

# How to Get a Small Personal Loan

If you need to borrow a relatively small amount of money—say, \$5,000 to consolidate credit card debt—there are a few routes you can take.

Written by [Jacqui Kenyon](#) / October 3, 2022



## Quick Bites

- Borrowing from family, taking out a personal loan or considering (alternatives to) payday loans are among options for small-dollar debt.
- When choosing the best way to get a small loan for your situation, compare interest rates, fees and repayment terms.
- If you opt for a personal loan, shop around with financial institutions large and small, online and in-person to find the best deal possible.

There are certain, time-sensitive financial goals—like paying off debt with a high interest rate, footing the bill for home renovations or investing in your own small business—that might require an additional influx of cash in addition to whatever you can save each month.

If you're in this position, you may be wondering how to get a small loan. Credit cards aren't usually a great solution, since the average interest rate for a credit card was over 21% in September 2022, and your credit limit might be too low to cover the expense, anyway.[1]

Luckily, you have a few more practical (and affordable) options to borrow a small amount of money.

### Inside this article

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## Options for getting a small loan

If you need to borrow a relatively small amount of money—say, between four and figures—there are a few different routes you can take.

### Borrowing money from family

Mixing family and money can be fraught, to say the least.

Catherine Arnet-Valega, a Certified Financial Planner and founder of [Green Bee Advisory](#), said that she tells her clients who lend friends or family money in an informal way to treat it as a gift. But there is an official, IRS-sanctioned way to loan money to family members, she said. It's called an intrafamily loan.

Intrafamily loans, which are limited to exchanges between family members only, allow people to loan their relatives money at a lower interest rate than loans from a financial institution. The lending relative can also set the repayment terms for the loan, offering greater flexibility to the loan recipient. Intrafamily loans also don't come with the standards for credit score and income that other types of loans do.[2]

Arnet-Valega pointed out that intrafamily loans are a good deal for the person loaning out the money, as well. If you went to a big bank to put money in a savings account, they'd pay you 0.10% or something similar, she said. But if you lent that money to a family member for a down payment, the interest rate you'd charge could be significantly more than that.

"So the family member is getting a better rate than the mortgage rate would have been, and you're getting a better deal because you [might not] earn that rate in a bank account anyway," she said.



## Meet the Expert

In addition to being a CFP, Arnet-Valega is also a Chartered Alternative Investment Analyst. She earned a master's degree in international relations from the Johns Hopkins School of Advanced International Studies and a bachelor's in economics from the University of Pennsylvania.

There are specific rules that you must follow in order for a transaction between family members to qualify as an intrafamily loan rather than a gift. (Keep in mind that any gift from one person to another greater than \$15,000 in a single year counts against the giver's lifetime gift maximum.)

These rules include:

For starters, the interest rate must be at least equal to the applicable federal rate, or AFR. The rate varies based on the loan term. As of October 2022, the short-term (up to three years) AFR was 3.4%, the mid-term (three to nine years) AFR was 3.28% and the long-term (over nine years) AFR was 3.43%.[3-4]

Additionally, you should create and sign a promissory note, set a term length, maintain records of payments over time, and the lending family member should collect some kind of collateral.[2]

Arnet-Valega said that she suspects that most intrafamily loans are not accounted for correctly from an IRS standpoint. So if you decide to go this route, tread carefully and bring in a certified financial counselor if you need help.

### Personal loans

A personal loan is a way of borrowing money where, unlike a mortgage or an auto loan, there typically aren't specific rules for how the money can be used.

There's another key difference between personal loans and auto or home loans—personal loans are **unsecured**. That means there's no collateral for the lender to collect if you stop making payments.

[5] (With a mortgage or an auto loan, the house or the car, respectively, are the collateral.)

Your interest rate will depend on the length of your loan term, your credit score and your **debt-to-income ratio** (the total of all your monthly debt payments divided by how much you earn per month). The Federal Reserve Bank of St. Louis reported that the average personal loan interest rate from a commercial bank was 8.73% in May 2022, but yours could be higher or lower depending on your full financial picture.[6]

Some common reasons people seek out personal loans include:

- To pay for repairs or renovations to their home
- To consolidate several credit card balances in one place (ideally at a lower interest rate)
- To pay outstanding medical bills
- To fund a large life expense, like a move, wedding, funeral or divorce
- To start a business

To learn more about this financing option, check out Sound Dollar’s guide to the **best personal loan lenders**.



**Best for**

Overall

**Key benefit**

Unemployment protection if you lose your job while in repayment on this no-fee loan

Visit



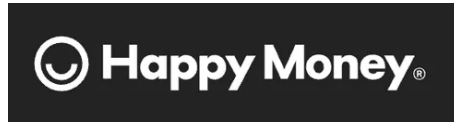
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Editor's pick

**Key benefit**

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**Best for**

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## Payday loans

A **payday loan** gets its name from the fact that it's generally due to be repaid, often in full, the next time you receive a paycheck.[7]

Many people use payday loans to cover expenses between paychecks. But they have extremely high fees, and should be avoided if at all possible.

