

5 Critically Important Questions to Ask Yourself Before Applying for That Loan

If you answer these questions honestly and creatively, you may be surprised at the outcomes.

Ready to start? Let's go.

Question #1. Can I really afford it?

This basic question is sometimes overlooked. Some folks think that as long as there is some money left over from the pay each week or month that it's fine to put this towards another loan. Wrong! Unless you understand your true income, expenditure, savings goals and retirement goals, how will you know whether the money you have spare after each pay can really be applied to a loan?

Setting up your personal/family budget is necessary if you want to know what you can afford. These can be found by searching on the Internet.

There are certain basic laws that apply to spending whether you know them or not. Some of these are:

- a) If you regularly spend more than you earn you are setting yourself up for lifelong poverty.
- b) If you borrow to buy short-lived assets (e.g. TV, DVD, car, boat, etc) the interest and repayments can continue at the same rate long after the asset has lost its value. That makes them a very expensive item.
- c) If you pay for items like clothes and other household items by credit card it makes the items a lot more expensive than you think. Especially when the interest rate is around 13 - 15% per year.
- d) Credit card debt, while easy to acquire can be very dangerous if you only pay the minimum each month.

Question #2. Do I really need it?

Advertising today is so sophisticated that it makes you think there are so many things that you just cannot do without. However, just take a minute to ask yourself these questions:

Do I really need the updated car? Isn't the current one good enough?

Isn't our furniture still serviceable without resorting to an upgrade?

Do I really need all the latest electronic wizardry?

Are all the latest fashions a necessity? Am I really a better, more likeable person by buying them?

The purchase of these items is often made at the expense of your future financial well-being and overall happiness. Surely, the fleeting happiness of today's purchase wears pretty thin, compared to the worry and stress of over-extended credit and unpaid bills.

It is best to try every avenue before resorting to a loan.

Question #3. How will this loan affect my financial future?

A loan can have an adverse effect on your financial situation through many ways. Some of them are listed below:

- a) If you default on a loan it can make it much harder in the future to borrow again.
- b) If you damage your credit rating your borrowing costs can increase.
- c) Borrowing for an asset whose useful life is less than the life of the loan is a sure way to pay a lot more than the worth of the asset. Money that could have paid down credit cards or been used for savings.
- d) Saving for things you need will put you in a better financial position and increase your borrowing potential for your mortgage.

Question #4. What else could I do with the repayment money?

If you were to decide to defer or not purchase the item on credit, imagine what you could do with the money?

- You could put it in a savings account. Save for holidays, the car upgrade, kids college fees or home renovations.

- You could start a retirement savings plan.
- You could pay off the credit cards in double quick time. If their interest rate is higher than any other of your debts, pay them off first.
- You could pay extra cash each month or fortnight off your mortgage.

Imagine how you'd feel once all the debt was gone and you were free to purchase those things you need for cash.

Aren't these ideas better than committing yourself to more debt and worry?

Question #5. Can I still purchase this item without resorting to a loan?

If there are items that you really need and you do not have the funds to pay for them, what else can you do?

Try these ideas:

- Do you have some other assets that are no longer being used? Sell them and use this money for your new purchase.
- Do you really need 2 cars? Why not sell 1 and use that money for your new purchase?
- What about increasing the 'cash-in'? You could apply for a higher paying job. You could get a second income. Maybe start a home based business on the Internet.
- Why not cut down on your weekly or monthly living expenditures? Buy generic products, only buy necessities, bargain with sellers and commit to only buying items at less than list price.

These are just a few suggestions to help you think twice or even three times BEFORE you go to apply for that loan. Your financial future is at stake here. If at all possible live within your means and save for what you need. You'll be happier and more stronger financially as a result.

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About the Author

Bruce Hokin has designed a simple budget tool called "[5 Steps to Freedom Personal Budget.](#)" It's based on his extensive background as a qualified, experienced accountant, manager, consultant and financial adviser. You can download this powerful budget assistant today and be on your way to financial freedom within the hour. It is available at his website www.freedom-personal-budgets.com.