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Secured Debt and Unsecured Debt

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As you pay your bills each month, you may not realize that some of your debts are secured while others are unsecured, and the differences between the two are critical in prioritizing your payments.

Secured Debt

Secured debt is a debt that is â€œguaranteedâ€•. In order to guarantee the debt, it is backed by some sort of asset or collateral. If you do not pay your debt, your lender will take the collateral from you as payment. One of the best examples of secured debt is a mortgage. A bank will loan you money to purchase a home. Once you have made the purchase, your home becomes the collateral, and if you are unable to make your payments, the bank can â€“ and will â€“ seize your home and sell it in order to recoup the money they lent you.

Interest rates on secured debt tend to be lower than rates on unsecured debt, as lenders know they will be able to recoup payment no matter what, making secured debt a much safer option for lenders. Even if you default on your payments, they will simply take the collateral as payment instead.

Unsecured Debt

Unsecured debts are not backed by any guarantee. Although you sign a contract agreeing to pay back the loan that is being extended to you, there is no collateral holding you to that payment, making unsecured debt much riskier for lenders. Because of the risk involved, unsecured debt often comes at much higher interest rates. Personal loans and credit cards are prime examples of unsecured debt. If you default on personal loan or credit card payments, your lenders cannot repossess any property as collateral payment. They can, however, take attempt to take legal action against you. And no matter what, missed payments will result in damage to your credit score.

There are instances in which a credit card debt may be secured. In cases of secured credit card, you make an initial payment and are given a card with that amount of money as your credit line. For instance, if you put up $1,000, you will be given a card with a $1,000 limit. You will be able to spend up to $1,000 on that credit card, with the money you put down as collateral securing that loan.

If you are struggling to pay your debts, itâ€™s time to prioritize. Because missed payments on secured debts can mean repossession or property, it is wise to pay these debts first. For more information on how to manage all of your debts, you may wish to contact a credit counseling agency to help get your finances in order.

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The author has an immense knowledge on a secured debt. Know more about a unsecured debt related info in his website.

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