Loan BASICS

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There are loan products out there to suit almost every situation and need.

Need some help deciphering all the different types of loans? Below you'll find some of the terms you're likely to come across when shopping for a loan.

FEDERAL VS. PRIVATE

FEDERAL

- Loans that are granted by the federal government.
- Student loans are the most common example.
- Federal loans generally have lower interest rates, deferment options, grace periods and other features to make them more affordable.

PRIVATE

- Loans that are granted by a lender such as a credit union, bank or broker.
- Mortgages, auto loans and consolidation loans are all examples of private loans.
- Private loans are based on creditworthiness and may have interest rates that change over time.

PERSONAL VS. COMMERCIAL

PERSONAL

- A loan granted for personal use.
- Common reasons to take out a personal loan include covering a medical bill, financing a home improvement project or consolidating other debt.

COMMERCIAL

- A loan granted for business use.
- Common reasons to take out a commercial loan include purchasing equipment and inventory, expanding a business or moving into a bigger space.

SECURED VS. UNSECURED

SECURED

- A loan that has collateral attached to it. Collateral is a valuable asset (like a house or a car) that the lender can seize if the borrower fails to repay the loan.
- Because the collateral reduces the amount of risk to the lender, secured loans are usually available for larger amounts and at a lower interest rate.

UNSECURED

- A loan that does not require collateral.
- Unsecured loans are generally easier to obtain than secured loans, but are generally for smaller amounts and at a higher interest rate.

FIXED RATE VS. VARIABLE RATE

FIXED RATE

- A loan where the interest rate stays the same throughout the entire term of the loan.
- Tends to have higher interest to compensate for rates rising in the future.
- Fixed-rate payments are consistent and easy to budget for.

VARIABLE RATE

- A loan where the interest rate changes over time. The rate is usually based on an economic index.
- Tends to have lower interest since rates are expected to rise over time.
- Variable-rate payments are unpredictable and more difficult to budget for.

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Sources: *Investopedia, Wise Bread*

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