What are Unsecured Personal Loans?

Worksheet

Unsecured personal loans are non-collateral loans approved based on creditworthiness. You receive a lump sum and repay with fixed monthly payments, usually over 2–7 years at fixed or variable interest rates.

Questions

1. An unsecured personal loan requires…

A) A house or car as collateral
B) Approval based on creditworthiness, not collateral
C) A co-signer always
D) A secured bank account

2. Why are unsecured loans more expensive than mortgages?

A) They're not; mortgages are always higher
B) Higher risk to lender (no collateral to seize if you default)
C) Lenders are greedy
D) No reason — rates are the same

3. If you have a 650 credit score, can you get an unsecured loan?

A) No — never for poor credit
B) Rarely — would require high interest rate or co-signer
C) Yes — same terms as 750+ score
D) Only with a bank, not online lenders

4. What happens if you default on an unsecured loan?

A) Lender seizes your collateral
B) Your credit score drops, lender sues for repayment
C) No consequences
D) Only affects future secured loans

5. You need $10,000 to renovate your kitchen. Your credit score is 720. Can you get an unsecured personal loan?

6. You have $5,000 in high-interest credit card debt (20% APR). You get an unsecured loan at 10% APR. How does this help?

7. Your credit score is 580 (poor). Can you get an unsecured personal loan?

8. Define: What is an unsecured personal loan?

9. Define: What's the difference between secured and unsecured loans?

10. Define: What interest rates are typical for unsecured loans?

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Answer Key

1. B) Approval based on creditworthiness, not collateral — Unsecured means no collateral; lenders rely on your credit score and income instead.

2. B) Higher risk to lender (no collateral to seize if you default) — No collateral = higher risk for lender; higher rates compensate for that risk.

3. B) Rarely — would require high interest rate or co-signer — 650 is fair credit; you'd likely qualify but at 18–24% rates vs. 6–10% for 750+ scores.

4. B) Your credit score drops, lender sues for repayment — No collateral to seize, but default damages credit and lender can pursue legal action for repayment.

5. Evaluation: credit score 720 is good Lender reviews: income, employment, debt-to-income ratio Decision: Yes, likely approved at ~8–12% interest rate Terms: repay over 5 years with ~$200/month payment

6. Old: 5,000 × 20% =1,000/year in interest New: 5,000 × 10% =500/year in interest Savings: 500/year (41/month saved) Benefit: consolidate debt into single fixed payment

7. Evaluation: credit score 580 is poor Lender reviews: typically decline or offer high rates (25–36%) Alternative: secured loan (collateral), credit-builder loan, or co-signer Conclusion: unsecured loan unlikely or very expensive

8. A loan that doesn't require collateral; approval depends on creditworthiness, income, and employment history.

9. Secured loans require collateral (house/car); unsecured don't. Unsecured have higher rates but no asset at risk.

10. Ranges from 5–36% depending on creditworthiness; poor credit = higher rates.

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