

Guide to Borrowing Like a Boss

Welcome to Loan Spot's ultimate guide to borrowing smarter, not harder!

Whether you're looking to consolidate debt, tackle that home reno, or finally book that dream trip, this guide will give you the lowdown on personal loans and how to make them work for you.

Personal loans can be powerful tools if you know how to use them wisely. We'll cover everything from assessing your borrowing needs to understanding credit scores, choosing between secured and unsecured loans, and paying off your loan faster. By the end of this guide, you'll be ready to borrow like a pro – or in this case, like a boss!



loan spot

1. What Can Personal Loans Be Used For?

Personal loans are one of the most flexible types of loans out there, making them useful for a variety of life expenses. Here are some of the most common reasons people take out personal loans:

Debt consolidation

Juggling multiple debts with varying interest rates? You can simplify things by rolling them into one personal loan with a single monthly payment. Structured to your needs, debt consolidation can be used to get out of debt faster or reduce outgoings.

Starting a side hustle

Got a passion project you want to turn into a business? Personal loans can help with initial setup costs, like buying equipment or investing in marketing. Just remember: it's important to have a solid plan to ensure your business venture is worth the loan.

Travel

Want to explore the world but don't have the funds on hand? A personal loan can help you make that big trip a reality. Just make sure you budget carefully so your dream holiday doesn't turn into a financial nightmare.

Health and dental care

Medical expenses can pop up unexpectedly, and even with insurance, you might still face significant out-of-pocket costs. A personal loan can help cover anything from braces to surgeries, making sure you can prioritise your health without financial stress.

Education and career change

Investing in yourself is one of the best things you can do. Whether you're upskilling for your current job or embarking on a new career path, a personal loan can cover course fees, materials, and even living expenses while you study.

Home renovations

Whether it's upgrading your kitchen or adding an extra bedroom, home renos are expensive. A personal loan can give you the upfront cash to improve your home now, without having to wait until you have saved enough.

Personal loans can be used for a lot more than these examples, but whatever your reason, it's crucial to borrow with a purpose. Make sure the loan aligns with your personal goals and that you can manage the repayments comfortably.

2. How to Assess Your Borrowing Needs

Before diving headfirst into a loan, take some time to figure out how much you actually need to borrow – and how much you can realistically afford to repay.

Start with the essentials:

How much do I need?

Make a list of all the costs associated with your goal (whether that's consolidating debt, funding a renovation, or starting a new venture). Be thorough – unexpected costs can pop up along the way, so having a little extra cushion can help.

How much can I afford to repay each month?

Look at your current budget and consider how much flexibility you have. What can you comfortably set aside for loan repayments without cutting into your day-to-day expenses or emergency savings?

Once you've figured out the basics, use a loan repayment calculator to see what your monthly payments will look like at different loan amounts and terms. This will help you balance your borrowing needs with what you can afford.

PRO TIP:

Just because you qualify for a large loan doesn't mean you should take the full amount. Borrow only what you need, and resist the temptation to go for the max.



3. Understanding Your Credit Score and Reports

Your credit score can make or break your loan application. A high score gives you access to better loan terms, while a low score can result in higher interest rates – or even a declined application.

So, how is your credit score calculated?

Your borrowing history

How much you've borrowed and if you've paid it back on time. If you've missed payments, that's going to bring your score down.

Credit mix

Having different types of credit (like credit cards, loans, or a mortgage) can show you're good at handling multiple accounts.

Credit applications

How often you apply for credit matters. Applying too much, too quickly can raise red flags.

Payment history

Paying on time helps, while late payments or unpaid debts will hurt your score.

Defaults and court judgments

If you've ever defaulted or had a judgment against you, it's a black mark on your score.

Most credit scores are out of 1,000, and a good one typically lands between 500 and 700. If you're above 700, congrats, awesome! But if your score is lower, especially if you've had a few bumps along the way, don't stress – you can improve it over time.



Why is your credit score important?

Better loan options

A higher score means better rates, saving you money.

Everyday services

Utility companies, broadband providers, and even some landlords and employers may check your score.

Big purchases

Lenders use it to decide if you qualify for loans, overdrafts, or credit cards.

How to give your score a boost:

Pay on time, every time

This is the easiest way to build your score.

Avoid too many credit applications

Applying for lots of credit in a short time can make lenders think you're in a financial pinch.

Clear your defaults

Even if they stay on your record for five years, paying them off helps reduce their impact.

Checking your credit report: Errors on your credit report can negatively affect your score, so it's a good idea to check it regularly and dispute any inaccuracies. You're entitled to a free copy of your report from credit agencies in New Zealand like Equifax or Centrix.

