Different Types of Loans

By Loans Canada

Are you looking to get a loan and you're not sure which one? In this article we'll look at the different types of loans available.

Car Loan

A car loan is a loan taken out to purchase a vehicle. It can be for a brand-new vehicle or one that's second hand.

A car loan is different than a car lease. A car lease is like renting the vehicle. You're just paying for the privilege to use it for the next several years. With a car loan, you actually own the vehicle. This means that you can resell it later on if you so choose.

There was a time when five-year car loans were standard. However, this day in age six- or seven-year car loans are the standard.

If you choose to take out a longer car loan, you have to be careful about not finding yourself in a situation of negative equity. This is when your car dies and you still have money owing on the loan. As such, you might choose to keep your loan short at five or six years if you can afford the slightly higher payments.

Student Loan

Whether you're attending school for the first time or you're going back to school, a student loan can help you pay for it.

Student debt is considered good debt in most cases. If you can reasonably expect to grow your income, that’s when a student loan can make sense.

Student loans tend to come with lower interest rates and grace periods. You can get student loans from the government, as well as individual banks.

Small Business Loan

They say that small business is the backbone of the Canadian economy. If you’re thinking of starting your own business, a small business loan could be the funds that you need to jump start your business.

Starting a business tends to come with a lot of risk. As such, you can be expected to pay higher interest rates with a small business loan. You can try to get a more competitive rate by backing up your business loan with a well written business plan.

Debt Consolidation Loan

Do you have high-interest debt you want to pay off? That’s when a debt consolidation loan can make sense.

With a debt consolidation loan, you use a single loan to pay off any higher interest loans you owe. The whole idea is to save money and simply the process of repaying any debts you have owing.

You save money when the debt consolidation loan has a lower interest rate than the debts you paid off. It also makes it easier to pay everything off because you only have one payment to worry about, instead of several.

Personal Loan

Then there’s a general purposes persona loan. The general-purpose personal loan can be used however you like. It could be used for home renovations, to start a business or go back to school.

This is the most flexible option, but tends to come up with higher interest rates, since the reason isn’t specific.