

Personal Loan vs Credit Card vs Line of Credit: What's the Difference?

Many options are available in Canada when you need access to credit, and three of the most common are personal loans, credit cards, and lines of credit.

But which is the right one for you?

These three options have similarities and differences, and choosing the right one isn't always easy.

This guide closely examines all three, including what they are, how they work, and the pros and cons, to help you make the right choice in your situation.

What is a Personal Loan?

A [personal loan](#) is one of the most common types of loan available in Canada. It's also one of the most straightforward options to get access to credit.

Personal loans involve borrowing a specific amount of money as a lump sum payment. It could be a few hundred dollars or several thousand.

You then agree to pay it back monthly over a set period with interest added.

Over the loan term, you will repay the total amount you borrow plus the interest.

How Do Personal Loans Work?

First, you choose where you want to apply for a personal loan, which is usually a bank.

When approved, you receive the loan as a lump sum payment. This is the amount you have agreed on, and it is deposited directly into your bank account.

It will normally have a fixed interest rate (e.g. 10%), which will be stated when you apply for the loan.

The interest rate may vary depending on the lender, [your credit score](#), the type of personal loan you apply for, and whether it is a secured or [unsecured loan](#).

You then make regular payments over a set period until you have paid back the loan amount and interest.

How to Apply for a Personal Loan

Applying for a personal loan is normally straightforward. You may want to start with your bank, but you could apply at another bank, [like a digital bank](#).

You can normally apply online. The bank will ask for your personal details, income, and more information. You may be able to get an idea of how much you can borrow and how much it will cost before you apply.