Maintaining a healthy credit score opens up more borrowing options, so stay on top of it and try to avoid actions that could negatively impact your score. And remember, this also includes late payments on utilities such as power and phone etc.

4. Secured vs. Unsecured Loans – What’s the Difference?

When you apply for a personal loan, there are secured and an unsecured options. Here’s how they stack up:

Secured loans

These require you to provide an asset (like your car or house) as collateral. If you default on the loan, the lender can sell the asset to recover their losses. Because secured loans are usually less risky for lenders, they may come with lower interest rates.

Unsecured loans

These don’t require any collateral, meaning they’re riskier for the lender. As a result, unsecured loans usually come with higher interest rates. But if you lack collateral (or if you don’t want to use an asset), an unsecured loan can offer quick access to funds with the convenience of paying over time.

The choice between secured and unsecured loans depends on your personal situation. If you have an asset and are comfortable putting it on the line for potentially lower rates, a secured loan might be worth considering. If not, an unsecured loan offers flexibility without the need for collateral.

5. Structuring Your Loan

Loan structure refers to the size, term, and repayment plan of your loan. Here’s what to consider:

Loan amount

It’s tempting to borrow more than you need, but this generally means higher monthly payments and more interest over time. Stick to what’s necessary to achieve your goals.

Loan term

A longer term (say 5 years) means lower monthly payments, but you’ll pay more in interest over the life of the loan. A shorter term (e.g., 3 years) costs more per month but means you pay less on interest in the long run. Think about what fits your budget.

Repayment schedule

Some loans offer flexible repayment options, such as fortnightly or weekly payments. When deciding how often to make loan payments, think about how they’ll fit with your budget and when you get paid. It’s easier to stay on top of payments if they line up with your income. Also, keep an eye out for any fees or penalties for missing a payment.

Structuring your loan carefully can make all the difference in how manageable your debt is. Always aim for a balance between what’s affordable in the short term and what saves you money in the long term.

6. The Impact of Time on Cost of Borrowing

Time is a major factor when it comes to borrowing. The longer you take to pay off your loan, the more interest you'll end up paying overall. But how does this actually work?

Let's break it down with an example: If you borrow \$10,000 at 12.95% interest for 3 years, your total repayment will be around \$12,731. If you extend the term to 5 years, you'll end up paying \$14,323 – nearly \$1,600 more!



THE KEY TAKEAWAY?

A longer loan term might feel easier on your wallet month-to-month, but it costs you more over time. If you can afford it, opt for a shorter term to save on interest. Always be mindful of how the loan term affects the total cost of borrowing.

7. Good Loan Behaviours to Adopt

Getting a loan is just the first step – being a responsible borrower is where the real work begins. Here are some loan behaviours to keep you on track:

Set up automatic payments

This is the easiest way to ensure you never forget a due date. Most lenders offer the option to set up direct debits so your loan repayments are deducted automatically.

Pay more than the minimum

If you can swing it, try to make extra payments. Even small amounts add up and help reduce the amount of interest you pay over the life of the loan. Just make sure you check if any early/additional payment fees apply.

Budget for loan repayments

Make sure you factor your loan repayments into your monthly budget. This will keep you on top of your finances and ensure you can cover your loan while managing other expenses.

8. Tips for Paying Off Your Loan Faster

Want to be debt-free sooner? Paying off your loan ahead of schedule can save you money on interest, and there are a few ways to make this happen:

Check for early repayment penalties

Some lenders might charge a fee for paying off your loan early, so be sure to check for that. That said, the fee could still be worth it if you save enough on interest—just do the math first to see if it makes sense!

Use extra cash wisely

Got a tax refund or work bonus? Instead of splurging, consider putting it toward your loan. These lump sum payments can help reduce your balance quickly.

Round up your payments

If your monthly payment is \$276, round it up to \$300. It's a small adjustment that can make a big difference over time.

9. Borrowing for the Future – Planning Ahead

Borrowing doesn't just affect your financial situation today – it can have a big impact on your future. Whether it's buying a house, starting a family, or planning for retirement, you'll want to think ahead when taking out a personal loan. How to plan for the future:

Keep your debt levels manageable

Borrowing responsibly today helps keep your options open for future loans, such as a mortgage or business loan.

Build a safety net

Make sure you have enough savings to cover unexpected expenses while repaying your loan. This can prevent you from falling behind on payments or relying on more borrowing.

Think about your long-term goals

Will your loan repayments affect your ability to save for other goals, like buying a home or investing in your retirement? Always keep the bigger picture in mind when taking on new debt.

Borrowing doesn't have to be intimidating. With the right knowledge and a clear plan, you can take control of your finances and use personal loans to your advantage. And remember, at Loan Spot, we're here to help you navigate the process and find the loan that works for you.

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