Credit worthy

FACT FILE

All about loans, APR and interest

MoneySense for schools

What's a loan?

This is an advance of money from a **lender** to a borrower over a set period of time. The borrower must repay the loan, usually monthly, with interest. There are different types of loans available.

When applying for a loan there are four important things to think about:

- The amount of money you require
- The **APR** you are offered
- How much you can afford
- How much time you will need to pay it back.

Understanding Interest and APR

Interest is a payment you pay or receive in exchange for the use of money over time. You can earn interest by keeping your money in a bank, but pay interest when you borrow money.

Annual Percentage Rate (APR) is the standard measure of the cost of loans. It is the interest payable on what you have borrowed, plus other charges such as fees, expressed as an annual rate of charge. It also takes into account how often the interest is charged (monthly, quarterly or annually). An APR can be seen as the price of a loan. You can use APR to compare one loan with another, as long as they are for the same amount and length of time.

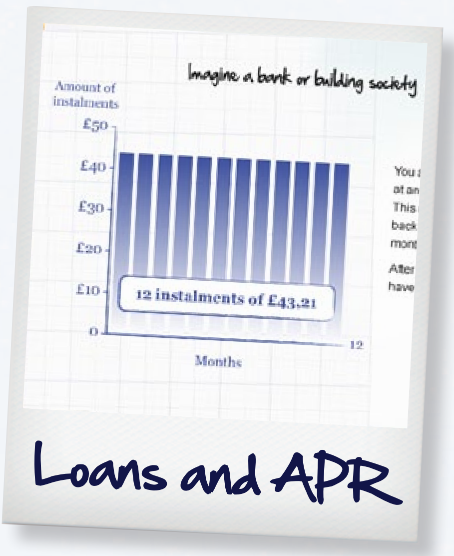
However, interest can become a problem if the APR is very high – which it sometimes is – and you can't afford to pay back the loan in the specified time. Every time you miss a payment, or only pay off a little, the interest just keeps getting bigger.

The difference between a secured and unsecured loan

If a borrower takes out a **secured loan** they are putting up any property they own as security to the lender if they are unable to make the payments. This in effect gives the lender a guarantee that they'll get their money back.

An **unsecured loan** costs more in repayments but does not require the borrower to put their home up as guarantee of repayment

Have a go at activities Interest and APR and Loans and APR



Words in red can be found in the glossary: moneysense.natwest.com/schools/students/glossary
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