Seven Types of Loans

A loan is a lump sum of money that you borrow with the expectation of paying it back either all at once or over time, usually with interest. Loans are typically a fixed amount, like $5,000 or $15,000. The exact amount of the loan and interest rate varies depending on your income, debt, credit history, and a few other factors.

There are many different types of loans you can borrow. Knowing your loan options will help you make better decisions about the type of loan you need to meet your goals.

Open-Ended and Closed-Ended Loans

**Open-ended loans** are loans that you can borrow over and over. [Credit cards](https://www.thebalance.com/what-is-a-credit-card-960233) and lines of credit are the most common types of open-ended loans. Both of these loans have a [credit limit](https://www.thebalance.com/credit-limit-definition-960695) which is the maximum amount you can borrow at one time. You can use all or part of your credit limit depending on your needs. Each time you make a purchase, your available credit decreases. As you make payments, your available increases allowing you to use the same credit over and over as long as you abide by the terms.

**Closed-ended loans** are one-time loans that cannot be borrowed again once they’ve been repaid. As you make payments on closed-ended loans, the balance of the loan goes down. However, you don’t have any [available credit](https://www.thebalance.com/how-to-check-your-credit-card-available-credit-960223) you can use on closed-ended loans. Instead, if you need to borrow more money, have to apply for another loan and go through the approval process over again.

Common types of closed-ended loans include mortgage loans, auto loans, and [student loans](http://businessmajors.about.com/od/studentloans/fl/Tips-to-Keep-Student-Loan-Debt-Under-Control.htm%22%20%5Ct%20%22_blank).

Secured and Unsecured Loans

**Secured loans** are loans that rely on an asset as collateral for the loan. In the event of loan default, the lender can take possession of the asset and use it to cover the loan. Interests rates for secured loans may be lower than those for unsecured loans.

The asset may need to be appraised to confirm its value before you can borrow a secured loan. The lender may only allow you to borrow up to the value of the asset. A title loan is an example of a secured loan.

**Unsecured loans** don’t require an asset for collateral. These loans may be more difficult to get and have higher [interest rates](https://www.thebalance.com/understanding-credit-card-and-loan-interest-rates-960683). Unsecured loans rely solely on [your credit history](https://www.thebalance.com/understand-your-credit-history-960443) and your income to qualify you for the loan. If you default on an unsecured loan, the lender has to exhaust [collection options including debt collectors](https://www.thebalance.com/a-background-on-debt-collection-accounts-960569) and lawsuit to recover the loan.

Conventional Loans

When it comes to mortgage loans, the term “conventional loan” is often used. **Conventional loans** are those that aren’t insured by a government agency like the Federal Housing Administration (FHA), Rural Housing Service (RHS), or the Veterans Administration (VA). Conventional loans may be conforming, meaning they follow the guidelines set forth by [Fannie Mae](https://www.thebalance.com/what-is-fannie-mae-fnma-3305986) and [Freddie Mac](https://www.thebalance.com/understanding-the-2008-economic-crisis-2386018). Non-conforming loans don’t meet Fannie and Freddie qualifications.

Loans to Avoid

Certain types of loans should be avoided because they are predatory and take advantage of consumers. [**Payday loans**](https://www.thebalance.com/payday-loans-beware-of-these-dangerous-loans-1289623) are short-term loans borrowed using your next paycheck as guarantee for the loan.

Payday loans have notoriously high annual percentage rates (APRs) and can be difficult to pay off. If you’re in a financial crunch, seek alternatives before taking out a payday loans.

**Advance-fee loans** aren’t really loans at all. In fact, they’re scams to trick you into paying money. Advance-fee loans use different tactics to convince borrowers to send money to obtain the loan, but they all require that the borrower pay an upfront fee to obtain the loan. Once the money is sent (usually wired), the “lender” typically disappears without ever sending the loan.