

Know What To Look For In An Unsecured Personal Loan

Many people looking for loans of various types consider an unsecured personal loan. There are advantages and disadvantages to these loans. An unsecured personal loan is not the answer to every person's borrowing needs. Here is some information about unsecured personal loans to help you make an informed decision.

An unsecured personal loan is a loan that is given based on the applicant's credit worthiness alone. These are often called personal loans or signature loans. You usually do not have to give a purpose for the loan, and can use the funds for whatever you wish. There is no collateral securing the loan. These differ from secured personal loans because of the lack of collateral.

Because these loans do not have anything guaranteeing them, the rate will always be higher than a loan that has collateral. If you have the means to obtain a secured loan, this is typically a more cost effective move due to the high interest rates associated with an unsecured personal loan. The reason that the rate is so much higher is because of the risk to the lender. If you should default on the loan, they have limited means by which to reclaim their money.

In order to obtain an unsecured personal loan, there are some things that are usually required. You must have gainful employment. The longer you have been at your job, the better it will look on your application. Most lenders require two forms of identification to thwart identity theft. Owning your home, even if you are not using it for collateral, is a plus because it indicates stability. Your debt to income ratio will obviously play a part in the approval process, since it shows whether you can support a new loan or not. Individual lenders will have different requirements, so be sure to ask so you will know what to expect.

A borrower's credit score plays a large role in whether an unsecured personal loan will be approved or not. Because there is no collateral involved, a lender must rely on other factors, like your credit score, to determine whether you are a good credit risk or not. Usually to obtain an unsecured personal loan your credit should be above average. Again, not all borrowers are so strict. It is possible to be approved for an unsecured personal loan with less than perfect credit, but your interest rate will take a significant hike. Make sure there is no pre-payment penalty, which some lenders will assess to make sure they can collect all possible interest.

There are many lenders who offer unsecured personal loans. It is important that you deal with a reputable lender. Ask about any terms that you are unfamiliar with and try to keep the term as short as possible. Make sure that you read all of the fine print before you sign, because there is no right of rescission on these loans. Once you sign on the dotted line, you are committed. That said, if you are smart about it and do some shopping around, including online, you can find a great deal on an unsecured personal loan.

About the Author

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