

What is a loan contract, and why is it important?

A loan is where an individual or business entity (the lender) provides funds to another individual or entity (borrower) for an agreed amount in exchange for repayments plus interest.

A loan contract is a legally binding agreement between lenders and borrowers outlining the terms and conditions of the loan, including the principal amount of the loan, the payment schedule, security checks, interest rate, and the length.

Loan agreements are essential to keep lenders and borrowers accountable to what they agreed on. Without a contract, it increases the chances of a deal going astray. For example, a lender may charge more interest to a borrower than what was agreed upon. Or a borrower starts missing repayments without any consequences.

A [signed contract](#) mitigates such risks to help all parties to fulfill their responsibilities reasonably.

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