Lending Lingo

***Balloon Loan*:** A balloon loan refers to a type of mortgage involving a lower payment schedule for a period of time following one significantly large or "balloon" payment to make up for the smaller previous payments. These loans are typically used by someone intending to sell the home in a short period of time before the balloon payment comes due or someone who has the savings on hand and would rather keep them used elsewhere until the payment is due.

***Debt Consolidation Loan*:** When a borrower obtains a loan to payoff and combine other credit balances they are said to be taking a debt consolidation loan. This type of loan is offered by most financial institutions as well as debt counseling agencies that aim to get overwhelmed borrowers back on track. Often a debt consolidation loan is backed by some collateral such as a second mortgage if the borrower is a homeowner. The loan can however be a personal loan or even a title loan. Generally the loans being consolidated are high interest charging credit card balances or delinquencies (defaulted loans) that a person is trying to repair. By paying off or making right these types of items a person can often get the loan at a better interest rate than they are paying due to recalculations that can be made based on a new lower payment and a resulting improved credit score.

***Education/Training Loans (Student Loans)*:** Education or training loans are loans used for tuition and other related expenses. Often the borrower can put off repayment until the completion of the education. Interest rates for education loans are generally less than installment loans because the borrower will generally be equipped to manage the debt having gained the knowledge to begin a career.

***Equity Loan*:** An equity loan is a loan using the equity of a person's home as collateral to make an additional loan for a purchase such as home improvements or debt consolidation. An equity loan can also be referred to as a second mortgage and because the loan is secured by the borrower's home the interest rate is often lower than other forms of credit.

***Flex Loan*:** A revolving line of credit that gives you quick access to funds up to a predetermined limit. Since it is an unsecured loan, no collateral is needed. Often you can get approved with less than perfect credit history. You don't have to use the entire amount for which you are approved. There are cons to this type of credit—high interest rates, fees, and potential for unmanageable debt.

Foreclosure: If a mortgage loan becomes defaulted the lender has the right to foreclose, or essentially take the home from the borrower. Any loan using a home as collateral whether it is a debt consolidation second mortgage, a home equity line of credit, or regular mortgage could face foreclosure if the borrower becomes behind on payments. Recent foreclosure rates are at record highs due to borrowers with high credit risks obtaining loans that they could not afford, falling housing prices that make a home not worth the amount borrowed against it, and adjustable rate mortgages whose interest rates have risen beyond the borrowers means to make the payment. A home that has been foreclosed by a bank is typically sold below market value to quickly recoup the amount owed plus the associated legal fees.
Banks would rather get the loan off their books than wait to find a buyer to pay market value for the home.

Installment Loan: An installment loan refers to a loan with the lender exchanging a sum of money for a borrowers set of equal payments at a set interest rate according to the terms of the loan. Installment loans are used to make large purchases such as automobiles or appliances. A mortgage is a type of installment loan.

Line of Credit: Lines of credit, otherwise known as revolving credit differs from installment credit in that there is not an initial proceed of money with set repayment terms. Instead the borrower is given a limit of credit that they can borrow up to and make payments afterwards based on the amount borrowed. The loan can be borrowed and repaid repeatedly as long as the minimum payments are made and the limit is never exceeded at any one period. Credit cards are a common used of revolving credit because the card is used and paid on a monthly basis. Other revolving credit uses are home equity lines of credit, or HELOCs, which use the borrower's home as collateral for the loan. HELOCs have a lower interest rate than credit cards because credit cards have no collateral to back the loan.

Loan Sharking: Loan sharking is the practice of money lending at illegally high interest rates, often backed by blackmail or threats of violence. Loan sharks also may provide credit in the form of title loans, check advances, and personal loans beyond the legal interest rates, usually on a cash only basis that is difficult to track.