Payday loans “come at a very high price,” Arnet-Valega said.

Unlike other types of loans, payday lenders typically don't evaluate your income, credit score or debt-to-income ratio before giving you a loan. To ensure that the lender receives payment on the next payday, the borrower either writes a check the lender can cash on the due date or gives the lender their bank information to make a withdrawal. Sometimes, the borrower can roll over a payday loan past the due date, which can cause what they owe to skyrocket.[7]

Because of the ease of approval for payday loans, the fees are exorbitant—often \$15, give or take, for each \$100 of the loan amount.[7]

Payday loans are prohibited completely in five states and Washington, DC. Many other states have caps on fees and total loan amounts.[8]

If you need a small loan to tie you over between paychecks—and this is a one-time, Band-Aid solution— money-lending apps could be a better alternative.

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## Are Money Lending Apps a Safe Way to Borrow?

These apps can help you in a pinch, but it's best to avoid relying on them in the long term.

[Find out more](#)

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## How to compare your options for a small loan

When you're trying to figure out how to borrow a relatively small sum of money, there are several factors you should consider: interest rate (or APR), monthly fees, if any, and loan terms.

Consider the following comparison[5, 9-10]:

	Intrafamily loan	Personal loan	Payday loan
Interest rate	Generally speaking, intrafamily loans are going to offer the lowest rates of the options discussed in this article. The AFR is tied to the prime rate, so it will be lower in low-interest time periods. It's important to keep in mind, however, that the AFR is a basement, and the lending family member could potentially set a higher rate.	Personal interest rates generally range from 6% to 36%, and your rate will depend on your financial situation.	Interest rates on payday loans have by far the highest effective interest rates. A common fee structure is \$15 per every \$100 borrowed for a two-week loan, which comes to a rate of about 400%.

	Intrafamily loan	Personal loan	Payday loan
Monthly fees	An intrafamily loan doesn't require the lender to charge fees to the borrower.	Personal loans, which are typically disbursed as a lump sum, sometimes carry origination fees of up to 8% of the loan amount when you first receive the money. There may also be late payment fees and fees for paying off your loan earlier than the stated term, so make sure you're aware of these before you sign anything.	When you take out a payday loan, in addition to the fee you pay per \$100 borrowed, you may also be charged a late fee if you don't pay the loan back on time. If you roll over your loan past the original due date, you may be charged a fee to do that. Some lenders offer repayment plans so you don't have to pay back all the money at once, but enrolling in a repayment plan could also garner a fee.
Loan term	Intrafamily loan terms can range from short (less than three years) to long (greater than nine years).	Personal loans typically range from 12 months to 60 months, though you can find options with terms even longer than that.	Payday loans are typically very short—until your next pay day, whether that's a week, two weeks, or a month away.

## How to get a small personal loan

Personal loans are available via banks, credit unions and online lenders, and you can often get a discounted APR if you've already done business with a particular financial institution.[5]

Typically you'll need a credit score of at least 600 to **qualify for a personal loan**, but the best interest rates are reserved for those with scores that are closer to closer to 800. Lenders will also want to see a debt-to-income ratio below about 35%.



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## How to Get a Personal Loan With No Credit

Your options will be limited and expensive unless you have someone to help you, in the form of a co-applicant.

[Find out more](#)

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Arnet-Valega said that she's seen her clients, who are largely businesswomen, have success with online lenders, which are new players in the loan space. These lenders tend to offer easier access to credit lines than you'd see in the past, she said.

If you're looking for a personal loan or [line of credit](#), Arnet-Valega said to seek out a community or cooperative bank or credit union, which tend to have easier requirements and lower interest rates than bigger banks.

Also, prioritize lenders that offer prequalification—that is, the ability to confirm eligibility and receive rate quotes without affecting your credit. Below are top-rated personal loan companies that let you prequalify:



**Winner**

Best overall

**APRs\***

7.99% - 23.43%

**Minimum credit score**

680

[Visit](#)



**Winner**

Editor's pick

**APRs\***

6.74% - 17.99%

**Minimum credit score**

650

[Visit](#)



**Winner**

Best for fair credit

**APRs\***

5.99% - 24.99%

**Minimum credit score**

600

[Visit](#)



**Winner**

Best for good credit

**APRs\***

3.99% - 19.99%

**Minimum credit score**

Not stated

[Visit](#)



**Winner**

Best for debt consolidation

**APRs\*** 6.99% - 19.99%

**Minimum credit score** Not stated

[Visit](#)

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## About the Author

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