

Secured vs. Unsecured Loans: What's the Difference?



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When it comes to borrowing money, the type of loan you take out matters. There's a big difference between secured and unsecured loans, and which one you should get comes down to your needs, your creditworthiness, and whether you can afford to put up collateral.

Key Takeaways

- Secured loans are backed by collateral, which means that if you don't make payments, your lender can seize that asset.
- Mortgages and auto loans are types of secured loans.
- [Unsecured loans](#) don't require collateral but may charge a higher

interest rate and have tighter credit requirements because of the added risk to the lender.

- Many personal loans and most credit cards are unsecured.

Secured vs. Unsecured Loans: Overview

Both [secured](#) and [unsecured loans](#) are available from many [banks](#), [credit unions](#), and online lenders. The main difference between a secured and unsecured loan is the need for [collateral](#). A secured loan requires you to put up an asset that the lender can seize if you [default](#) on your loan. An unsecured loan doesn't require collateral.¹

What Is a Secured Loan?

A secured loan is a type of loan that requires collateral, such as a home or car, to act as security for [repayment](#). This means that if you fail to make payments on your loan, your lender can take your collateral. In some cases, secured loans use money in an account, like a [savings account](#) or [certificate of deposit \(CD\)](#), as collateral.

Types of Secured Loans

There are a few different types of secured loans, including:

- [Mortgages](#) and home loans
- [Home equity loans](#) and [home equity lines of credit \(HELOCs\)](#)
- Auto loans
- RV, boat, and motorcycle loans
- [Car title loans](#)
- [Secured lines of credit](#) and [secured credit cards](#)
- Share-secured or savings-secured loans

Secured Loan Pros

- **Potentially lower interest rate.** In general, [interest rates](#) for secured loans are lower than those of unsecured loans because if you fall behind on payments, lenders can seize the property you used to secure the loan.¹
- **Lower barriers to qualify.** If you don't have good or excellent credit, it's easier to qualify for a secured loan because the [lender](#) is more likely to take a chance on you due to the safety net provided by the collateral.
- **Bigger borrowing limits.** In most cases, you can borrow more money with a secured loan than with an unsecured loan.
- **Longer repayment periods.** For secured loans like mortgages or home equity loans, you can get longer repayment periods than with typical unsecured loans.

Secured Loan Cons

- **You could lose your property.** Whether you're putting up your home, car, or savings account as collateral, there's a chance you could lose it. If you fail to repay your loan and default, your lender could claim those assets.²³
- **Could cost more in the long run.** While the longer repayment periods that secured loans generally offer may be a plus in terms of lower monthly payments, the downside is that you may ultimately pay more interest over time.

What Is an Unsecured Loan?

An unsecured loan doesn't have any particular collateral tied to it. Instead, qualification is based on your [creditworthiness](#) and other requirements. Those requirements tend to be stricter than with a secured loan.

Unsecured Loan Pros

- **Less risky.** Since unsecured loans aren't tied to collateral, you aren't at

risk of losing your property if you fail to repay your loan.

- **Quick application and approval.** Unsecured loans often have a streamlined application and approval process. Many [personal loan](#) lenders let you check to see if you're eligible beforehand through [pre-qualification](#). An unsecured loan can be the fastest way to borrow money in an emergency.
- **Flexibility.** If you need to pay for something that isn't covered by a specific loan type, an [unsecured personal flex loan](#) could be the way to go.

Unsecured Loan Cons

- **Harder to qualify.** Getting an unsecured loan is usually tied to your [credit score](#) and [credit history](#). If you have only fair credit, you're unlikely to qualify for a loan with an attractive interest rate and other terms, and if you have bad credit, you may not qualify at all.
- **Higher interest rates.** Unsecured loans tend to charge higher interest rates than secured ones because the lender is taking a greater risk. However, the higher your credit score, the lower the interest rate you may be eligible for.

Which Type of Loan Is Best for You?

A secured loan might be preferable (or your only option) if:

- You're buying property, like a home, car, etc.
- You don't have good enough credit to qualify for an unsecured loan with a low interest rate.
- You're taking out a large amount of [debt](#) that you need to repay over a long period of time, as with a mortgage.

An unsecured loan might be a better fit if:

- You want to [consolidate debt](#) through a personal loan.

- You don't need to borrow very much, or you have multiple uses in mind for the funds.
- You're taking out [student loans](#) to pay for school. (Federal student loans are generally unsecured.)

Does a Secured Loan Affect Your Credit Score?

Whenever you apply for a loan—secured or unsecured—lenders conduct a [hard credit check](#). This causes your credit score to temporarily dip, but it usually rebounds after a few months of on-time payments. Continuing to make consistent payments on either type of loan will help build your credit score.⁴

What Credit Score Do You Need for an Unsecured Loan?

The credit score you'll need for an unsecured loan depends on the type of loan you're applying for and on your particular lender. There is no set standard, although it helps to have a credit score that's at least in the "fair" range. In terms of [FICO scores](#), that's a score no lower than 580. A "good" (670-739) or better score will make you more likely to qualify for a loan, especially one with attractive terms.⁵

What Happens if You Default on an Unsecured Loan?

While unsecured loans don't have any collateral attached to them that a lender could seize, the consequences of [defaulting](#) on one can devastate your credit score, making it difficult or impossible to obtain credit for years to come. In addition, the lender or its collection agency can sue you, attempt to put a lien on your home or other assets, or garnish your wages.⁶

What Builds Credit Faster, a Secured or Unsecured

Loan?

Both secured and unsecured loans will help you build your credit score as long as you make at least the minimum payment on time every month.⁷¹

The Bottom Line

When it comes to borrowing money, the type of loan you take out matters. There are some substantial differences between secured and unsecured loans, so it's worth comparing loans and lenders to find one that best suits your needs.