

Understanding Loans

Loans allow us new opportunities, such as buying a new car, house, camper, or starting a new business. Having the ability to make a large purchase on your own is a big step. Learning about the different types of loans, and how they can help you is a great place to start. Isabella Bank is here to help.

Why it is important to know about loans?

Student loans are one of the first experiences that many young adults encounter. If it isn't a student loan, it may be a car loan or a home loan. Whatever loan is your first, it is important to understand what you are getting yourself into. This isn't one of those areas where you jump in head first. Knowing what you are signing up for can largely impact your financial health.

What is a loan?

It is key to know what a loan actually is and the functions of each individual loan. A loan is where you borrow money from a financial institution to pay for something (house, car, or tuition) and over time you have to pay back the original amount plus interest. Interest is paid by the borrower and is displayed as a percentage. Depending on the institution and the allotted time, the interest rate will vary.

Why is interest important?

Understanding the different interest rates will help you better understand the loan. There are fixed and variable interest rates. A fixed interest rate will stay constant throughout the loan, whereas a variable interest rate changes over time. Understanding that there are different types of interest rates will help you when it comes time to make payments.

What are the different types of loans?

With being able to understand what a loan is and how interest works, it is important to know the different types of loans.

- ◆ [Student Loans](#): this is a loan that is exclusively available to students to help with the cost of tuition and college needs (books or housing).
- ◆ [Personal Loans](#):

Home Loans (aka mortgages): can be used for a home purchase, refinance, or construction. Refinance is a revised or replacement of a current loan to decrease the interest rate or lower the mortgage payments. This loan is not restricted to a primary residence, it can also be used for secondary homes, vacation homes, or investment properties.

Home Equity Loans: allows homeowners to borrow against the equity in their home. The equity of a home is a home's fair market price (the price it would sell for), less than the outstanding balance of existing liens (interest owed).

Auto Loans: can be used to buy new or used vehicles.

Personal Term Loan: can be used for a wide variety of personal needs, such as vehicle repairs, family vacations, education expenses, or personal projects.

Credit Builder Loan: a way to establish or rebuild credit. This will help with future chances of getting loans.



Home Improvement Loan: used for home improvements including renovations or redecoration. The borrower may be asked for specific details of the nature of the work on the home.

Personal Line of Credit: a loan with a fixed amount of capital. This loan is known as a revolving loan, meaning the individual can pay it off and take more money out continuously.

Recreational Vehicle (RV) Loan: is used for recreational vehicles (campers, motorhomes, or boats). This loan is a little different than an auto loan, it can have a longer period of time because of the larger cost of recreational vehicles.

◆ **Business Loans:**

Commercial Real Estate Loan: can be used for the purchase, refinance, or construction of commercial properties.

Equipment Loans: can be used to purchase new or used equipment.

Business Lines of Credit: similar to that of the personal line of credit, but this is typically used for short-term business needs.

Business Term Loans: the lending of money with regular payments in a set period of time.

Agriculture Loans: can be used for a wide range of agribusiness-related needs. This might include working capital, farming equipment, livestock, vehicles, and more.

Small Business Administration Loans: this is a small business loan that is partially guaranteed by the government, allowing the financial institution to have less risk when issuing the loan. Additional guidance for new small business owners can be found at sba.gov (U.S. Small Business Administration).

What is the application process?

After finding the loan that you are after, you need to apply for the loan. Here at Isabella Bank, we have an online application, which you can find at isabellabank.com. It asks a few simple questions about your personal finances and is a user friendly experience with sections within the application. If you would rather have a person to walk you through the loan application process, we do have Isabella Bank employees who are more than happy to help. During the application process, if you don't understand anything or have any questions do not hesitate to ask.

What to do if issues arise?

One thing to keep in mind, is that Isabella Bank is always here for you. We understand that life happens and problems show up unannounced. No matter how small or large, we are always here to help. If you are unsure on who to contact, that is okay, we will make sure you get to the right place or person.

Understanding what a loan is and the functionality of loans can prepare you as a future borrower. Lending is widely diverse and as with all situations, length, term, and conditions will vary. There will be different requirements, penalties, fees, and cost depending on each loan. Being an educated consumer, working with a trusted lender, and reading all the documents before signing will make the experience as smooth as possible. "Be selective, don't take the first thing. Research, there are a lot of opportunities." –Don Forster

Apply Online at isabellabank.com or call 800.651.9111 to get started today!



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