LaFabbrica
Evolving educational engagement

SANPAOLO UNDERSTANDING PROJECT
FINANCIAL EDUCATION/INFORMATION PROJECT
"CREDIT MODULE"

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Fab!

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When there is not enough money to meet a need that we don't want to push back in time - the purchase of a new kitchen, a car, a bigger home - we can get a loan, that is to say a sum to be repaid over time, in several instalments at fixed intervals.

Getting a loan will satisfy a temporary liquidity need, supports the family's consumption and the possibility to implement important projects, such as the purchase or restructuring of a home.

Who can you ask?

Banks, other financial intermediaries, such as authorised financial companies, directly or through intermediaries affiliated to the bank or the financial company, such as the retailer selling us the car or kitchen.

There are many opportunities for loans, either finalised to a specific purchase, as in the case of a purchase in instalments from a shop, or as sums obtained directly from the bank or financial company to complete personal projects, such as a mortgage on a home. Today all offers and different solutions, for young people, for example, can be found on the internet and loan contracts can also be agreed online, after having carefully examined contractual conditions.

The contract

Reading the contract for the loan we are taking out is important. In the contract we find explicit indications of the total amount of the loan, the duration, any taxes, other accessory expenses if applicable (for example, legal fees), interest on arrears for possible delays in payments, any insurance on the debt in case of risk of insolvency, interest rates *(link to Interest rate video)*.

We have to keep in mind these interest rates, which correspond respectively to the nominal rate of interest and the APR (Annualised Percentage Rate). The first is slightly lower than the second. The one that indicates what we will actually pay is the APR. APR includes the interest plus the capital and the other expenses linked to the credit.

For further information

Today it is easy to calculate the loan repayment plan, that is to say the monthly instalments to be paid given a certain level of capital advanced and a declared interest rate. The calculation is complex but digital calculators made available online by banks can simulate it. It is useful in any case to know and understand that the interest is calculated every month on the capital to be repaid. Therefore, month after month, instalments are paid, the capital to be repaid is reduced and so does the interest.

Responsible lending

It is necessary to remember that obtaining a loan gives rise to a debt. To the sum advanced, to be normally repaid in instalments, the expenses incurred by the entity advancing the sum must be added - the cost of money, management costs, profit margin, that is to say the profit that allows the bank or financial company to grow.

These are items that have an impact on the cost of the loan and that are summarised by the applied interest rate.

Before deciding to ask for a loan or take out a mortgage, we must carefully assess our ability to repay, keeping in mind that in addition to the instalments we must also meet our daily expenses, in particular ordinary ones, both fixed and variable. We calculate if our income is sufficient, if possibly someone else can help us in case of need, if we have other outstanding loans, even if each one is quite small.

The bank also needs to protect itself, to avoid losing, in addition to the interest, the capital advanced. Even when no guarantees are requested before the loan is issued, the bank or financial company will consult credit information systems which record both the loans already issued and the timeliness or otherwise of repayments.

Ask the expert. Before taking any decision it is useful to inquiry at the branch or online to find out the best offers and conditions. It will be the task of the bank official to advise about the most convenient conditions, the best solution, whether to use fixed or variable interest rates for mortgages.

For further information…

The crisis of 2008 was due to the insolvency crisis linked to mortgages in the USA, that is to say loans issued to very risky creditors, unable to replay their house mortgage. To protect themselves from the risk of missed payments, the mortgages became an object of speculation, causing the "bubble" which had repercussions all over the world, the failure of long-standing American banks and a crisis whose consequences are still felt today.

The Slovakian Central Bank adopted more stringent rules for the issuing of loans and mortgages, and maximum caps for the interest rate to be applied. This has allowed the selection of banks and quality financial institutions, letting non reliable companies disappear from the market.

Credit as development engine for the economy. Private individuals accessing consumer credit or mortgages made available by banks and financial institutions encourage the growth of companies that supply goods and indirectly increase work opportunities in the various commercial sectors. On their part, companies make recourse to bank credit to invest in research and to improve plants. States too, through the issue of State Bonds, make use of credit to improve services for citizens. The State too must be careful not to get into too much debt! *(link to State Bonds video)*

For further information…

Today, international control organisation regulate relationships between States and their creditors. In history the example is known of the bank of the Florence Bardi family which in 1300 failed because the French and British sovereigns of the time did not repay the sum advanced.