



# Personal Loans vs. Flexi Loan: Decoding the What, Why, and How.

## WORK SAMPLE FOR FINANCE NICHE

Personal loans can be complex and may not be as simple as the salesperson makes them sound on the first call. On several occasions, people regret taking it in a hurry without understanding the charges and matching their requirements to the suitable type of loan.

You can't blame the salesperson alone, as he or she was meeting his or her targets, but you could have taken more time to explore it, right?

Therefore, one must understand it in depth, which will help make better decisions.

### Table of Content

- What is a personal loan?
- Common cases where a personal loan is taken are the following:
- Pros and Cons of Personal Loan
- Types of personal loan
- Is Flexi personal loan better than a term personal loan?
- Final Thoughts

### What is a Personal Loan?

When it comes to the money requirement that savings can't fulfill, there is little choice than taking loans. While housing and vehicle loans are primarily for planned purchases, there are several other requirements, and few are urgent and can be covered by personal loans. Personal loans are unsecured loans where lenders usually don't seek collateral to borrow money. For unsecured loans, the lender takes a higher risk; therefore, these loans are given at higher interest rates.

However, some banks provide secured personal loans against your bank account, deposits, vehicle, property, etc., and it is provided at lower interest rates.

Furthermore, depending on your credit score, banking relationship, and salary account, a personal loan can be availed at competitive rates within 24 hours.



Let's understand this with a few common scenarios

## Why do People take a Personal Loan?

### 1. Major life events

Financing a significant event like marriage may require funds beyond one's savings. This is truer in today's time when couples are self-financing their weddings and don't want to miss out on the experience.

It can also be taken to cover financing gaps if the expenses shoot up beyond budget due to including a luxury car or an expensive honeymoon.

### 2. Home-related Expenses

These can be for home improvement and purchasing new home appliances.

Home renovations and refurnishing are something we can leave out of our budget plans, keeping in mind today's lifestyle. These can cost you more than you think and plan. That's precisely where personal loans come into the picture.

### 3. Emergency Expenses

An emergency can happen anytime; the most prominent is medical expenses. Most of us have insurance, but in some instances, insurance may not cover some of the expenses, or the total expense may exceed the limit.

There can also be post-hospitalization care, which may not be covered by insurance.

### 4. Paying off Credit Card Debt

Some people take personal loans to pay their credit card debt, which is usually very expensive.



## Pros and Cons of Personal Loan:

### Pros of Personal Loans:

#### 1. Helps to Maintain Credit History

What would be their credit score if they didn't have a loan or credit card? Surprisingly, it will be 'zero.' Many of us who don't have any loans don't think about it, but a credit score is instrumental when you go for any loan. Therefore, not taking any loan may not be the best option.

Of course, there are other factors, such as your income, which are taken into account when you go for a loan, but your credit score is one of the most common parameters looked into. Therefore, one way to keep a healthy credit score is to repay a personal loan on time.

#### 2. Helps to consolidate Debt and Repay High-Interest Debts

A single personal loan can repay several small loans, and you can pay high-interest credit card debt with a personal loan.

#### 3. Fast Disbursal of Loans

Personal loans can be granted within a day, and with digital banking, it may soon be possible to get loans in a few hours.

#### 4. Flexibility to take a loan for Several Requirements

Personal loans are versatile and can be used for several purposes, unlike housing, education, or vehicle loans. Here, the banker is flexible in providing it for several requirements.

#### 5. Personal loans can be availed at Lower Rates too

If you have a good salary or source of income, a good relationship with the bank, and deposits, you can be offered a particularly low-interest personal loan. So, it is not always valid that personal loans come with very high-interest rates.



### Cons of Personal Loan:

#### 1. High-interest rates:

Personal loans come with relatively higher interest charges, which may trigger penalties, defaults, and a dent in the credit score if the person doesn't have a regular source of income.

#### 2. Accumulation of debt:

As personal loans can be availed without collateral, if one is not disciplined, he or she may start taking loans at higher interest rates for living expenses and holidays, which may accumulate over time and may force the person to default.

Therefore, questions arise about when one should go for it.

A few situations where a Personal Loan is ideal.

- When you have a good source of income in the form of a salary slip, a long-term relationship with the bank, and a good credit score, you will get the loan at a lower interest rate.
- Emergency needs where you want a smaller amount, and you have deposits maturing in a few months or a year.
- If you are getting a loan at a lower interest rate, and your current dues on a credit card carry high-interest rates.
- Any activity that adds value, like a memorable event, such as an anniversary, honeymoon, or renovation of a home, and the loan amount is not too significant to get into trouble for repaying it.



WORK SAMPLE FROM HUMMINGFLOW.DIGITAL



## Types of Personal Loan

Let's dive deeper into the types of personal loans.

### 1. Term personal loan:

The lender provides this for a fixed period with an agreed repayment schedule. In this case, even if you don't use the fund, you will be charged interest on the entire amount and must honor the repayment schedule. Even pre-payment will attract penalties. Generally, one pays a fixed EMI, which includes principal and interest. The EMI or the tenure changes if there is a significant change in the interest rates by the RBI.

### 2. Flexi Personal loan:

The lender provides a pre-approved amount into your loan account. One can use the amount anytime when needed and pay it anytime. The bank charges interest only on the amount used and for the duration it is used. Generally, it is a pre-approved credit facility; therefore, it needs minimal documentation and can be availed of quickly.

### Is a Flexi personal loan better than a term personal loan?

Flexi personal loans have several advantages as one can withdraw money when needed, and interest will be charged only for the amount used and the tenure it is used. One can also repay the amount at any time; therefore, the interest amount will be lower than that of a traditional personal loan.

Another advantage is that the process is generally quick, as it is a pre-approved credit facility. It is more suitable when still determining the exact amount and the tenure.

Furthermore, repayment is very flexible compared to term personal loans, as one can do as many pre-payments as possible without extra charges.

The catch here can be several charges that will come your way. Although banks claim that there are no hidden charges and are transparent, several people have complained about charges they were unaware of, such as processing charges, Flexi fee, Stamp duty, Upfront charges, and Annual maintenance charges.



If the account is closed before the granted period, there is a foreclosure charge, insurance charges, CIBIL charges, etc. Therefore, although the Flexi option is good, one should discuss all the charges with the banker and then calculate the final cost of the loan.

A traditional personal loan can also be considered as the EMI, tenure, and other fees can be a one-time thing; however, here, too, one must discuss in detail all the types of fees that would come your way and then finally decide which loan you want to avail.

### Final Thoughts

In conclusion, a personal loan can be a valuable financial tool if used wisely. It can help you cover unexpected expenses, consolidate high-interest debt, or make a large purchase without straining your budget.

Remember that a personal loan is a commitment to repay the borrowed amount plus interest, and defaulting on it can hurt your credit score and financial standing.

By decoding the ins and outs of personal loans, you can make a more informed decision and use this option to your advantage.



WORK SAMPLE FROM HUMMINGFLOW.DIGITAL