

[Golden 1 podcast: secured vs. unsecured loans]

“Secured vs. unsecured loans: How to make the right choice”

HOST

Hi, welcome to this episode of the Golden 1 podcast!

If you need to borrow money, you're probably shopping around for a loan. And as you start to look, you'll quickly realize that there are many different options, which is nice... but also kind of confusing.

Well on this episode of our show, we're going to break down the differences between the two major types of consumer loans: secured and unsecured. What they are, how they work, and whether or not they're right for you - we'll cover it all!

The key difference between secured and unsecured loans is collateral. To get approved for a secured loan, you agree to offer up an asset to your lender such as a car or home in the event that you can't pay.

Secured loans come in a few different forms. Examples include mortgages, a home equity line of credit or second mortgage, and auto loans. They may also include a personal loan if the lender lets you secure it with an asset.

So, is this the right choice for you? Well, secured loans are ideal for people who have average to poor credit, or a relatively short credit history. The reason is that lenders need a little more assurance. If they're going to loan money to someone who can't demonstrate a history of stellar credit management, they want to know that they'll be able to recoup their losses if you fail to pay their money back.

But, while you take on greater risk with a secured loan, there are some benefits. You will likely be able to get a lower rate, higher borrowing limit, and a longer repayment term compared to other types of loans. Of course, you save the most money by repaying your loan as fast as possible, but having flexibility is always nice.

Just remember - if you depend on your car to get to work or never want to go through the experience of losing a home,

you either need to be confident that you can pay back the money, or should maybe consider a different type of loan.

...And that's a good segue into our next topic. Unlike secured loans, lenders who offer unsecured loans don't need collateral. This category includes credit cards, personal loans, and student loans. These are a good choice if you don't want to risk an important piece of personal property. However, because lenders can't tie an asset to the terms of the loan, they usually reserve these for people with good to excellent credit. Plus, unsecured loans typically have higher Annual Percentage Rates than secured loans, so you might pay more overall depending on specific terms.

If you fail to pay back your unsecured loan, you can still default, causing your loan to be sent to a collector. In addition to being a stressful and unpleasant experience, your credit score will also take a hit, which will make borrowing money in the future more difficult.

So we've covered the differences between secured and unsecured loans. But what do you do if you can't get approved for either? Borrowers have to meet certain criteria when they apply for loans. It might vary a little depending on the type of loan, but in general lenders look for things like consistent income, steady employment, a low debt-to-income ratio, and your credit history.

This last factor can have a big impact on your loan eligibility, will affect how much you are charged in interest, and may give you the power to choose between a secured and unsecured loan. So if your loan applications are denied and you have existing debt and an otherwise unblemished credit history, take some time to improve your credit by making bigger, on-time payments to the loans you have now.

Finally, if you can't get approved for either a secured or unsecured loan and find yourself in a money emergency, resist the urge to take out a payday loan. While it's fairly easy to get, it comes with huge interest rates, sharp penalties, and very short terms. Payday loans are basically designed to trap you. If you fail to pay back the first loan in the time allotted, you can take out another loan to pay it off, but the amount you owe starts to snowball. Pretty soon you're on the hook for much more than you ever imagined.

Remember, if you need a loan and aren't sure where to turn, Golden 1 can help. We even offer unsecured starter loans for people without much of a credit history.

Well I hope everyone feels a little more confident about their loan options. Thanks for joining us for this episode of the Golden 1 podcast. Talk to you next time!

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