

Exploring Better Alternatives for Personal Loans

Acquiring a personal loan is intended for financing and managing a person's financial needs. For taking finance, a person may apply for a loan or a credit card to purchase shares or any asset like home, vehicle etc.

But, before deciding about the financial goals, a person must assess his or her financial situation. While using credit card or personal loan in financing, proper plan for management of debt burden is imperative.

Correct information should be given in the credit report because the chances are high that incorrect information and mistakes on credit report have an adverse effect on the personal loan. The most common errors that occur in the credit report are outdated information, which can stay on the report for seven years, and inaccurate marking like erroneous late payment, repossession and bankruptcy.

Prior to applying for a loan with a financial company, it must be ensured that best rates and terms are selected especially for first time borrowers. First time borrowers must initially determine how much to borrow and for how long to take for repayment. Lenders usually impose higher interest rates for loans on small amounts and so it makes better sense to apply for higher amounts of loans and use the surplus cash to invest with higher rate of interest. If that is frightening, it is advisable to write a budget of all the expenses including monthly bills and daily living costs. Then the expenses should be subtracted from the net income and 75 percent of the left over amount can be set apart for the monthly loan payment keeping the rest 25 percent as a buffer for other expenses.

The amount to be borrowed can be determined on the basis of the purpose for which the personal loan is taken. The length of the time taken for repayment of the money borrowed is the term of the loan. The longer the loan term, the lesser the monthly payments and more the interest rates.

In fact, there are viable alternatives to personal financing that can save money. For example homeowners can explore mortgage products and refinancing also will help to some extent. For a relatively lower amount, applying for a credit card can come in handy for people with poor credit if the intention is to pay off the debt in a short span of time. Borrowing against 401k is a wise decision. It is also equally important to get a copy of the 3- in 1 credit report which provides a complete analysis of profiles as reported by three major credit reporting agencies. If the application for personal loan has been rejected, it is advisable to wait for one or two months before applying again because if applied in more than one source, multiple inquiries will adversely affect the credit score.

Apart from all these hassles, to avoid dealing with emergency purposes-most of the personal loans are for this purpose -it is good if a small "emergency fund" is developed by entailing a few dollars away every month as savings.

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About the Author

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