



Financial Rights

LEGAL CENTRE

FACTSHEET



Financial Rights Legal Centre Inc.
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WHAT SHOULD I DO BEFORE I BORROW MONEY?

This factsheet is for information only. It is recommended that you get legal advice about your situation.

IMPORTANT: If you are going to sign for a loan with someone else or go guarantor for a loan read our [Going Guarantor factsheet](#) and our [Getting a Loan with Someone Else factsheet](#).

WHAT QUESTIONS SHOULD I ASK MYSELF BEFORE I GET A LOAN?

DO I NEED THIS LOAN?

Do you have any other options aside from getting the loan? For example, save for a less expensive car instead of buying a new one.

CAN I AFFORD THE LOAN?

You should consider the following:

1. CAN I AFFORD THE REPAYMENTS?

Consider how much you earn and your current expenses. As a guide your repayments should not be more than about 35% of your income. For example, if you earn \$500 per week after tax (or \$2000 per month) and the repayments were a \$1200 a month you will have great difficulty affording the loan repayments because your repayments will be 60% of your income.

If the loan is for something other than a home loan, you will need to take into account your housing costs. If your rent (or mortgage) is already 50% of your income then you will be able to manage even less in other repayments. If you have a very low income, such as Centrelink payments only, then it is likely that you will have a very small percentage of your income available for loan repayments.

2. IS IT LIKELY THAT MY INCOME OR EXPENSES WILL CHANGE DURING THE TERM OF THE LOAN?

For example, if you are planning to study or change jobs (where you may be paid less) then you may not be able to afford the loan repayments in the future. In this case, you should either not get the loan or plan to pay the loan off before your circumstances change or get a loan for a lesser amount that you know you will be able to continue to repay.

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3. SHOP AROUND!

Shopping around is highly recommended for a number of reasons:

1. Deciding to shop around gives you time to consider your options. Take your time and make a decision in your own time. Don't be pressured. When a sales person says you must take a deal now you can say: "No I'm shopping around and comparing deals and I am not in a hurry!" Even if you are in a hurry the "shopping around attitude" is worth having.
2. You can compare prices. Loans are a big purchase! Loans always cost money to repay. It is worth comparing loans and getting the best deal. For example, if you are buying a car, it is often cheaper to arrange a loan through a bank or credit union rather than taking the finance arranged through the car dealer.
3. You get more information about your options. Shopping around does not only let you compare price it allows you time to find out about all the options that are available. For example, after visiting a number of banks you find that converting your existing home loan to an equity loan was going to be more expensive than just arranging an increase on your home loan to renovate and buy a car.

GET A COPY OF YOUR CREDIT REPORT

It is recommended that you get a copy of your credit report before applying for a loan. This is just to make sure that there are no listings on your credit report that would affect your chances of getting a loan. For information on how to get your credit report see our [Your Credit Report factsheet](#).

WHAT QUESTIONS SHOULD I ASK THE LENDER?

1. Is the lender licenced by ASIC? All credit providers lending under the credit law must be licenced: see our [Does the National Credit Act apply? factsheet](#) to check if your loan is regulated under the National Credit Act.
2. What is the total amount of my loan?
3. What is the total amount that will need to be repaid? That is, how much will the loan cost you all up? For example, for a home loan of \$150,000 over 25 years you would usually have to repay around \$292,000. Lenders often have loan repayment calculators you can use to check this.
4. What is the interest rate on the loan? Check the amount of the interest rate and whether the interest rate is fixed or variable (this means it will change depending on changes in market rates).
5. Is the loan secured? If the loan is secured the lender has taken a mortgage over your goods, car or a house. A mortgage means that if you fail to make the loan repayments on the loan the lender may take



the mortgaged goods (or house) and sell them to repay money owed. As a general rule it is easier to obtain secured credit than unsecured credit and it will usually be cheaper.

6. How long will it take to repay the loan?
7. How much are the loan repayments and how often do you have to make them? Can you make additional repayments?
8. Do you have to pay for any insurance? How much will it cost?
9. If I decide to pay out the loan early is there a fee? More and more lenders are charging a fee for repaying the loan early. When the interest rate being offered is fixed there will usually be an early repayment fee if you repay the loan early or even make additional repayments. Early repayment fees are also usually charged when you get a home loan with an introductory rate (often referred to as a “honeymoon” rate). Some home loans involve an exit fee or deferred establishment fee if you pay the loan off, or refinance, within a certain number of years even if the loan has a variable interest rate and no honeymoon rate.
10. If I miss a repayment(s) does the interest rate change? Sometimes the interest rate increases by 2 or more percentage points if you do not make a payment by the due date.

If you are getting a loan for personal purposes, for example, a home loan or personal loan, the loan contract must contain all of the above information.

WARNING: Do not sign a document stating the loan is for business purposes if the loan is going to be for personal purposes or to invest in property.

TYPES OF LOANS

You should also ask questions about what types of loans are available. Do not assume that there is only one type on offer as there will usually be a range you can choose from.

NEED SOME MORE HELP?

See our [Getting Help factsheet](#) for a list of additional resources.

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