

Personal Loans: Tips

There was a time when banks were the only places we could go for personal loans. Folks would don their Sunday best, and brace themselves for personal scrutiny and perhaps, rejection. Fortunately, the process of obtaining personal loans is much more humane these days.

Banks no longer have a corner on the lending market. Gone are those humiliating interviews, and the extortionate rates that those 'lucky' enough to obtain loans were forced to pay. Today, we live in an open market, and banks are not the only places to obtain personal loans. Because of the increase in lending sources, interest rates have become increasingly competitive.

You can find loan providers almost anywhere # some reputable, others not so much. Supermarkets, gas stations, junk mail, television, and magazines are all inundated with information about personal loans and lenders. A wide array of options is available, each assuring great rates and services. With so many to choose from, where do you start in making a wise decision?

Personal Loan Basics

For starters, you need to understand the concept behind personal loans. A personal loan is money lent to an individual by a financial institution for a specified personal purpose. A home purchase is not considered to be one of the intended personal loan situations, as that falls under mortgages, a completely different category.

One main difference between a personal loan and a mortgage is that most personal loans are unsecured. That means there is no collateral provided, and the only guarantee that a borrower can give the lender is his or her reputation for good credit. This is the main reason that the interest rates for personal loans are higher than most other types of loans.

Factors to Consider

Why you need the loan and how you plan to spend the money is not really a consideration in getting a personal loan. The only thing that really matters is whether or not you can afford to make the monthly payments.

To find out how much you can afford in personal loan repayments, you'll need to do a little calculating. First, look at your monthly household income. Then, tally all of your monthly expenses. Maintenance payments, food, utility bills, clothing, outstanding debts and miscellaneous spending money must all be taken into account. Add all of these amounts, and then tack on an additional ten percent as a "safety net". Subtract your total monthly expenses from your total monthly household income. The amount left over is your available cash to put toward your personal loan.

Personal loans can be easy to get. Sometimes, a little too easy. Make sure that you think the situation through very carefully and be sure that you can afford the payments before signing the dotted line.