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CLASS: VI-VIII FINANCIAL LITERACY

BEYOND SAVINGS: BORROWING

Borrowing: It is receiving something of value from another party with the agreement that it will repaid with some extra amount at a particular time in future. A person who receive benefits is called borrower and the another person who lend (give) is known as the lender. The borrower pays the principle amount (actual amount taken) along with interest to the lender. Most borrowed fund has a maturity date by which time borrower have to pay the fund back.

Interest rate: It is the rate at which the interest is charged by the lender to the borrower on the amount of money borrowed. It is charged as a percentage of the principal amount. Interest rates are noted on an annual basis, known as the annual percentage rate.

Loan: A loan is a debt provided by one entity to another entity at an interest rate. It is the written or oral agreement for a temporary transfer of a property (usually cash) from the lender to the borrower who promises to return it according to the terms of the agreement usually with interest. If the loan is repayable on demand it is called a demand loan. If it is repayable in equal monthly payment, it is an instalment loan. If repayable in lump-sum on the maturity date, it is a time loan.

Home Loan: It is a type of loan acquired from a financial institution to purchase of a home. Home loan consists of an adjustable or fixed interest rate and payment terms. Home loan may also be referred to as mortgage loan.

Education Loan: It is a type of loan which is designed to help students to pay for their higher education. It is different from other types of loans in that the interest rate may be substantially lower. Payment is often deferred while the student is still studying and for a six months grace period after graduation.

Consumer Loan: It is a type of loan in which amount of money lent to an individual, usually on a non-secured basis for personal, family or household purposes. These are monitored by government regulatory agencies for their compliances with consumer protection regulations.

Vehicle Loan: It is a type of loan given for buying a vehicle listed under assets of an individual or an organization.

Personal Loan: It is a kind of unsecured loan which can be used for any purpose. An unsecured loan is a type of loan which do not require any collateral (security).

Types of Personal Loan: There are two types of personal loan.

a) **Secured Loan:** To get a secured loan, a person has to give security of his/her assets. A secured loan sometimes called personal bad credit loans, which are typically offered to a person that has a lower credit score.

b) **Unsecured Loan:** Unsecured loan can be issued without any collateral (security). It is generally offered to people who have higher credit score and make enough money to be able to pay off the loan easily.

Fixed rate Loan: These loans maintain the same interest rate for the duration of the loan. Normally higher rates are charged by lenders because they may lose money, if market interest rates increases.

Floating rate loan: It refers to a loan with floating interest rate. The floating interest rate is the rate which changes with the market. This contrasts with the fixed interest rate, in which the interest rate of debts stays constant for the duration of the loan agreement. A floating interest rate can also be referred to as variable interest rate because it can vary with the duration of the debt obligation.

Prepayment of a loan: Prepayment is the early repayment of a loan by a borrower, often as a result of refinancing to take advantage of lower interest rates.

Good Loans: These are the loans which we take to buy the most precious assets of lifetime i.e. Home, Land, education loan etc.

Bad Loans: It is a loan where repayments are not being made as originally agreed between the borrower and the lender, and which may never be paid. A debt which is not collectible after all attempts are made to collect the debt. Bad loan or bad debt is possible when the debtor become bankrupt. This debt, once considered to be bad, will be written off by the company as an expense.

Processing charges: Loan processing fee is the charge that passes on costs to the borrower for obtaining loan. It is charged at different rates by the different financial institutions. Some financial institution take processing fee from the individual before the loan is sanctioned. This is generally a percentage of the loan amount.

Termination fee: A termination fee is charged when a party break the terms of an agreement or long term contract. It is also a charge which one telecommunications operator charges to another for terminating calls on its network.

Credit Score: A credit score is a numerical expression which represent the credit worthiness of an individual. Banks and credit card companies use credit scores to evaluate the potential risks posed by lending money to consumers and to mitigate losses due to bad debts. Lenders use credit scores to determine who qualifies for a loan, at what interest rate, and at what credit limit.

CIBIL: Credit Information Bureau (India) Limited is commonly known as CIBIL, is India's first credit information company. It maintains records of all credit-related activity of an individuals and companies including loans and credit cards. These records are submitted to CIBIL by member banks and credit institutions, on monthly basis. This information is then used to create Credit Information Reports (CIR) and credit scores which are provided to credit institutions in order to help evaluate and approve loan applications.

Equated Monthly Instalment (EMI): It is a fixed amount paid by a borrower to a lender on a specified date of each calendar month. EMI is used to pay off both interest and principal amount each month, so that over a specified number of years, the loan is paid off in full.

Credit Card: It is a card issued by a financial company giving the holder an option to borrow funds, usually at point of sale. Credit cards charges interest and are primarily used for short term financing. Interest usually begins at 50-51 days after a purchase is made and borrowing limit is pre-set according to the individual's credit rating.