the same interest rate throughout the life of the loan, while interest rates on variable-rate loans can change. Variable-rate loans can start out with a lower interest rate than fixed-rate loans, but the interest rate can move higher in the end. However, the interest rate on a variable-rate loan is usually subject to an agreed-upon cap.

Secured Versus Unsecured Loans

Secured loans are those that are backed up with some sort of collateral – a valuable asset that you own that would be forfeited if you couldn't repay the loan. An unsecured loan does not require any collateral. However, the interest rates tend to be higher on unsecured loans, and these types of loans are usually only approved for those with high credit scores.