SIX Times it is OKAY to take a LOAN by Sarah Winfrey

1. When you can easily afford the payments

Taking a loan and not being able to afford the monthly payments will cause more financial stress and will hence eliminate the benefit of getting a loan in the first place. **Simply put: If you can't afford the monthly payments do not take the loan**.

2. When your purchase is essential

Loans are never a good idea when you are using them to finance a lifestyle that is beyond your means.

3. When you have good credit

Good credit can determine the rate of interest you will receive on a loan.

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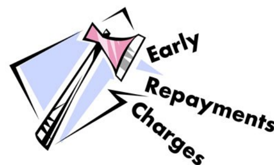
4. When interest payments are less than your investment returns

If the rate of the loan is less than the interest you earn on your investments, take the loan.

5. When you can pay it off early

If you expect to have money coming in but just don't have it as yet, take a loan. Once you receive the windfall use it to pay off the loan. Be sure to check for early prepayment penalties before taking the loan. Paying off a loan early, also reduces the total interest you pay.



6. When you qualify for a special loan

These include special rates for mortgages and education loans.

PUBLIC SERVICE PENSION FUND

Tips to ensure Financial Health

LOAN INFORMATION BOOKLET

LOANS

What is a Loan? – the act of giving money, property or other material goods to another person in exchange for future repayment of principal amount and interest.

Why borrow? Through lending, persons can have access to resources, usually money to help meet their needs.

Interest Rate - is the amount the lender charges for lending you money. It is usually quoted on an annual basis or Annual Percentage Rate (APR). Interest charged on loans is compounded or "interest on interest".

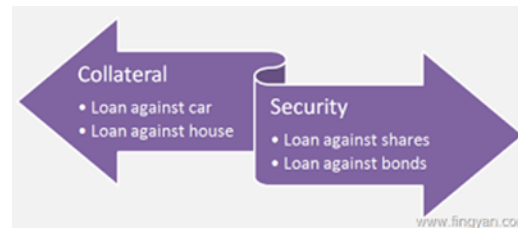
How interest works -Interest is charged monthly on the principal and accrued interest from previous months. As the term of the loan increases so does the interest payable. If possible try to pay off loans as quickly as possible.

BALANCES, PAYMENTS and More

Declining Balances - the amount remaining unpaid on a loan and which decreases with every payment. Interest charges are usually computed on the declining balance.

Monthly Payments - fixed amount that is due to be paid and is calculated based on the amount borrowed, interest rate and time period.

Collateral or Security - is a safety net for the lender. The Borrower is required to assign part or the entire value of an asset or assets before the funds are disbursed.



TYPES OF LOANS

Open-ended and Closed-ended

Open-ended loans - the Borrower can borrow over and over again. As the amount owing is repaid, the Borrower can reuse up to a preset credit limit. Popular examples are credit cards and lines of credit.

Closed-ended loans - the Borrower cannot borrow once amount is repaid. There is no credit limit, the borrower would have to reapply for a new loan. Popular examples are Auto Loans, Mortgages and Student Loans.