FinStart

What’s the difference between a secured and unsecured loan?

People use unsecured loans to pay for a wedding, home renovation, or education.

- With an unsecured loan, the lender decides based on trust and the credit worthiness (good credit history) of the borrower.
- There's no risk of losing your possessions if you don't make payments.
- But your credit score will go down (maybe quite a bit).

People use secured loans to borrow money to buy big-ticket physical items - like a car or a house.

- The item is pledged as a guarantee for the loan (called 'security').
- The lender can take it away from you if you don't make payments.
- Because of that, interest rate is usually lower than with unsecured loans.