

LOANS PERSONAL LOANS

What Are Personal Loan Eligibility Requirements?

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Personal loans can be used for many different purposes. Lenders, including banks, credit unions, and online lenders, offer [personal loans](#). But before you start planning how you will use those funds, you will need to meet lender eligibility criteria.

Learn how factors like your credit score, debt, and collateral can affect whether you qualify for a personal loan.

KEY TAKEAWAYS

- Lenders look at factors like your credit score, income, debt-to-income (DTI) ratio, and collateral to determine your eligibility for a personal loan.
- Different lenders have different requirements for approving personal loans.
- Some lenders may be willing to work with applicants who have lower credit scores.
- You will need to provide the necessary documentation for your application so that the lender can determine your eligibility.

Credit Score and Credit History

Lenders consider your [credit score](#) and [credit history](#) when determining whether to offer you a personal loan. Your FICO credit score is a number from 300 to 850. The higher your credit score, the more likely you will be approved for a personal loan because you will be viewed as a lower-risk borrower.

[Credit bureaus](#) calculate credit scores using the information on your [credit report](#). Your credit report includes information on your credit activity, such as how many credit accounts you have, your [debt](#) level, your [credit mix](#), and your payment history. It also includes whether you have recently applied for new credit. ^[1]

Equifax, Experian, and TransUnion are the three main credit bureaus. You are entitled to one free credit report from them each year, which you can get through [AnnualCreditReport.com](https://www.annualcreditreport.com).

You may have slightly different credit scores with each credit bureau because they calculate them in slightly different ways (using proprietary formulas), but the main factors that impact your score are roughly: ^[2]



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- Payment history (35%)
- Amounts owed (30%)
- Length of credit history (15%)
- Length of credit history (10%)
- Credit mix (10%) ^[3]

Income

You need to demonstrate a reliable source of [income](#) because lenders want to know that you will be able to repay what you borrow. Minimum income requirements vary depending on the [lender](#).

You generally need more than enough income to cover your current debt and new obligations.

Debt-to-Income (DTI) Ratio

compared to your monthly income.

A low DTI makes you more attractive to lenders because it indicates you have more available income to repay a personal loan. For personal loans, it is recommended to have a debt-to-income ratio of less than 36% to improve your chances of being approved for a loan at cost-effective rates—although, in rare cases, lenders may consider a DTI up to 40%. ^[4]

Collateral

Most personal loans will be [unsecured](#), which means you will not need to provide collateral to be approved. However, bad credit may prevent you from qualifying for an unsecured personal loan.

However, you may be able to qualify for a secured personal loan. If you apply for a [secured personal loan](#), you will need to provide collateral to back the loan. [Collateral](#) can be a physical asset, such as your vehicle, or a cash deposit. ^[5]

Origination Fee

When you apply for a personal loan, you must pay an [origination fee](#). Lenders charge this one-time fee for loan execution, which is calculated as a percentage of the total loan amount. Origination fees vary by lender, ranging from 1% to 6%.

You may be able to pay the origination fee upfront, or it can be deducted from the total amount you are borrowing. ^[6]

Lenders may also consider your age when you apply for a personal loan. Many lenders will not approve loans for borrowers under age 18.

Documents You Need to Include with Your Personal Loan Application

The application process can be slightly different with each lender, but you'll usually be asked to share personal and financial information that will help the lender determine if you are a good candidate for a loan.

You may be able to fill out an online application for some lenders. If you want to get a personal loan from a bank, you may have to complete your application in person.

Other documents you will usually need with your application include:

- **Proof of identity:** You must provide government-issued ID, such as a driver's license, as proof of identity.
- **Proof of address:** Lenders will likely want to see proof of address. While requirements may vary, you can typically use a rental agreement, mortgage statement, or utility bill.
- **Employment and other income:** Lenders want loan applicants who can pay back what they borrow. You may be asked to provide employment and income verification in the form of [W-2 forms](#) or pay stubs.
- **Other:** Once a lender has reviewed your loan application, it may request additional documents such as [tax returns](#) and [bank statements](#).

How to Get Approved for a Personal Loan

To [get approved for a loan](#), you can take several steps to improve your financial situation so you meet a lender's criteria. Here are some key ways to increase your chances of being approved:

1. **Demonstrate steady income:** Lenders want to see that you can repay a loan. Having a steady job and the paperwork to demonstrate a reliable source of income will make you a more attractive candidate for a personal loan.
2. **Work on your credit score:** Your credit score measures your creditworthiness. The higher your score, the more likely you are to qualify

3. **Avoid late payments:** Late payments can impact your credit score, Lenders may consider a history of late payments to indicate that you do not manage debt responsibly. This could result in your application being denied or having a higher interest rate.
4. **Maintain a low DTI:** Lenders also look at your DTI to determine eligibility. A high DTI may indicate that you have overextended your finances and may struggle to repay a personal loan. Lenders typically want to see a DTI below 36%. ^[4]

What to Do If You're Denied for a Personal Loan

If you are [denied for a personal loan](#), you will receive an [adverse action](#) notice. ^[7] This notice will explain why your application was rejected. Once you know why you were denied, you can take steps to prepare yourself to reapply successfully. They include:

- **Consider other lenders:** While one lender may deny your application, you may be able to work with another. Try getting pre-qualified with a few lenders to compare rates and terms. Pre-qualification will not impact your credit score.
- **Check your credit report:** If you were denied because of a low credit score, check your credit report for errors that may be impacting your score. If so, you can dispute those errors and have them removed.
- **Pay down your debt:** Your overall debt load and debt-to-income (DTI) ratio could be a factor in a lender denying a personal loan. You may need to reduce your debt to meet their DTI criteria before applying for a personal loan again.
- **Get a co-signer:** A [co-signer](#) is someone who agrees to pay the loan if you cannot. A co-signer with good credit could improve your chances of getting a personal loan.
- **Consider a secured loan:** If you are denied for an unsecured personal loan, you may be able to offer an asset as collateral, such as your car, and qualify for a secured loan.

lender and its process. Typically, you can expect the process to take less than a week. Some lenders provide same-day funding after approving a personal loan.

What Disqualifies You From Getting a Personal Loan?

If you do not meet a lender's specific eligibility requirements, you will not be able to get a personal loan with that lender. Lenders may deny a personal loan application if your credit score is too low, your debt load is too high, or your income is not high enough to repay the loan.

Do You Need Collateral to Get a Personal Loan?

Personal loans are usually unsecured, which means you do not have to provide collateral. If you are applying for a secured personal loan, you will need to supply an asset to be used as collateral. ^[5]

What Is the Maximum You Can Borrow With a Personal Loan?

The amount you can borrow with a personal loan will vary depending on the lender. In most cases, the largest personal loan you will be able to take out is \$100,000. ^[8]

What Is the Minimum You Can Borrow With a Personal Loan?

You may be able to borrow as little as a few hundred dollars with a personal loan. ^[9] The minimum required amount will depend on the lender.

The Bottom Line

Determine if a personal loan is your best option before applying by ensuring you meet the lender's eligibility requirements. You can use a [personal loan calculator](#) to get an idea of what your monthly payments and the total cost of the loan will look like.

If a personal loan is the right fit for you, you can compare offers to find the [best personal loan](#) with a rate and terms that work for you.


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