

# The Lowdown on Loans



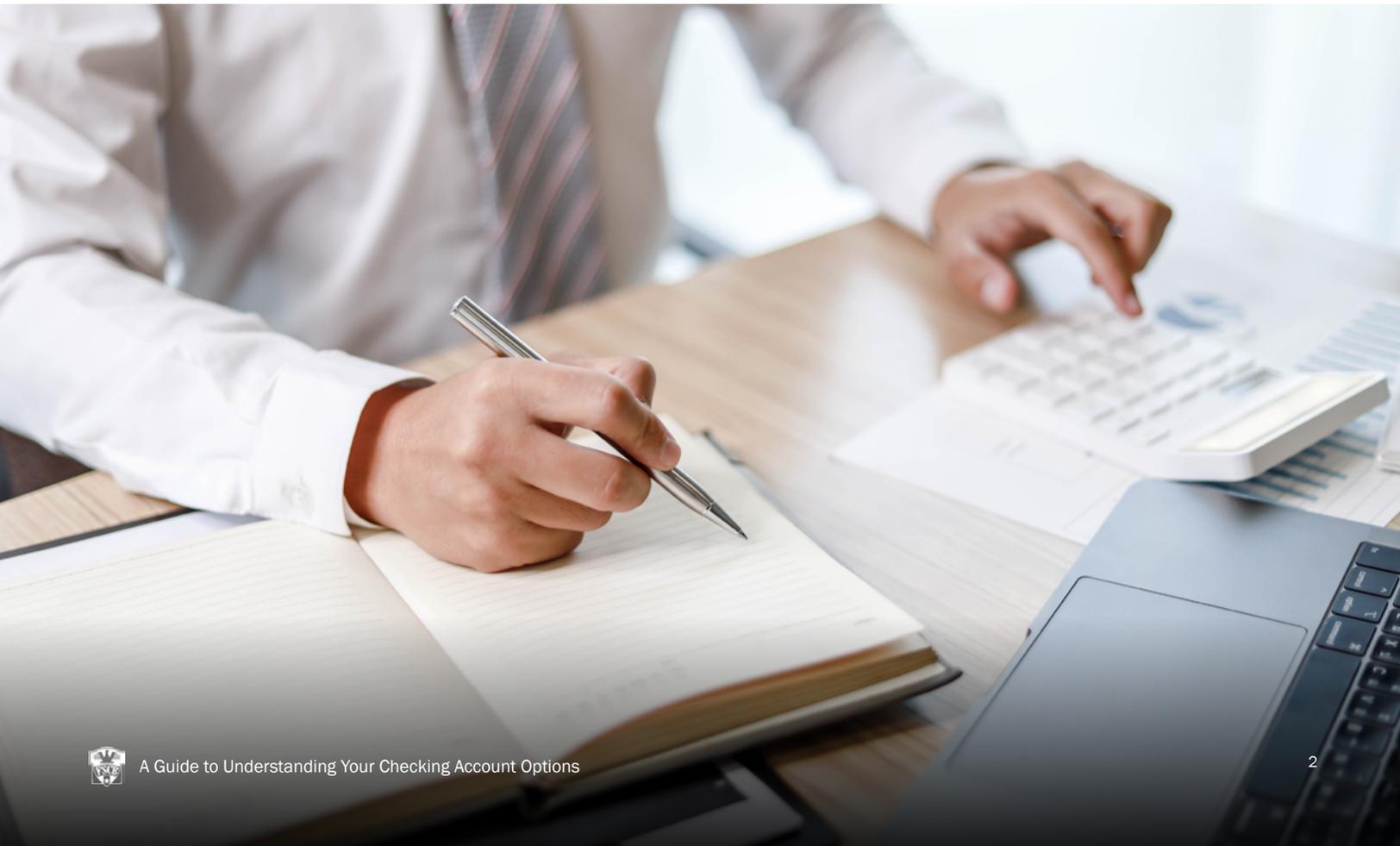
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First State  
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# Introduction

Whether you hope to buy a car, pay for college, start a small business, or buy a home, you will most likely encounter at least one big expense in life. These expenses often mean exciting things are happening—but, in many cases, the bills start coming all too quickly.

Many of the dreams and goals we set for ourselves wouldn't be possible without loans to help us pay for those big expenses over time. From families with young children to bold entrepreneurs, lending products open doors for all kinds of people to pursue opportunities, strengthen their financial security, and lay a foundation for long-term prosperity.

Although loans are a helpful tool, it is also true that too much debt can quickly become a bad thing. With the average U.S. household [more than \\$155,000 in debt](#), consumers must be smart about when they turn to loans and how much debt they're willing to take on at once.

