



Borrowing Money

Transcript

- Speaker 1: Want to wow your pals by knowing all about one of the most thrilling things in the world?
- Speaker 2: For sure. What is it?
- Speaker 1: I'm talking about personal finance.
- Speaker 2: Yeah.
- Speaker 1: In particular, borrowing money.
- Speaker 2: Yeah, that's a no for me.
- Speaker 1: Oh, what a shame! I was going to serve you up a broth full of knowledge while playing the best board game ever.
- Speaker 2: What board game?
- Speaker 1: Just a board game I invented.
- Speaker 2: You invented a board game?
- Speaker 1: Yep.
- Speaker 2: What's the gist?
- Speaker 1: The aim of the game is to bankrupt your opponents by purchasing properties and charging them rent. Cool huh?
- Speaker 2: That sounds exactly like Monopoly.
- Speaker 1: What's that?
- Speaker 2: One of the most popular board games ever made.
- Speaker 1: Never heard of it.
- Speaker 2: What's yours called?
- Speaker 1: Oligopoly.
- Speaker 2: Urghhh...
- Speaker 1: You're probably thinking, 'Why borrow money? What are the pros and cons? What are the borrowing options? What are the factors to consider when borrowing?' All great questions, thanks for wondering.





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- Speaker 2: I wasn't wondering that. I was wondering why you're ahead and we haven't rolled the dice?
- Speaker 1: House rules. Borrowing is sourcing money from a financial institution or through other means with the intention of repaying it.
- Speaker 2: So like when I borrowed money from your wallet, and how I intended to pay it back?
- Speaker 1: Yes. Wait, what now?
- Speaker 2: Nothing.
- Speaker 1: Loans or credit cards are the most common forms of borrowing. Both loans and credit cards attract interest, which is paid by the borrower.
- Speaker 2: In other words, the borrower goes into debt with that specific lender.
- Speaker 1: Exactly. Both loans and credit cards require a credit rating to determine if the borrower has the ability to make all the required payments.
- Speaker 2: I take it a bad credit rating makes it hard to loan money from banks.
- Speaker 1: Correct, and begging the loan manager won't help, or bribing him with cake, or bursting out of that cake and singing a song you wrote about him being the best loan manager in the world. That won't help at all.
- Speaker 2: You didn't do that did you?
- Speaker 1: No, no of course not. On an unrelated matter, do I still have cake in my hair? In regards to loans, money is repaid in fixed instalments over a period of time to cover both the interest component and the amount borrowed. Credit cards are more versatile than a loan, but they attract higher interest rates.
- Speaker 2: So when applying for a loan or credit card, look closely at the interest rates being charged?
- Speaker 1: Most definitely. One advantage of borrowing money is that it provides instant gratification. Allows a consumer or business to buy something immediately when they don't have the cash available for it.
- Speaker 2: That's an advantage?
- Speaker 1: Well it is if you want to keep up with your fancy brother Lance, who thinks he's so cool because he has a cool car, a big house, and shoes that aren't pizza boxes.
- Speaker 2: Okay.





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- Speaker 1: Loans can be used for purchasing houses and cars, and buying a porcelain figurine collection.
- Speaker 2: I can see why your loan manager rejected your application.
- Speaker 1: Another advantage is that credit cards are convenient for paying bills, online transactions, and retail purchases.
- Speaker 2: And it's best, if you can, to pay the full amount back by the due date to avoid interest charges.
- Speaker 1: Excellent tip. Speaking of charges, you've landed on my plot of land. Pay up.
- Speaker 2: You sure you haven't ripped off Monopoly?
- Speaker 1: Ha ha! Whatever that is, no I haven't. Oh look, you must go to the dungeon. Go directly to the dungeon. Do not pass the green light, do not collect 200 clams.
- Speaker 2: So what are the disadvantages of borrowing money?
- Speaker 1: The crushing stress of being owned by your lender. In my case my mother.
- Speaker 2: How long does this of Oligopoly go for?
- Speaker 1: Another disadvantage of borrowing can be the cost. For instance, interest rate charges.
- Speaker 2: As they say, nothing is for free.
- Speaker 1: Except dreams and tears, and watching your brother Lance through a telescopic lens as he pulls up to his big house in his cool car. Ha!
- Speaker 2: Right...
- Speaker 1: It can take a long time to pay off a debt and if you default on repayments you get a negative credit rating. Also, it can lead to overspending, which may land the borrower in greater debt.
- Speaker 2: When you borrow money you always end up paying back more, because of the interest that's charged.
- Speaker 1: Ain't that the truth! Like the situation with my mother. "When are you going to pay me the money back? Why aren't you more like your brother Lance? Why did you fill your entire house with porcelain figurines?" ...and so on.
- Speaker 2: Do you need me to call someone? So what types of loans are available?





