

Tips for Wise Borrowing

Even though nobody enjoys carrying debt, most people will borrow money at some point in their life. If used wisely and for the right purpose, borrowing can make sense for your particular circumstances.

Let's consider some common types of debt and a few tips on reducing borrowing costs.

Who doesn't have one or more **credit cards** stashed in their purse, wallet or digital wallet? These cards allow the user to make a purchase or pay for a service while deferring payment. However, if you don't pay the card balance in full by the due date, then prepare to be charged high interest rates on the outstanding balance.

Lines of credit are similar to credit cards: you borrow money and pay interest on those funds. What's different is that a credit line functions as a flexible loan where you borrow against a predetermined maximum amount and interest is charged from the day you borrow (although typically the rate is lower than credit cards).

Businesses often use credit lines as a source of working capital when needed, but individuals may also turn to them. In particular, a **home equity line of credit (HELOC)** is a type of secured revolving line of credit that offers you access to funds – often for major home improvements or repairs, but not exclusively – and uses the equity in your home as a guarantee of repayment. Interest rate charges tend to be lower for HELOCs when compared to unsecured loans and credit cards.

Just as it sounds, an **automobile loan** provides funds so you may purchase a vehicle in full and upfront. An auto loan allows you to buy a vehicle that's newer than you may otherwise be able to afford, which might result in a more reliable automobile with fewer costly repairs relative to older vehicles. Of course, you'll need to make regular interest payments on this loan, and if you fall behind in payments, the lender may hold the right to repossess your vehicle.

Tips to reduce borrowing costs

1. An obvious tip is to shop around. For example, credit cards have different features and terms, different interest rates and different rewards or other perks. It's easy to compare cards online and see which one best suits your needs. Receiving cash back on expenditures has become a popular reward.
2. Another obvious tip is to pay down debt as soon as you practically can, based on your financial circumstances. Of course it's ideal to pay the full balance before the due date, but if you can't, then control borrowing costs by minimizing the duration and amount of your outstanding balance.
3. Lending is a competitive market and financial institutions want to lend you money (and hopefully entice you with their other products and services). Given the heavy competition, try to negotiate better terms or lower interest rates. Be prepared to approach another lender if an institution is unable to meet your needs or expectations.
4. Only borrow what you must. Whatever your method of borrowing, interest payments will raise the total cost of your purchases or services received. It's easy to get carried away when you don't have to pay upfront with cash or a debit card, so be mindful of your spending and try to avoid giving in regularly to impulse buying. Maintaining a budget can help you manage spending.

5. Just as you may secure a pre-approved mortgage before buying a home, consider getting advance approval for other borrowing purposes (e.g., auto loan, line of credit). That way, you know what your debt obligations may be, so you can budget and manage your finances better. Also, leaving borrowing arrangements to the last minute may impede your ability to negotiate terms and rates.
6. Last but certainly not least, get professional advice from an advisor who understands your whole financial picture and can help you borrow wisely, putting you in the best-possible financial position.

To learn more about smart ways to borrow and manage debt, please contact us today.

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