



Understanding Credit and the Types of Interest Rates that Affect Your Loans

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Why Borrow?

- To increase your capacity to earn
- To increase your assets
- To enhance your quality of life





Where can you Borrow?

- Banks
- Building Societies
- Credit Unions
- Other Lenders





What do Lenders look for?

- Willingness to pay
- Ability to pay
- Collateral security





What do Lenders look for? Willingness to Pay

- Track Record
 - Performance of past borrowings
 - Credit Scores
 - Credit Reports
 - References
- Less-than-perfect track record?
 - You may still be able to borrow, depending on reason for track record





What do Lenders look for? Ability to Pay

- Equity
 - How much does the Borrower have at risk?
- Cash available for servicing of principal and interest
 - Net Monthly Disposable Income vs. Monthly Loan Pmt.
 - Fixed vs variable income
 - Rising expenses
- Guarantor ?
 - Same considerations





What do Lenders look for? Collateral Security

- Value
- Marketability
- Liquidity
- Cost to sell





Interest Rate Components that Affect Your Loans

- Benchmark Sovereign, Risk-Free Rate
 - Government of Jamaica WATBY Rate currently 8.1% p.a.
- Cost to the Lender
 - Higher deposit rates require higher loan rates
 - Reserve requirements
 - Cost of administering the loan
 - Expected losses on portfolio





Interest Rate Components that Affect Your Loans

- Your Risk Premium
 - Depends on your risk profile, as assessed by the Lender
 - Greater willingness and/or ability to pay
+ better collateral
=> lower rate
 - Lower willingness and/or ability to pay
+ less or no collateral
=> higher rate



Interest Rate Components that Affect Your Loans

- Product Considerations
 - More committed you are to the loan, the lower is the risk to the Lender and therefore the lower is the rate





A sampling of NCB's Current Loan Interest Rates

- Mortgage 9.5% p.a.
- Home Equity Loan 15.5% - 16.5% p.a.
- Automobile Loan 11.5% - 15.45% p.a.
- Auto Equity Loan 17.95 – 18.25% p.a.
- Education Loan 18.5% p.a.
- Unsecured Loan 18% - 28% p.a.
- Credit Cards from 39.75% p.a.
- Business Loans Negotiable





Applying for Credit

- Demonstrate willingness to pay by
 - Satisfying all obligations
 - Ensuring that your credit report from credit bureau is as good as can be
 - Getting a good bank reference or bank credit report





Applying for Credit

- Demonstrate ability to pay by
 - Providing copies of job letters and/or payslips and/or bank statements
 - Declaring all income and expenses
 - Showing adequate disposable income or, if short, reducing loan amount





Applying for Credit

- If you are able to offer collateral security, you will be required to
 - Provide valuation report or receipt
 - Meet lender's margin requirements





Develop a Habit of Saving

- May lower your loan amount
- Many lenders offer preferred loan terms to their savings customers
- Helps to build your track record
- Special note to self-employed persons
 - Run your income and expenses through your bank accounts, to help build your track record

