

Avoiding Traps of Sub Prime Personal Loan Lenders

A personal loan with an interest rate that is above the prime rate is known as sub prime personal loan, the interest rate being 0.1 to 0.6 percentages higher than the standard interest rate. This is so because since the sub prime borrowers are considered to be risky the lenders try to make up for the risk by charging higher interest rate. To decide whether this is a good financial move, the borrower should look at his current credit and financial situations.

The most common of all sub prime personal loans is the home loan. Home loans are designed for people with credit problems to purchase a home. Lending institutions, which are reputed countrywide, offer such loans. There are precautions to be taken because several scam artists and exorbitant fees are there on the Internet.

Since there is no standard rate charged by sub prime lenders, they treat each case individually and often charge high interest rates. But it is always better to do a thorough research because some sub prime lenders may even offer loan packages that are manageable. Sub prime lenders often look at the credit report of the borrower, employment history, income and the amount of debt if any and so on.

The cash that is available makes all the difference. If the credit rating is low, the borrower should have a much more cash available to compensate, which could lead to higher down payment sometimes as high as 20 to 25 percent. If not, there is no other option but to go in for bad credit personal loan.

As sub prime lenders may offer a mortgage with alarming terms hidden in the blue print, so thorough investigation is essential. Some sub prime lenders offer credit cards to financially distressed people. Counseling with credit counselors or with people who have had experience in the field can be of some guidance.

Most people applying for sub prime personal loans have a credit score less than 620. The borrower is eligible for a prime rate loan if the credit score is more than 620. At times, banks may refer to individuals to a finance company or affiliate for sub prime lending. It is sane to check whether the company is federally insured or search the Internet for customer reviews regarding various lenders and ascertain that the payments are manageable so that the debt is not compounded.

Sub prime loans should be taken only if it is an utter necessity because borrowers have to pay a sizeable amount of interest over the life of the loan. Sometimes sub prime lenders who can be termed as predatory may use certain techniques to make the borrowers a prey to them. They may sell properties more than their worth by false appraisals, encourage borrowers to lie about their income, and expenses, pressurize borrowers to accept higher-risk loans, target vulnerable borrowers to cash out refinances or use high pressure sales tactics to sell home improvements etc. Borrowers should do complete research to avoid being victimized by such predatory lenders. There are even laws to protect the borrowers who have fallen a prey to such lenders which can be availed of.

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About the Author

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