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# Secured and Unsecured Debts

Debts do seem to be all alike, but it must be known that there are actually many different kinds of debts available. A borrower might ask – what does it matter if there are different kinds of debts, as long as the payments to be made with them remain the same? But the distinction becomes all too obvious if the borrower is unable to make the payments in time and needs to find out ways and means to get rid of the debt. This can be done through consolidation or refinancing. At such times, it is necessary to know the different kinds of debts and what they entail. Here we discuss the two important types of debts – secured and unsecured debts.

A secured debt is one for which the borrower needs to put some collateral. Collateral is a kind of a financial security for the lender. In case the loan is defaulted upon, the lender has the legal right to dispose of the collateral in any which way and recover some of the loaned amount through it. This is known as repossession. But it must be remembered that repossession may not let the borrower go off the hook. If the collateral is not able to compensate for the entire principal amount, then the lender would demand for the remaining amount. Then there would also be several fees to be paid for the foreclosure. Collaterals are usually needed for home and car loans. One further disadvantage with secured loans is that the borrower is not at liberty to negotiate on the interest rates later into the loan. Debt consolidation may also not be possible with such loans, since the lender has their own security. Even filing for bankruptcy may not free the borrower from the loan.

Unsecured debts are those for which collaterals are not needed. People with good credit ratings or those with credit card loans are generally the ones who get unsecured loans. Medical and commercial debts may also fall in this category. With these loans, the lenders do not have any security of the amount they have lent, but they are assured that the borrower will be in a position to pay back the loan. Despite that, if a person defaults on an unsecured loan, then it could go into collections and there could be legal action. However, this happens only as a last resort. Lenders are usually open to negotiations on such loans and borrowers can look at debt consolidation or settlement as a way out of the indebtedness. Credit counseling usually resolves the problems of repaying unsecured loans.

For all the advantages unsecured loans provide, they have higher rates of interest than the secured loans. Most borrowers in the US today have a mélange of secured and unsecured loans. Whatever be the type of the loan, its management is the most important factor. Sometimes people need to begin by borrowing and repaying some secured loans before they can qualify for unsecured loans. This would improve the credit ratings. Anyways, both kinds of loans are potentials for improving credit ratings when paid back in time.

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Adam Heist Specializes in [Homeowner Loan](#). To learn more about this exciting topic check out his website today.

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