**Transcript**

# What Is The Difference Between "Secured" And "Unsecured" Credit?

What’s the difference between secured and unsecured credit? Secured credit generally refers to credit that requires you to list something of value in order to guarantee the loan.

In banking terms, this is called collateral. Having secured the debt means that if you don’t pay back the loan, your creditors may have the right to take possession of the collateral. For example, most standard types of mortgages and auto loans are considered secured credit, because the loan holder can take possession of your house or car if you don’t pay as agreed.

On the other hand, an unsecured loan or line of credit doesn’t require any collateral. Instead, it’s based entirely on your good credit history. Most credit cards fall into this category, as does an unsecured line of credit, which is sometimes referred to as a personal loan, or in more official terms, a ULOC. That stands for, you guessed it, an unsecured line of credit.

Because a secured loan, like a mortgage or an auto loan, involves less risk for the lender, it has advantages, such as usually offering a lower rate. The downside is, of course, you could lose the collateral if you don’t pay. With unsecured lines of credit, like a credit card, you don’t have to put your property at risk. The key downside is that unless your credit score is excellent, your interest rate will likely be higher.