



## How to Use a Personal Loan



A personal loan can be a great tool when you have an emergency or are making a large purchase. While personal loans are versatile and can be helpful, writer Miranda Marquit with Investopedia reminds us there are some risks in using them—especially if you become too reliant on them.

### How Personal Loans Work

Many personal loans are unsecured, meaning that you don't usually need to provide something valuable as collateral, while some personal loans can be secured with a car title or another possession. With a personal loan, you borrow a lump sum and usually pay a fixed interest rate, making installment payments over a period of time that is determined by the loan terms.

## Personal Loan Uses

Personal loans are versatile and can be used for a variety of purposes. Here are some common ways to use a personal loan:

### Debt Consolidation

If you have a lot of high-interest credit card debt or other loans, a personal loan can be used for debt consolidation. Depending on the situation, you might be able to get a large personal loan and use that money to pay off your smaller loans. With the help of debt consolidation, you can potentially streamline your debt and perhaps pay it off earlier.

### Home Improvements

Often, relatively small home improvement projects can be completed with the help of a personal loan. You won't need to use your home equity as collateral if you get a personal loan to remodel your bathroom or add a deck. Additionally, if you want to start your project quickly, you can likely get your funds much sooner.

However, a personal loan might have a higher interest rate than a home equity loan or home equity line of credit (HELOC), so consider whether you want to pay that higher cost.

### Emergencies

An unexpected expense, such as when your car breaks down or an appliance stops working, can be covered with the help of a personal loan. You can usually get the money quickly, and it can bridge the gap if you don't have an emergency fund to cover the cost.

Depending on the rate you receive, a personal loan can be a better choice than using a payday lender or pawnshop, both of which might charge interest rates in the triple digits.

### Medical Bills

If you need dental work done or have a procedure performed out of network, a personal loan can help you cover the cost. Personal loans can also be used for elective procedures, like Lasik or cosmetic surgery.

However, before getting a personal loan to cover healthcare costs, check to see if there are alternatives. Some hospitals and other facilities will set up interest-free payment plans, which can be a better choice than a costly personal loan.

### Large Purchases

Finally, personal loans can be used to make large purchases and pay for events. You can use a personal loan to pay for a wedding, vacation, new computer, or even your holiday expenses. Big-ticket items might be difficult to save up for over time, and a personal loan with manageable payments can help you reach your goals faster.

## Things That You Can't Use a Personal Loan for

While personal loans are versatile and can be used for a variety of purposes, they can't be used for everything. Some expenses that personal loans usually can't be used for include:

- **College tuition:** Most of the time, when you apply for a personal loan, the lender will ask to make sure that you aren't using the loan for educational expenses, like tuition. In general, federal and private student loans are considered more appropriate for college tuition.
- **Business startup costs:** Personal loans are meant for personal uses—not to start a business. Instead, check for loans backed by the U.S. Small Business Administration (SBA) if you're interested in getting what you need to start a business.
- **Down payment:** In general, you're not supposed to use a personal loan to make a down payment on a home. Consider getting help with a down payment from a family member or seeing if you qualify for a down payment assistance program.

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