

# Personal Loan: What One Needs To Know Before Applying For It

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Before going into the mechanics of how a personal loan works and what are the requirements for one to qualify to get one, one needs to know what Personal Loan actually is. A personal loan in layman's terms can be simply explained as the form of credit that an individual apply from the creditor, which can be used for various and unspecified purposes. They can be used to make big purchases as the interest rates on personal loans are considerably lower than that of a credit card, or one can even use the loaned amount to consolidate their high-interest debts. Again, as compared to Auto Loans or Property Loans, personal loans can be utilised for various purposes as per the borrower's requirement.

Some common terminology one should be familiar with in regard to Personal Loans,

- **Principal** – Principal is the amount that has been borrowed; this is the amount on which the lender calculates interests and the other charges that have to be levied upon.
- **Interest** – Interest is the charge levied upon the principal amount by the lender; it is essentially a lender's charge which you have to pay in extra with the monthly payment that goes toward reducing the principal.
- **Annual Percentage Rate or APR** – When a loan is processed, the lender typically adds some additional charges completely unrelated to the interest charge for various reasons. It could be because of the convenience charge, processing fee, things like this. Annual Percentage Rate or APR is the incorporation of both interest charge as well the additional charges to give the borrower a clearer picture when comparing multiple lender schemes.
- **Term** – Term is the duration of the loan payment, and they are typically counted as the no of months that has to make timely payment to pay off the borrowed amount.
- **Monthly Payment** – This is the monthly amount that one has to pay that includes both a portion of the principal and the interests levied upon the principal to pay off the loaned amount.
- **Unsecured Loan** – Unsecured Loans are those loans that do not require any collateral, and typically all personal loans are unsecured loans as they are backed only by the good credit standing of the borrower.

## Pros and Cons of Personal Loans

As like every other loan out there, there are pros and cons attached to personal loans. The biggest pro of a Personal Loan is that the borrower is free to utilize the loaned amount in whatever way they see fit, which is not the case with home loans or auto loans. But if the borrower misses any of the scheduled payment, their credit standing will be severely impacted.

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