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At the same time, responsible consumers can use debt to create a financial cushion that improves their short-term financial stability and improves their ability to increase their wealth over time.

Whatever your reason might be for seeking out a loan, it's essential that you understand how those loans work, what your lending options might be in any given scenario, and how you can manage your loans and debt to move closer to your financial goals rather than falling further and further behind.

We're here to help. In this guide, we'll cover all of the basic information you need to know about a wide range of loan products, including what those loans are used for, how lenders determine whether to approve loan applications, and how to improve your odds of approval when you apply for a loan.



# What Is a Loan?

Let's start with the basics: A loan is a contract made with a financial institution. In this contract, a lender provides an applicant—either an individual, multiple individuals, or an institution—with a lump sum of money. Depending on the type of loan, this lump sum may be intended for a specific use, or the borrowers can have flexibility to use the money however they want.

In exchange for this loan, the borrower agrees to a repayment plan that charges interest based on the amount borrowed. Lenders turn a profit through the interest charges accrued on the outstanding balance the borrower owes, and borrowers get value from the loan through increased purchasing power that lets them afford large purchases.

In addition to fixed loans that offer a lump sum and a scheduled repayment term, certain types of loans offer revolving access to funds where money is available to loan on an as-needed basis. Credit cards and home equity lines of credit, for example, are types of loan products that may be used instead of or in addition to conventional loans.



# Common Types of Loans

When seeking a loan, it's important to determine whether certain loan products are designed for your specific lending need. If you want a loan to buy a home, for example, a mortgage is the appropriate loan product to seek out, and the characteristics of this loan can vary from other loans in significant ways.

In other cases, specialized loan products may offer certain processing and servicing steps that improve your odds of being approved for a loan and create more value for you as a borrower. Read on for a summary of the most common types of loans, including some of the top characteristics and benefits of each.

## PERSONAL LOANS

Personal loans represent a broad category of loans, all of which come with few, if any, restrictions regarding how those funds can be used. These loans are a type of consumer loan offered by most financial institutions, and qualifying for them depends on your creditworthiness and ability to repay the loan, based on your income.

Most consumers turn to a personal loan if they have a need for lump-sum funds that don't fall into one of the categories outlined down below.

[Apply for a Personal Loan](#)





## HOME LOANS

Also known as mortgages, home loans are a type of loan you seek out to purchase a home. A number of options are available when seeking out a home loan, ranging from conventional mortgages to FHA loans to first-time home buyer loans to VA loans that may require no down payment for active military personnel and veterans.

Home loans typically offer among the lowest interest rates of any kind of loan, although they can come with more restrictions. Because of the size of the loan and the transfer of properties titles, these loans also require more intensive processing; a typical mortgage approval process requires about 45 days from the day a purchase offer is accepted.

In addition to primary mortgages, borrowers may also seek out home equity loans to borrow money based on the [appraised value of the home](#). These loans are taken on top of an existing mortgage, and they typically charge a higher interest rate.

[Apply for a Home Loan](#)



## AUTO LOANS

Vehicle financing often offers the lowest interest rate of all conventional loan types, making this a more affordable form of debt than many other loan types.

Vehicle loan rates tend to be relatively low because the vehicle can be easily repossessed as collateral if you fail to keep up with your payments. Many lenders are able to process vehicle loan applications quickly, often within a day. Prequalifying with a lender can expedite the approval process to help you purchase your vehicle faster.

[Apply for an Auto Loan](#)

## BUSINESS LOANS

Small business and other commercial loans can be found through any bank, credit union or lender that works with small business accounts. These business loans can be more complicated when going through the application and approval process because both your business finances and personal creditworthiness may be evaluated when deciding whether to approve the loan.

Some lenders may offer business loans that are guaranteed by the [U.S. Small Business Administration](#), making them easier to qualify for. Contact your local lenders to learn more about business lending options.

[Apply for a Business Loan](#)



## STUDENT LOANS

As the cost of college tuition rises, student loans are increasingly essential to affording a college education. Student loans can be found through both private and federal lending options.

Federal student loan products include both subsidized and unsubsidized, and the interest rate charged across these different loan options can vary widely. The [U.S. Department of Education](#) offers a number of resources to help you understand your options and search for student loans to meet your needs.

## AGRICULTURAL LENDING

Similar to standard business loans, agricultural loan products are developed specifically to support farming and other agricultural businesses. Some of these loans may be subsidized to support the success of those businesses. Contact [your local lender](#) to learn more about these options.

