Near East University

CONSUMER LOANS, CREDIT CARDS AND REAL ESTATE LENDING

Statement, philosopher, and scientist Benjamin Franklin once observed: ' if you would know the value of Money go and try to borrow some'.

Types of loans granted to individuals and Families:

- **Residential Mortgage Loans:**

The purchase of residential property in the form of houses and multifamily dwellings (including duplexes, triplexes, and apartment buildings) usually gives rise to a long-term loan, typically a term of 15 to 30 tears and secure by the property itself. Such loans may carry either a fixed interest rate or a variable interest rate that changes periodically with a with a specified base rate.

- **Non-residential Loans:**

1. **Installment Loans: Short-term to medium-term loans, repayable in two or more consecutive payment (usually monthly or quarterly).**
   Ex: automobile, furniture, etc…)

2. **Non-installment Loans: Short-term loans individuals and families draw upon for immediare cash needs that are repayable in a lump sum when the borrower's note matures are known as non-installement loans.**
   Ex: mostly used to cover the cost of vacations, medical care, the purchase of home appliansces.

- **Credit Card Loans.**
- **Debit Cards Loans.**

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EVALUATING A CONSUMER LOAN:

1. **Character and ability to pay: moral responsibility, credit bureau (customer's credit history)**

2. **Income levels**

3. **Deposit balances**

4. **Employement and residential stability**

5. **Pyramiding of debt: where individual draws credit at one lending institution to pay another**

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THE INTEREST RATE ATTACHED TO NONRESIDENTIAL CONSUMER LOANS :

> **Simple interest**

If the consumer is paying off a loan gradually, the simple interest approach determines the declining loan balance, and that reduced balance is then used to determine the declining loan balance and that reduced balance is then used to determine the amount of interest owed.

For example: suppose the customer asks for $2000 for a year at a simple interet rate of 12% in order to purchase some furniture. If none of the principal of this loan is to be paid off until the year ends, the interest owed by the customer is a s follows.

Interest owed = Principal X Rate X Time

At maturity the customer will pay the bank $2,240 or $2,000 in principal plus $240 in interest.

Now assume instead that the loan principal is to be paid off in four quarterly installment of $500 each. The interest owed in each quarter will be as follows;

:

First Quarter:	**I = $2000 X 0.12 X ¼** **I = $60**
Second Quarter:	**I = $1500 X 0.12 X ¼** **I = $45**
Third Quarter:	**I = $1000 X 0.12 X ¼** **I = $30**
Fourth Quarter:	**I = $500 X 0.12 X ¼** **I = $15**
Total Interest Owed:	**= $60 + $45 + $30 + $15** **= $150**

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Total payments due are as follows:

First Quarter	$500 + $60 = $560
Second Quarter	$500 + $45 = $545
Fourth Quarter	$500 + $30 = $530
Third Quarter	$500 + $15 = $515
Total Payments due:	$2000 + $150 = $2150

CLEARLY, WITH SIMPLE INTEREST THE CUSTOMER SAVES ON INTEREST AS THE LOAN APPROACHES MATURITY.

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