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ADVISOR PERSONAL LOANS

5 Personal Loan Requirements To Know Before Applying

Updated: Apr 10, 2024, 1:41pm

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Most lenders have similar requirements for personal loans, although the specific qualification standards may vary by lender. For example, two lenders might consider your credit score, but one might require a higher credit score than the other. Here are some other common requirements they might consider:

Credit score and history

Income

Debt-to-income ratio

Collateral

Origination fee

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6.99%
to 35.99%

Loan term

2 - 5 years

1. Credit Score and History

An applicant's credit score is one of the most important factors a lender considers when you [apply for a personal loan](#). Credit scores range from 300 to 850 and are based on factors like payment history, amount of outstanding debt and length of credit history. Many lenders have a [personal loan credit score](#) requirement of at least 600 to qualify, but some lenders will lend to applicants without any credit history at all.

2. Income

Lenders impose income requirements on borrowers to ensure they have the means to repay a new loan. Minimum income requirements vary by lender. For example, SoFi imposes a minimum annual salary requirement of at least \$45,000; Avant's annual income minimum requirement is just Does not disclose. Don't be surprised, however, if your lender doesn't disclose minimum income requirements. Many don't.

3. Debt-to-income Ratio

Debt-to-income ratio (DTI) is expressed as a percentage and represents the portion of a borrower's gross monthly income that goes toward her monthly debt service. Lenders use DTI to predict a prospective borrower's ability to make payments on new and current debt. For that reason, a DTI less than 36% is ideal, though some lenders will approve a highly qualified applicant with a ratio up to 50%.

4. Collateral

If you're applying for a [secured personal loan](#), your lender will require you to pledge valuable assets—or [collateral](#). In the case of loans for homes or vehicles, the collateral is typically related to the underlying purpose of the loan. However, secured personal loans can also be collateralized by other valuable assets, including cash accounts, investment accounts, real estate and collectibles like coins or precious metals.

If you fall behind on your payments or default on your loan, the lender can repossess the collateral to recoup the remaining loan balance.

5. Origination Fee

Though not part of the qualification process, many lenders require borrowers to pay [personal loan origination fees](#) to cover the costs of processing applications, running credit checks and closing. These fees usually range between 1% and 8% of the total loan amount, depending on factors like the applicant's credit score and loan amount. Some lenders collect origination fees as cash at closing, while others finance them as part of the loan amount or subtract them from the total loan amount disbursed at closing.

4 Personal Loan Documents Your Lender May Require

When it's time to formally apply for a personal loan, your lender will request documents to confirm everything from your identity to your residence and employment. Here are the most common documents lenders require as part of the personal loan application process.

1. Loan Application

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requirements may vary. In general, though, you'll need to provide basic personal information, how much you want to borrow and the purpose of the loan.

The format of a loan application may also vary by lender. While there are numerous online lenders that offer a completely online application experience, others may need to discuss your application over the phone before providing a decision. There are also a number of brick-and-mortar banks and financial institutions that require applicants to submit a paper application in-person.

2. Proof of Identity

Most lenders require applicants to provide at least two forms of government-issued identification to prove they are at least 18 years old and a United States citizen. This precaution also reduces the threat of identity theft. Acceptable forms of government-issued identification often include:

- Driver's license
- Other state-issued ID
- Passport
- Certificate of citizenship
- Birth certificate
- Military ID

3. Employer and Income Verification

A lender wants to see that you have the ability to pay back your current debts as well as the new loan. To do this, lenders typically require prospective borrowers to demonstrate their employment history and current earnings as part of the application process. Common forms of income verification for traditional employment include:

- Paystubs
- W-2s and 1099s
- Bank statements
- Employer contact information

Prospective borrowers who are self-employed must instead rely on bank statements, 1099 forms and income tax returns. Some lenders also accept social security, child support and other forms of income to qualify for a loan.

4. Proof of Address

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copy of your lease or other rental agreement, voter registration card or proof of home, rental or auto insurance that lists your address.

How To Qualify for a Personal Loan

There is no one formula to qualifying for a personal loan—every applicant's financial situation is different and unique. However, there are rules of thumb and recommendations that can help you improve your chances of qualifying for a personal loan.

Most personal loan lenders review your credit score, credit history, income and DTI ratio to determine your eligibility. While the minimum requirements for each of these factors vary for each lender, our recommendations include:

Minimum credit score of 670. Maintaining a credit score of at least 670 will improve your chances of qualification. However, if you want to receive the most favorable terms, we recommend a minimum score of 720.

Consistent and steady monthly income. Minimum income requirements may vary drastically between lenders, with some having no requirements. However, it's crucial to have consistent and steady income at the minimum to demonstrate you can afford your monthly payments.

DTI ratio less than 36%. While some lenders will approve a highly qualified applicant with a ratio up to 50%, it's best to aim for a DTI that's less than 36% to improve your chances of qualifying.

Because each lender has its own minimum requirements, it's in your best interest to pre-qualify when possible and confirm with the lender what benchmarks you need to meet.

How To Pre-qualify for a Personal Loan

[Pre-qualifying for a personal loan](#) lets you see the interest rates and terms you may receive and be eligible for when you apply. However, these are not guaranteed until you submit a formal application.

During pre-qualification, the lender typically only runs a soft credit check, which has no impact on your credit score. Once you submit the full application, however, they will run a hard credit check, which slightly but temporarily drops your score.

While your pre-qualification offer isn't set in stone until you formally apply, it's a handy way to compare potential options from multiple lenders to find the best loan for your situation.