[Apply for an Agricultural Loan](#)

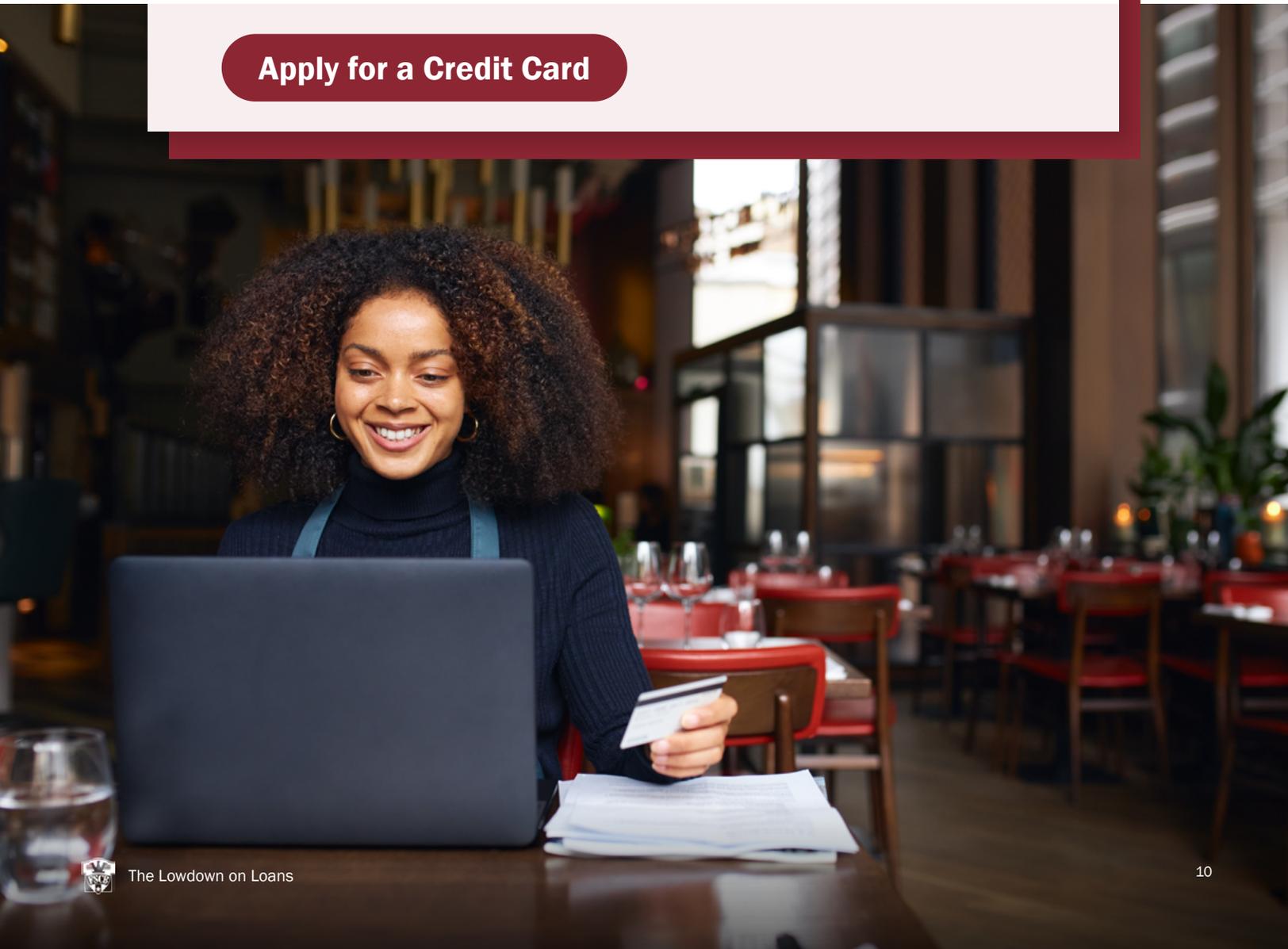


## CREDIT CARDS AND HELOCS

As mentioned above, revolving credit accounts like credit cards and home equity lines of credit (HELOCs) are types of loans your business may benefit from.

A key difference between credit cards and HELOCs is the interest rate charged; a HELOC can offer a rate competitive with personal and other types of loans, but credit cards are notorious for high interest rates.

[Apply for a Credit Card](#)



# Applying for a Loan: What Do Lenders Look At?

When you apply for a loan, lenders will evaluate your application by focusing on certain key data points that indicate whether you are reliable and capable of affording the monthly repayment terms for that loan.