Mortgage: A mortgage refers to a loan specifically intended for purchasing a home. A mortgage is usually repaid over a 15 or 30 year period and conventionally are set at a monthly payment based upon a fixed interest rate based on the interest rate environment and creditworthiness of the borrower at the start of the loan. Because the home stands as collateral for the loan, the interest rate is typically lower than that of credit cards and other installment loans. Other types of mortgages are available that offer special financing options that may be suitable for some borrowers. An adjustable-interest rate mortgage (ARM) is like a conventional mortgage except that interest rate can change along with the interest rate environment. This may be suitable for a borrower purchasing a home in a period of high interest rates that anticipates the rate going down in the future. However, the rate could also rise and leave the borrower unable to afford the payment at the new interest rate.

Pawn Shops: Pawnbrokers operate by lending money using personal items as collateral. Within a certain contractual period, the borrower may purchase the item back for the amount of the loan plus an agreed upon fee. If no repayment is made, the pawnbroker is allowed to resell the item to recover the amount of the loan, usually a fraction of the item's market value. The pawnshop usually has several pawned items for sale that have been forfeited by previous customers.

Payday Loans (Check Cashing): Check cashing or payday advance is a small, short term loan that is intended to cover a borrower's expenses until his or her next payday. Typical loans are between $100 and $500 and have interest rates in the range of 390% to 780%. For example, a borrower may write a post-dated check for $460 to borrow $400 for up to 14 days. At that time, the borrower may return with $460 in dollars in cash to redeem their check or renew the loan by paying the $460 and borrowing $400 again, in effect extending the loan. In this example, the cost of the $60 finance charge is a 390% interest rate.
Many states ban renewing or "flipping" the loan and some states ban check cashing altogether. Lenders argue that borrowers opting for check cashing loans have no options available due to bad credit and are disadvantaged in surviving financial shocks. Critics counter that most borrowers find themselves in a worse situation when the loan is due than when they took the loan, trapping them in a cycle of debt.

Personal Loan: A personal loan is an unsecured loan made by a financial institution that makes it decision for the terms of the loan based solely on the credit of the borrower without a form of collateral for the loan. The better the borrower's credit score or history with the lender, the better terms on the loan they will receive. In most cases even the best customer will pay a slightly higher rate than a similar loan using some collateral for the loan. However, personal loans are often smaller in dollar amount and collateralizing may not be feasible.

Refund Anticipation Loan: Refund anticipation loans (RALs) are obtained by using a tax refund as security for a high interest loan generally made by an electronic tax filing company. The customer filing their taxes may receive a portion of the refund immediately and pays for this convenience by the allowing the lender/ tax preparer receive the full refund in addition to their preparation fee. Finance charges on RALs can range from 250-500% and are limited or banned altogether in some states.

Repossession: When a loan goes into default that was secured by a car title or personal property, the item is said to be repossessed or more informally, 'repo'd'. Because a lender keeps the title of a vehicle being used as collateral, they may obtain a key for the vehicle if need be or otherwise have the vehicle towed. Personal property such as televisions, electronics, and jewelry which are sometimes used to secure types of personal loans may be repossessed in a similar manner.

***Secured Loan*:** A secured loan is a loan backed by security also known as collateral. The borrower's willingness to repay will be based on what they have promised the lender in exchange for giving them the loan. The better the security, generally the lower the risk to the lender and therefore the lower interest rate paid by the borrower. Mortgage loans are safer than credit cards to lenders because the credit card balance may include expenditures such as travel, restaurants and clothing which have no value to resell and cover the money that was loaned.

***Title Loans*:** A title loan is a type of installment loan that uses a car title as collateral for making the loan. The interest rate for a title loan is less than the interest rate for a personal loan because the lender may repossess the car to cover their loss.

***Unsecured Loan*:** Unsecured loans are loans without security or collateral to back the loan in the event the loan goes bad. Unsecured loans are made based solely on the borrower's promise to repay and their creditworthiness. Credit cards and personal loans are types of unsecured loans.
Because the lender is holding something of value to use to recover their loss in the event of default, an unsecured loan will always have a considerably higher interest rate to be paid by the borrower.

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