

AARAMBH

Smart Borrowing: How to Avoid Debt Traps

Borrow for a clear need, understand the full cost, and plan repayment.

Help families evaluate loans before signing and recognize warning signs of debt stress.

LEARN Understand the basics	THINK Compare risks and choices	ACT Use official channels
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Educational resource • Simple language • No product endorsement

Important: This booklet is for education only. Financial products, rates, eligibility, rules and scheme terms can change. Verify current information from official sources before acting.

The Guide

1. Borrow for a Purpose

Separate productive borrowing—such as a business or essential asset—from borrowing for impulse purchases.

Ask whether the monthly repayment fits comfortably after essential household expenses.

2. Understand the Full Cost

Do not look only at the advertised interest rate. Check processing fees, insurance, penalties, late fees, prepayment rules and the total amount repayable.

Read the agreement and ask questions before signing.

3. Avoid the Debt Spiral

Do not use one expensive loan to repeatedly repay another without a sustainable plan.

Keep an emergency buffer and contact the lender early if repayment becomes difficult.

Remember

Know the total cost of a loan before you sign.

Your Action Checklist

Use this page during a workshop or at home. Tick each item only when you understand it.

Write the loan purpose.

Calculate total repayment.

Compare at least two legitimate offers where possible.

Check lender/regulatory status.

Set a repayment calendar.

Avoid borrowing for speculative trading or gambling.

Questions to Ask Before You Act

1	What exactly am I buying, joining, borrowing or authorizing?
2	What could go wrong, and what would I lose?
3	What are the fees, penalties, exclusions or conditions?
4	Who regulates or officially administers this product/scheme?
5	Where can I verify the information independently?

My Notes

Quick Questions & Trusted Sources

What is an EMI?

An EMI is a scheduled instalment that typically includes principal and interest according to the loan's repayment structure.

Why is the advertised rate not enough?

Fees and other charges can increase the effective cost of borrowing.

What should I do if I cannot repay?

Contact the lender early, understand available options, avoid taking a new high-cost loan blindly, and seek qualified financial/legal help when needed.

Trusted starting points

- SEBI Investor — Personal Finance / Managing Debt education resources.
- RBI financial education resources.

Aarambh Note

Aarambh creates simple educational resources to help families and communities understand important financial and digital topics. This booklet does not provide personalized financial, legal, tax or insurance advice and does not endorse any product, provider or scheme.

For current rules, rates, eligibility and official application processes, always check the relevant government, regulator, bank, insurer or other official source.