

What is a Loan?



When your parents say they are getting a loan from the bank, it means they are borrowing money with a promise to pay it back.

Loans are useful when you have a big expense but not enough money in savings to pay for it. For example, your parents may need a loan to pay a contractor to fix the roof on the house after a big storm or to purchase new car.

Small business owners may use a loan to have money to pay their employees or buy new equipment. The loan allows them to cover immediate expenses because they know that upcoming payments from customers will give them enough money to pay back the loan.