

Not all loans are created equal

Life is full of big purchases that may require loans—learn how to navigate the various types

Chances are, you'll likely need a loan at some point to help cover a major expense, whether you're purchasing a home, a car, education for yourself or your children or just using your credit card. In fact, **the average indebted U.S. household carries \$135,924 of loan debt**, including mortgages and credit cards.¹ But it's important to remember that there are many types of loans, which can all impact your financial health. Learn more below.



The basics: Types of loans

There are two main types of loans.²

Some loans:

- Are not used for a specific purpose or fixed amount of time (no set due date to repay the full amount of the loan)
- Limit the amount that can be borrowed (ex: \$5,000 limit on credit card)
- *Examples: Credit cards, home equity*

Other loans:

- Are used for a specific purpose and set amount of time by which the entirety of the loan must be paid back
- Give the lender some ownership rights to guarantee payment
- *Examples: Mortgages, auto loans*

Some of the most commonly used types of loans include:



Credit cards

Average U.S. household with credit card debt owes **\$16,425**¹



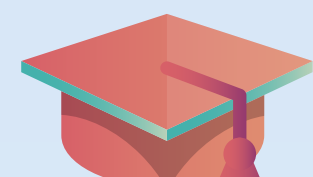
Mortgages

Average U.S. household with a mortgage owes **\$180,018**¹



Auto loans

43% of the U.S. population has auto loans—about **107 million** people³



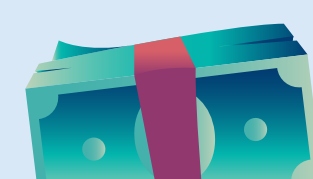
Student loans

\$203: Median monthly student loan payment for borrowers age 20 to 30⁵



Business loans

The average business loan in Q4 2016 was **\$713,000**⁴



Personal loans

The average personal loan balance is expected to reach almost **\$8,000** by the end of 2017⁶

How does applying for a loan affect my credit score?

10 percent of your credit score is based on the number of credit applications you have. Whenever you apply for a loan, your credit report shows an inquiry. Multiple inquiries in a short period of time can signal that you need money fast and might not be able to repay the debt, and that could lower your score.

However, if you are shopping around for the best rate on a mortgage, auto or student loan:⁷