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- Speaker 1: Great question! Firstly, the amount the individual or business wants to borrow will affect the type of loan they take out. Financial institutions charge higher rates of interest for small loans than they do for large loans, which are usually repaid over a longer period of time.
- Speaker 2: Interesting.
- Speaker 1: Indeed. Housing loans can be taken over 30 or more years. They carry lower interest rates than personal loans or business loans. If you take out a housing loan, the bank holds a mortgage over the property until the loan is paid off.
- Speaker 2: Credit cards?
- Speaker 1: With credit cards smaller amounts of money are repaid on a shorter cycle, but the lender charges a higher rate of interest with restrictions placed on credit limits.
- Speaker 2: Handy.
- Speaker 1: Overdrafts are a form of borrowing approved by a lending institution where the borrower uses more money than is available in their account. It's convenient, but can carry a high interest rate. With personal loans, a customer or business enters into a borrowing contract for a specific purpose. With a lower amount of money provided at a higher interest rate and a shorter time frame to repay.
- Speaker 2: Sounds risky.
- Speaker 1: Yeah. Like when I borrowed money from Big Tone. To pay off the interest I incurred I had to do a series of odd jobs. Like helping him with his, uh, business. Giving stern warnings to his, uh, customers. Selling pills and stuff.
- Speaker 2: You did what?
- Speaker 1: Big Tone ran a pharmacy. I worked behind the counter.
- Speaker 2: Oh...I see.
- Speaker 1: Different borrowing options are available through banks, financial institutions, retailers and other private lenders. Like my mother, my brother Lance, Big Tone...
- Speaker 2: You own money to that many people?
- Speaker 1: Oh look it's sir Oligopoly guy. What a wacky, yet original mascot.
- Speaker 2: Urghhh...





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- Speaker 1: Banks are the most popular financial lender. They offer stability and range of loan options to suit the needs of individuals, and businesses.
- Speaker 2: Did you know some banks in Italy take Parmesan cheese as collateral for loans?
- Speaker 1: Fascinating. Building societies are financial institutions owned by members, set up to lend money to borrowers specifically to buy houses. Like my brother Lance's house which I filled with moths.
- Speaker 2: You did what?
- Speaker 1: Nothing. Anyway, credit union members can access a range of loans with higher interest rates. Credit card companies provide cards with specific limits that are easier to obtain than other loans, but they come with higher interest charges. Retail outlets also offer credit to customers so they can purchase goods now and pay at a later date with interest.
- Speaker 2: How much money have you invested in Oligopoly?
- Speaker 1: Only my life savings.
- Speaker 2: This isn't going to end well.
- Speaker 1: The lender should consider that every loan comes with a degree of risk. They take a calculated chance that the borrower will honour the contracts or agreements and repay the lender. The borrower should consider their personal circumstances. Many factors can contribute to the lender's decision to accept a loan application. Lenders consider the financial position of the borrower, their income, assets, liabilities, their borrowing history and if a guarantor is required. Factors like employment history, evidence of regular savings, investments, and assets will influence the capacity of an individual or business to borrow from a lender.
- Speaker 2: So how come you know so much about borrowing money?
- Speaker 1: I've borrowed hundreds of thousands to mass produce my highly original board game Oligopoly. No doubt it'll be a world-wide hit. Oh dear...what have I done?
- Speaker 2: I'm sure it will do really well.
- Speaker 1: You really think?
- Speaker 2: No.
- Speaker 1: I'm sorry mummy. I'll never have a house like Lance.

