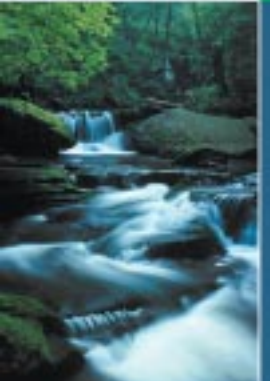


How Should I Borrow?


The Pros and Cons of Different Types of Loans and Debt Solutions



If you're in debt you may have considered borrowing to consolidate your payments, lower your interest costs or even to stay afloat a little longer. Before you borrow, consider your options carefully. No matter how attractively some loans are marketed, they can't *solve* your debt problems. The only way to do that is to spend less, earn more and develop the discipline to pay off your debt.



▶ Myvesta is a nonprofit consumer education organization. We provide a wide range of educational materials to assist those in financial need. Visit us on the Web at Myvesta.org.



Borrowing Against Your 401(k) or 403(b) Retirement Account

Loans against a retirement account are very popular. Most 401(k), 403(b) and profit-sharing plans allow loans up to around half of the amount in your account. (You cannot borrow against an IRA, SEP-IRA, SIMPLE or Keogh Account.)

Pros

- ▶ No credit check.
- ▶ Low interest rate.
- ▶ Interest is paid to yourself.

Cons

- ▶ Loan must be repaid according to schedule or it will be treated as a withdrawal by the IRS, which will result in taxes *and* penalties.
- ▶ If you leave your job, you may be required to repay the entire loan immediately.
- ▶ Zaps long-term retirement savings in favor of short-term solution to debt problem.

Unsecured Debt Consolidation Loan

You can always try to get a personal loan from a bank or credit union to refinance other debts. This type of loan is guaranteed only with your signature.

Pros

- ▶ Interest rate and monthly payment *may* be lower than you are paying on your credit cards if you shop around carefully and if your credit is in excellent shape.

Cons

- ▶ Interest rate and/or total cost of the loan may be *higher* than with current debts if you don't shop carefully and compare the total cost of the loan.
- ▶ May be hard to qualify if you already have debt.



Home Equity Loan

Pros

- ▶ Interest rate *may* be lower than with other types of loans.
- ▶ Interest *may* be tax-deductible.
- ▶ Low monthly payments, or interest-only payments.

Cons

- ▶ Serious risk of losing your house if you can't keep up with payments.
- ▶ Interest on loans above the fair market value of the home is *not* tax deductible.
- ▶ Repayment period can be 10 to 20 years or longer, meaning you'll be paying forever!
- ▶ With newer 125 percent loans, you can be upside down on your house — owe more than it's worth — and stuck if you need to move.

Refinance Your Mortgage

You may be able to refinance your mortgage and, if you have built up equity, get cash out to pay other bills.

Pros

- ▶ Lower monthly mortgage payments.
- ▶ Lower interest rate, if rates have dropped since your previous mortgage or if your credit rating has improved.
- ▶ Tax break on the interest part of your payments.

Cons

- ▶ Closing costs and points may be expensive.
- ▶ You may refinance short-term debt (like credit card bills) with long-term debt — taking a long time to pay it off.
- ▶ Risk of losing your house if you can't keep up with the payments.
- ▶ Start over again with a brand-new mortgage and it will take 15 or 30 years to pay it off.

Borrow From Friends or Family

A friend or family member who wants to help out may agree to loan you some money. Be as above-board and professional about it as you possibly can: agree upon a repayment schedule, pay by check so you'll have a record of payments, and pay a penalty if you are late with payments. If you have any doubts about borrowing from someone you know, don't do it!

Pros

- ▶ Low or no interest, depending on the terms.
- ▶ Flexible repayment — if the “lender” agrees.
- ▶ No credit check required.

Cons

- ▶ This is one of the best ways to lose a friendship or ruin a relationship if you can't keep up with the payments as agreed.

Using Cash Advances

Using a credit card to pay off other credit cards or loans may sound downright dangerous, but there are actually good deals out there — if you look very carefully and read the fine print! You can usually obtain cash advances through an ATM or by using a check sent by the credit card company. Some card companies will take care of the transfer for you, with only your verbal authorization.

Pros

- ▶ Interest rate may be *very* low with some promotional offers.
- ▶ Flexibility with payments: you can pay more to pay it off quickly, or pay small, minimum payments if times get tough.

Cons

- ▶ Expensive cash advance fees (as much as four percent of the amount) — these may be waived if you ask.
- ▶ Promotional rates may rise substantially after the introductory period.
- ▶ If you're late with just one payment, you may be charged a late fee and/or find your interest rate raised much higher.
- ▶ Very small monthly payments can stretch the debt out *forever*.

Debt Eliminator®

If you need help creating a plan to pay back your debts, Myvesta's *Debt Eliminator* may be just what you're looking for. Your personal, month-by-month printed plan will show you how to get out of debt in the shortest amount of time and pay the least amount of interest — without increasing your monthly payment.

Pros

- ▶ No refinancing or credit check.
- ▶ Shows you exactly how to pay off debt fastest, while paying the least interest.
- ▶ No approval process.

Cons

- ▶ Does not reduce interest rates and/or fees.

About Myvesta...

Myvestasm is dedicated to helping people create healthy financial lives. The organization provides a wide range of materials to inspire and inform people so they can break down their barriers to financial and personal success. For more information visit Myvesta.org online.

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