

Fundamental messages in

Financial Literacy

Loans



Every loan comes with a cost

When you take a loan, you must understand that you have to pay back the amount which you have received from the lender, plus an additional cost called interest, together with possible additional charges. Before you take a loan, ask the lender about the total amount you have to pay back over the entire period of the loan. It is the responsibility of the lender to tell you this. If he does not, ask for it.

Interest is the price you pay for borrowing money

Interest is the additional money you have

to pay to the person or financial institution that lends you money. Interest is normally expressed as a percentage of the amount you have borrowed. It is mostly calculated on an annual or on a monthly basis.

Depending on the loan, you may be asked to pay interest yearly, monthly, or weekly. There is a big difference between a yearly, monthly, and weekly interest rate.

Yearly interest rate: If you took a loan of rupees 100,000/= with 12% interest per year, you would pay an interest of rupees 12,000/= per year in addition to the rupees 100,000/= that you received as a loan. After one year, you would therefore have to pay the lender rupees 112,000/= plus any other fees/charges.



Be aware of any additional charges

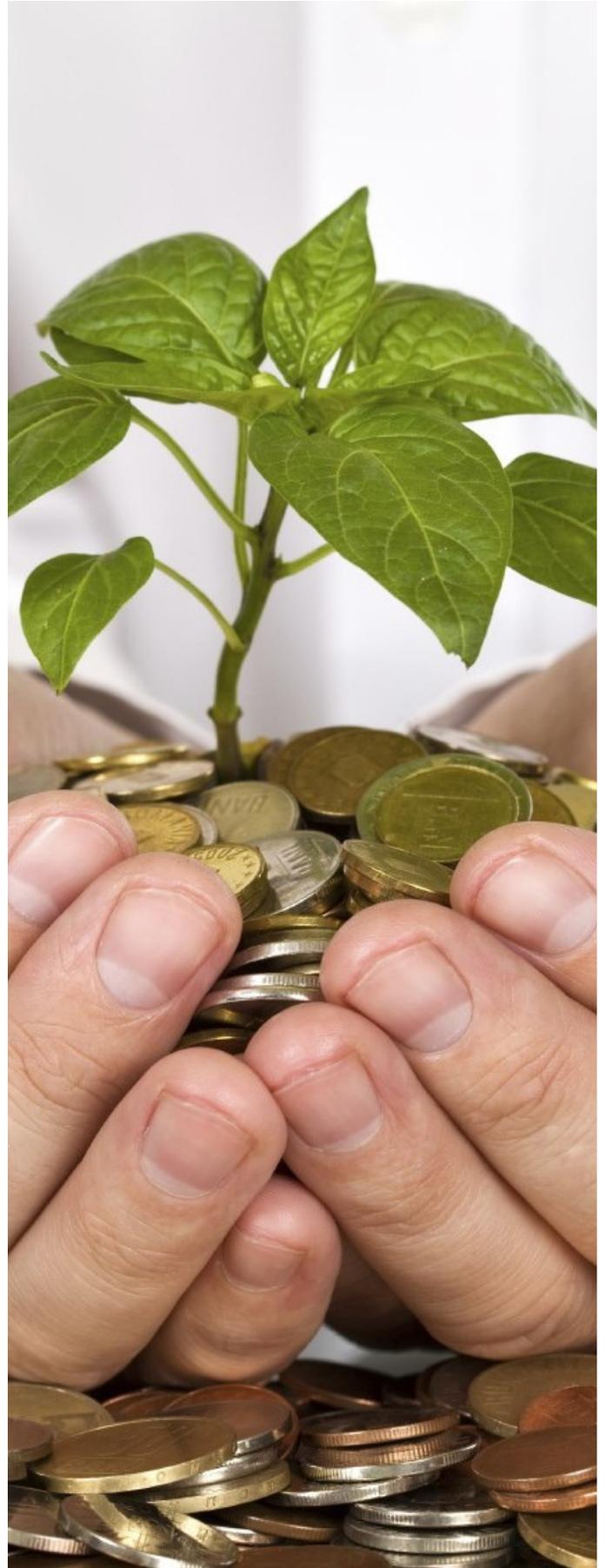
In addition to interest, financial service providers may charge further fees/charges. These include loan processing fees, insurance, stamp duty, etc. Make sure you understand the total amount you will have to pay back. Once you have understood this, think again and ask yourself if you will be able to pay back the loan. If not, you may want to opt for a different financial service provider or a smaller loan size.

Shop around for the best offer

When you want to take a loan, compare the offers from different financial institutions by considering: interest (rate, period, fixed/variable), charges and penalties. If you shop around for the best lender, you will most likely end up paying a little less with better repayment terms. Borrowing from the wrong lender could cost you a lot, so research your options and choose wisely. Be confident when asking financial institutions for costs and terms of loans – it is their responsibility to provide you with all the information that you need to decide which loan is the best for you.

Plan in advance before taking a loan

Before taking a loan, plan in advance how you will pay back the loan and the interest payments. You have an obligation to pay back the amount you borrowed plus the interest and any further charges/fees. If





you know that you will not have the means to do so within the agreed time, you should not take the loan.

Don't borrow because others are borrowing

It is not wise to take a loan just because other people around you are doing so. Ask yourself if you really need the loan. Mostly, it is better to save than to take a loan. Take a loan only as a last resort.

If you don't pay back, you might lose your security. Remember that when you apply for a loan you may be required to give the lender some form of security. This can be your house, land or salary. If you don't pay the loan back in a timely manner, you can/will lose your security. The lender has the right to keep the security if you fail to pay back.

Understand what penalties or fines you would face if you make a late payment or miss a payment.

Don't dig a hole to fill up another hole

If you are already struggling with debts, avoid taking another loan since this will only add to your debts and hence increase your burden. Remember you will be paying additional charges, fees and interest since this is a new loan.



Beware of aggressive lenders

Avoid “easy” loans and lenders who discourage you from reading and understanding the loan documents. They might try to take advantage of you. Always insist on reading all the loan documents and ask for explanations so that you understand all the conditions attached to the loan before you sign. It is your right to ask and the responsibility of the lender to provide you with all the information you need before agreeing to take a loan. Both you and the lender should be honest in disclosing information

Protect your financial image

Do not despair or lose hope if you have difficulties paying back your loan. Consult with family and friends on how to handle the situation. If you are going to fail to pay on time as laid out in the contract, inform your lender in advance. Don't give any false or misleading information.

Keep your financial history clean

If you take a loan from a financial institution regulated by Reserve Bank of India, your repayment history will be recorded. The next time you apply for a loan, this information will be used to help the lender decide whether or not to give you a loan and on which conditions. The better your history, the better the loan conditions will be.



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