

Tutorial Notes

Class: B.Com (Prog.) Semester VI (DSE3)

Subject: Banking & Insurance.

Topic: Secured Vs Unsecured Loan.

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Secured Vs Unsecured Loan

Secured loan is a loan backed by an asset (e.g. a car or property) you own also known as loan against property, in order to decrease the risk assumed by the bank.. The asset will be taken over by the bank if you fail to make the necessary repayments.

A secured loan can be,

- A car Loan taken to buy a car that you always wanted.
- A home loan taken to buy a flat or house. You can also take it to refurbish your home.
- Secured business loan, where machinery, stock, raw material, building etc. are pledged against the loan amount required.

Unsecured loan is given on the basis of your income and expense behaviour and does not require any collateral. It offers the flexibility to choose the repayment tenure between one and five years and the best loan rates are generally given for borrowers looking to make repayments over three and five years.

An unsecured loan can be,

- A personal loan taken for a vacation abroad, a wedding in the family, a business requirement, or for any other need for which you do not have ready liquidity. You can acquire this loan at a higher rate of interest for a comparatively smaller tenor.
- A credit card loan which is the most flexible form of short-term borrowings with easy repayment options.
- A bank overdraft which you can use to avail unsecured finance from your bank for your business.

TERMS	SECURED LOANS	UNSECURED LOANS
Security	Your property, home or automobile is used as collateral. If you fail to repay the loan, the lender may repossess your valuables.	You do not have to put up any asset as collateral to apply for an unsecured loan.
Amount	Generally, large sums of the amount are offered. However, it also depends on the source you're borrowing from, debt-income ratio, credit score, amount of equity of your property, your age.	The amount that you can borrow depends on your income, expenses, credit score, employment status, and several other factors.
Interest Rate	The rate of interest that will be offered to you if you borrow a secured loan will be comparatively lower because of the collateral that you pledge.	These loans have a higher rate of interest as compared to secured loans.
Tenure	You can choose a 25-year term or a 40-year term. It completely depends on the amount that you're borrowing and your repayment affordability.	Such loans can be taken out for a period of more than one year. You have to make the repayments of the loan within 12-84 months.