



GUIDE TO OBTAINING SMALL LOANS **Making Informed Choices**

Do you need a loan of \$5,000 or less to make home repairs, consolidate your debt, support your expanding family, pay for education or take care of some other pressing need? A NeighborWorks® counselor can help you obtain what you need without hidden costs.

If your credit score* is good enough (670 points or higher), you may be eligible for a personal loan from a bank, credit union or online lender at a reasonable cost. If you don't know how to find such a loan, or your credit score is low, a properly trained counselor can help you avoid high-cost loans, triggering a cycle of borrowing and mounting debt that is difficult to escape.

When looking for the best loan options, your NeighborWorks counselor will help you:

- **Avoid paying penalties (such as late fees or additional interest)** by finding a loan that allows repayment over time according to a schedule you can afford rather than in a lump sum.
- **Avoid borrowing a relatively small amount of money lent at a high interest rate until you receive your next paycheck** which are easy to obtain because you don't have to provide a credit history.
- **Improve your ability to obtain larger loans at less cost by first taking out smaller ones.** Make sure these smaller loans are reported to credit bureaus so you strengthen your credit history and score—your “financial reputation.”

- **Obtain clear information** about the full cost of a loan as well as the risks of borrowing (for example, if your loan requires that you sign over your car title to protect the lender, you risk losing your car if you miss payments or can't repay the loan).

Where to get a small loan

Not all major **banks** offer personal loans under \$5,000 but almost all **credit unions** do, with many lending as little as \$500. Some also do not require a minimum income level or credit score to approve a loan. Instead they review your financial history and debt-to-income ratio (monthly debt payments divided by pre-tax income).

Another alternative is an **online lender**, which offers speed, convenience and the ability to shop for the lowest interest rate without conducting credit inquiries. Online loans often are easier to obtain by people with poor credit ratings. Interest rates typically are a maximum of 36 percent—high, but less than traditional payday loans.

* Credit score is a number assigned to a person that indicates to lenders their capacity to repay a loan.

WE ARE HERE TO HELP!

Your NeighborWorks-affiliated counselor can help you determine which option best suits your circumstances. For more information and guidance, contact: