

The Best Loan Alternatives

When thinking about borrowing money, most people look at loans as the most sensible option. Although it is true that loans are often a good option for borrowing money, they are also inflexible, and if you are someone who wants to pay back your loan early then there can be heavy penalties. However, there are some alternatives to loans if you want to borrow money:

Overdrafts

One of the cheapest ways of borrowing money is through the use of an overdraft, especially if you want to borrow money on a short-term basis. Your bank can agree an amount of excess to the amount you currently have in your account, which you can use but will pay interest on. By authorising an overdraft you can use this money as a permanent line of credit. Some banks even offer interest free overdrafts. However, overdrafts are still not advisable as a long term means of borrowing money, and the amount of credit you can get is often fairly low. .

Credit cards

Credit cards are one of the most common alternatives to loans, and can provide you with a good source of extra money when needed. If you can get the level of credit you need and are able to pay off the bill promptly, then you will pay little or no interest. However, the major problem with credit cards is that the interest is usually higher than a loan, and there is a danger of getting too many cards. If you avoid these dangers, then using a credit card as an alternative to loans can work well.

Mortgages

Mortgages are perhaps the best way to borrow large sums of money over a long period of time. You can add credit to your mortgage by borrowing against the equity in your home and adding that amount to your repayments. The advantages of a mortgage are that the interest rate is low and the payments are spread out so the payments appear small. However, because you are paying back over a long period of time, the interest can still add up, and you will not pay the amount back for a long time.

Hire purchase

Hire purchase is useful if you are borrowing money to buy a car or high value electrical goods. Car dealers often offer this method of borrowing money during the sale. In hire purchase, you pay a deposit and then pay monthly payments to the provider. When these payments are finished, then the item belongs to you.

This is a good method for buying a car as the interest is often lower than a normal loan, and it is made easy by the fact that the credit is provided by the seller. However, it is called 'hire' purchase because until you finish all of the payments, you do not own the item, and if you miss payment the item can be repossessed.

Which is best?

Deciding if one of these loan alternatives is right for you can be tricky, but to help you decide you should work out what it is you want to borrow money for, how long you want to be paying back the money, and your overall financial situation. If you look at all the options, then you will find the best method of credit for your needs.

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