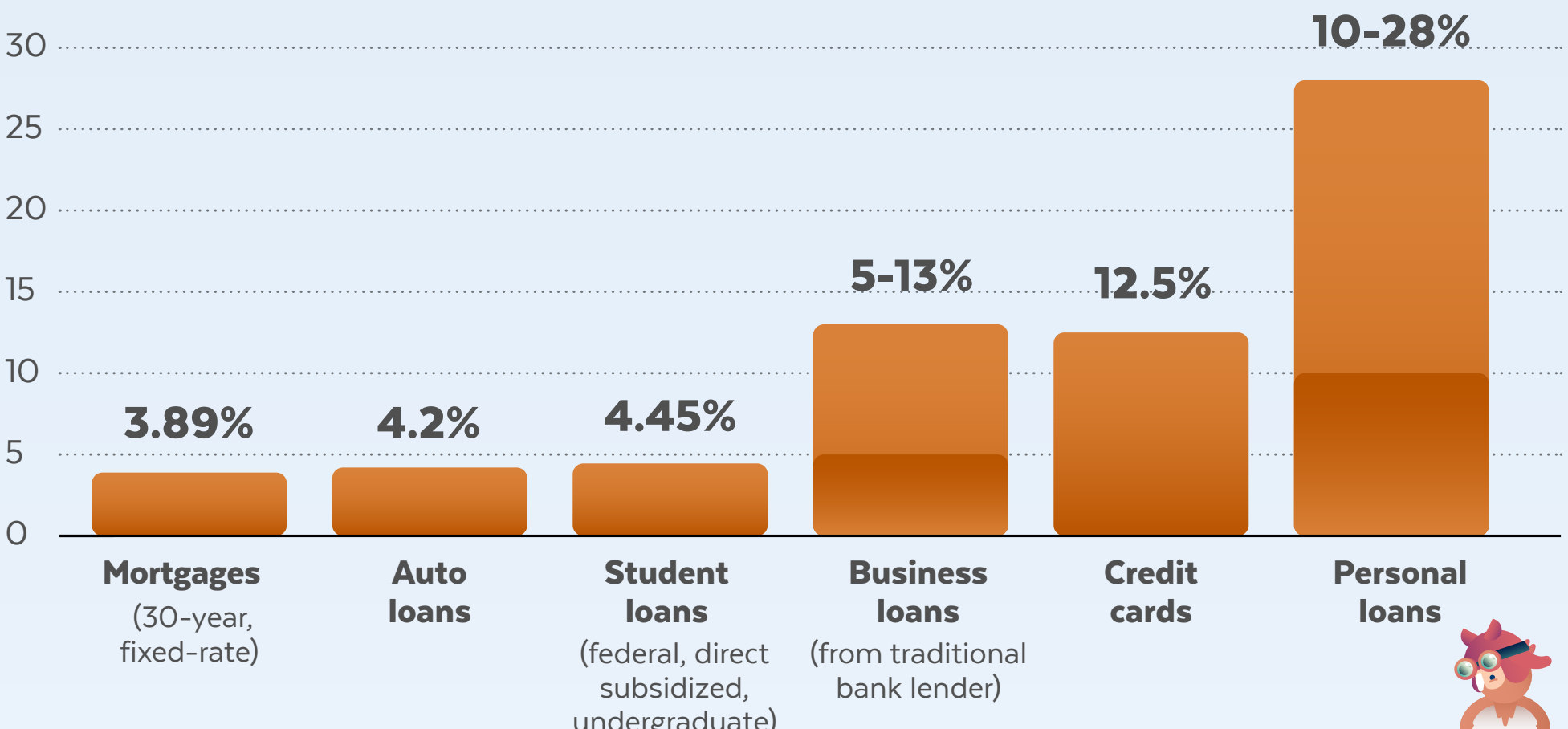
30 days

- Multiple inquiries aren't included in your credit score for 30 days—credit scorers realize that you aren't trying to actually apply for five \$300,000 mortgages, for example, but rather that you are just trying to find the best rate.
- 30 days after your first application, multiple applications on each of these types of loans are treated as a single inquiry.
- This process only applies to these three kinds of loans.

The role of interest rates

Your interest rate depends on your credit score, where you live, the total amount you are borrowing and the type of lender you use. But certain types of loans typically have higher or lower rates than others.

Average Interest Rates by Loan Type



Sources: Value Penguin, 2017, and Freddie Mac



The average household with credit card debt pays \$1,292 in interest per year¹



Payday loans, which are short-term loans (typically for less than \$500 and due on your next payday), can often have interest rates of close to **400%**.⁸ Some states do not allow payday loans, while others heavily regulate or cap them.

Remember these best practices

When you are applying for a loan, make sure you understand:

- The type of loan you need
- When repayment is due
- Your credit score
- The loan's interest rate
- Fees or penalties, such as an annual fee or a late payment penalty

Before applying for a loan, it can be useful to use an online calculator to simulate different loan amounts, interest rates or term lengths.

No matter the type of loan you might take out, be sure to make your payments in full and on time to keep your credit score healthy.



¹2016 American Household Credit Card Debt Study, NerdWallet

²"What is the difference between 'closed end credit' and a 'line of credit?'" June 9, 2017, Investopedia

³"A record 107 million Americans have car loans," May 19, 2017, CNN Money

⁴"Average Small Business Loan Amount in 2017: Across Banks and Alternative Lender," Value Penguin

⁵"A Look at the Shocking Student Loan Debt Statistics for 2017," July 11, 2017, Student Loan Hero

⁶"2017 predictions: Consumer balance and delinquency rates," Jan. 17, 2017, TransUnion

⁷"Will Multiple Loan Applications Hurt My Credit Score?" June 6, 2016, The Balance

⁸"What is a payday loan?" June 2, 2017, Consumer Financial Protection Bureau