

## What is an Unsecured Loan..?

Loan commonly means 'borrowing of money' from banks or financial institutions. There are different types of loans including the most widely known loans such as Secured and Unsecured loans. Secured loan means borrowing against some collateral securities while unsecured loan does not require any mortgage of assets like immovable properties. People having assets but not willing to mortgage it for loans have the option of going for unsecured loans.

The major difference in secured and unsecured loans is the Rate of Interest-ROI which is on the higher side in the case of an unsecured loan as compared to a secured loan. Due to increasing demand for different types of loans, the number of lenders, as compared to the number of borrowers, is perhaps higher resulting in competition. Different lenders offer different schemes with different rates of interest, following which the borrower is the ultimate beneficiary. Only if the borrower has sizeable and regular source of income, and requires that to meet the lump sum expenditures like marriage, owning new house, buying some valuable items like jewelry or car, should one consider taking loans. But at the same time, so far as possible he should avoid taking secured loans to safeguard his assets or property.

While taking any loan the borrower must precisely exercise working on the rate of interest supposed to be charged and the repayment options that may not disturb his routine livelihood budget. There is no harm in taking loans, especially for the people maintaining regular yet limited income like a salary.

The borrower has options for negotiating and bargaining rate of interest and the equated monthly installments-EMIs too. They can choose the convenient options of repayments and even utilize the borrowed amount for an extended period of time. So far as unsecured loans are concerned, it may always pose an increased amount of risk for the lenders as they may not have any securities against the funds lent. In the case of the borrower turning to defaulter due to any reason, the lender has literally no option but to take legal shelter against his borrower and remain contented with the lawful settlements only.

Until a few decades back it was difficult getting unsecured loans without furnishing the collateral. The lenders during that time were over cautious for safety of amount they lent and used to dishonor most of the requests for unsecured loan application at its primary levels only. The competition in this field has forced the lenders compromising with their ethics to lend unsecured loan merely for maintaining business and existence thereby. They also accept the lower rate of interest against extended time of repayments.

It is ideal to evaluate the pros and cons of the unsecured loans despite of the universally known fact that the borrower in general is benefited through unsecured loans. Consider the following facts:

- Unsecured loans do not unnecessarily involve or endanger the borrower's assets like property etc as in the case of the secured loans
- Rates of interest charged on unsecured loans are comparatively higher than that of secured loans but if the borrower enjoys good credit history then he may get a competitive rate of interest on the unsecured loans
- Time consumed for approving the unsecured loans on the basis of one's personal credit ranking is comparatively less as compared to the time taken for approving the loans against collateral which involves valuation of the asset to be mortgaged
- The borrower has the advantage of bargaining the deal with his lender because of the competitions in this sector at present.

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## About the Author

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