

Pros & Cons of Taking out a Loan:

Benefits:

- A loan gives you the ability to buy something now (like a home or a car) that you could not otherwise afford.
- A small business loan or student loan can help you grow professionally and build your *human capital*.
- A single, low-interest loan can help you pay off several debts faster and can save you a great deal of money in interest.

Drawbacks:

- You **will** pay interest. Over time, you will end up paying more than if you had paid for your purchase in-full.
- If you have an unexpected change in your income, you may have difficulties making the payments on the loan.

Understanding Loan Contracts:

It can be useful to have a good understanding of the terms used in loan contracts. The following are some commonly used terms:

Principal: The amount you borrow.

Term: The length of the loan (how long you have to pay it off).

Interest: The charge from the lender for using their money. This is usually expressed as a yearly rate, called the annual percentage rate (APR).

A fixed rate of interest: The interest rate charged on the outstanding loan balance will remain the same for a set amount of time (usually the entire duration of the loan). Fixed interest rates offer greater control over your finances because the repayment amount will always be the same for the fixed interest period.