The specific process used to evaluate loan applications will vary by lender, but some of the most common criteria considered in loan approvals include the following:



**Credit score:** The higher your credit score, the lower your loan interest rates will likely be. In addition, many lenders and loan types may have minimum credit scores that must be met to qualify for financing.



**On-time payment history:** A track record of on-time payments will factor into your credit score, but it could also give lenders pause if you show a tendency to miss payments—especially if some of those late or missed payments have occurred recently.



**Income:** Your debt-to-income ratio will be a factor for most loan applications. Lenders want to be confident that your current income will allow you to afford whatever payments you're about to take on upon approval of your loan.



**Loan collateral:** In cases where collateral is used to secure the loan, the lender may seek out verification of that security's value. This is common for homes and vehicles but may be relevant to other types of loans as well.

# Interest Rate Expectations When Shopping for a Loan

Different types of loans offer their own expected interest rate ranges. For example, whereas mortgages and auto loans are known for offering low interest rates, other types of loan products—such as personal loans and especially credit cards—can offer higher interest rates that will increase the total amount you repay over the course of your repayment term.

In addition to comparing the rates offered by different lenders for a particular type of loan, it's important to determine what type of rate you are receiving. Interest rates can be broken down into two broad categories, both of which you should be familiar with before applying for any type of loan: fixed rate loans and adjustable rate loans.



## Fixed Rate Loans

A fixed rate loan is a loan that will guarantee an interest rate for the life of the loan. This is a standard rate option available across mortgages, vehicles, personal loans, and many other lending products.

The benefit of fixed rate loans is that your payment—and the interest you pay—will be consistent across your entire repayment term. If you receive a loan when interest rates are low across the lending market, you may also be able to lock in a cheaper rate as compared to the rates that might be available months or years down the road. The security and stability of these loans is the primary reason why consumers opt for fixed rate loans instead of an adjustable rate.



## Adjustable Rate Loans

Unlike fixed rate loans, an adjustable rate loan is subject to change over time. In many cases, the rate on a loan will be fixed for a certain period of time before the lender is able to “adjust” that rate based on current market rates.

Most adjustable rate loans offer a low rate at the start of the repayment period, which can incentivize consumers to choose this type of loan over fixed rate alternatives. But this pricing schedule also comes with risk: If rates increase in the future, your adjusted interest rate could soar much higher than the introductory period, and even higher than what fixed rate loans are offering at that time.

In this sense, an adjustable rate loan is a gamble on the future. It could end up saving you money over the long run, but you also accept the risk that this bet will backfire and ultimately cost more than a fixed rate alternative. However, if you plan on paying a loan off early—during the more affordable, fixed rate repayment period—the adjustable nature of the rate may be irrelevant.

# How Do You Apply for a Loan?

Ready to apply for a loan to afford an upcoming expense or purchase? Here's a quick overview of the process, from application to approval:

- 1** Use the overview above to **determine the best type of loan based on your needs.**
- 2** **Figure out what information you need to apply.** In addition to basic information such as proof of income, proof of address, and bank statements, different loan types may have their own requirements. For student loans, you may require a [FAFSA](#). For business loans, you may need records of transactions and other revenue information.
- 3** **Submit applications to multiple lenders.** Even if you have a lender you prefer to work with, multiple applications will give you multiple quotes that you can use to secure the most cost-effective loan and the best lending experience.



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**Be responsive to lender processing requests.** Business and mortgage loans in particular may require you to gather additional information and documentation. The faster you can supply this information, the more likely you will be to have your loan application approved on time.

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**Sign paperwork, and receive your funding.** Again, this specific process may vary based on the loan and lender. Mortgages involve extensive paperwork and signatures, whereas some personal loans and even auto loans can be quickly finalized to fund your purchase.

## Afford Your Financial Goals with Help from a Loan

From affording college to buying and renovating a home, loans can help you achieve your personal dreams while also supporting healthy, stable finances.

When used wisely, debt can help you unlock opportunities that you wouldn't be able to afford on your own. **Find out how we can help.**

[Learn More About Your Options Today](#)



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## About First State Community Bank

Whether they're seeking a line of credit, a personal loan, credit card transfer options, or financial counseling services to improve your money management, we're committed to helping our customers set and reach their financial goals.

Since 1954, First State Community Bank has been a leading financial resource for residents and businesses across the state of Missouri. First State Community Bank has built its reputation on an unyielding commitment to delivering the best possible service to customers and partners, from the Junior Savers who open an account with \$1 to those applying for multimillion-dollar commercial loans. We are here to help you reach your financial goals today and into the future.

**Learn more by connecting with the FSCB team  
to see how you can get started today.**

[Get in Touch at FSCB.com](https://www.fscb.com)

