



Why a Personal Loan Might Be Better For You Than a Credit Card

You're faced with a sudden, unexpected and considerable expense, and you'll need to borrow to pay for it. What will you do?

Put it on a credit card, you think. But that comes with a hefty interest rate, [even higher if](#) you take out a cash advance on the card, and an already big burden will grow quickly.

You might instead look into a [personal loan](#). Loans charge interest, too, but the rate is often lower than that on a credit card. And loans have a more structured payback plan that you might find easier to understand and manage.

How does a Personal Loan Work?

Personal loans are unsecured, meaning you don't have to put some asset you own, such as your house or your car, up as collateral. Instead, a lender such as United Health Credit Union will look at your creditworthiness to determine how much money to lend you and at what interest rate.

This often boils down to your [FICO credit score](#), a three-digit number that reflects your history of making payments and other information in your credit report. If you have a low score, you may have an easier time getting a personal loan if you have a co-signer with a better score. (But you both should know that you both would become liable for paying off the loan.)

To [apply for a personal loan](#), you will need to provide identification, such as a passport or driver's license, verification of your address, and proof of income (ability to repay). You will also likely be asked to supply your employer's name and contact information, your monthly debt obligations and other personal details.

If approved, you'll receive a sum of money, and you'll pay it off in equal installments over a period of time, usually 36 months. While interest rates are typically lower than those on credit cards, you don't have access with a credit card.

What can you use a Personal Loan for?

A personal loan can go toward all sorts of expenses: home improvements, medical bills, college costs, an exotic vacation, even to consolidate your existing debts.

In addition to traditional financial institutions, new entrants such as online lenders are also options, often touting their costs or terms. But there are [reasons to be wary](#), namely in what they demand of you and how they collect. Do your homework before applying.

You might feel more comfortable with a traditional lender. If so, know that credit unions typically offer [better rates than banks](#) and win higher marks for customer satisfaction.

When faced with an expense you can't pay for out of pocket, you have options beyond using a credit card. One of them is a personal loan.