

Difference Between Secured and Unsecured Credit Card

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Key Difference - Secured vs Unsecured Credit Card

Credit cards are issued by financial institutions such as banks, stores, or service providers and customers that fulfill pre-determined criteria are entitled to apply for the same, subject to a credit limit. Credit card balances are rolling, where a portion of the due amount has to be paid every month until the full amount is paid. This monthly payment includes an interest payment, and additional charges are also payable on an annual basis. The key difference between secured and unsecured credit card is that **a secured credit card is a card that is safeguarded against a form of collateral** whereas an **unsecured credit card is a card that is not protected against a form of collateral**.

What is a Secured Credit Card?

Secured credit card is a card that is safeguarded against a form of [collateral](#) (an [asset](#) pledged against [debt](#)), usually a [security deposit](#). Credit limits of secured credit cards are often set at the maximum or lesser value of the security deposit. As a result, the credit limit on a secured credit card depends on the security deposit, and the credit limit can be extended by increasing the value of the security deposit. It is easy for a [customer](#) to obtain a secured credit card than an unsecured one since it demonstrates less risk and is credible; if the customer defaults, the issuer can recover the payment through the security deposit.

Small credit limits are offered by secured credit cards; the customers are often protected from overspending and getting into a poor payment history. Thus, secured credit cards are an attractive option for customers who find it difficult to maintain credit levels at a desirable level. However, limited credit limits are considered a hindrance by many customers. Furthermore, if the payments are constantly made on time, the issuer may reward the customer by increasing the credit limit without an increase in the security deposit. Thus, making regular payments and using the credit card in a responsible manner is vital for a secured credit card.



Figure 01: Credit card

What is an Unsecured Credit Card?

An unsecured credit card is a card that is not protected against a form of collateral and is the most widely used type of credit card. Credit limits of unsecured credit cards are usually higher than secured credit; however, they are subjected to higher interest rates due to the [inherent risk](#). Unsecured credit cards are issued to customers who have a sound credit history and a steady stream of income. Even though a higher credit limit can be obtained, this may also lead to overspending by some customers, which may make it difficult to make monthly payments on a timely basis. Credit card debt is a massive issue to some customers since they are unable to pay off such debts. Accordingly, an unsecured credit card may not be an option for all types of customers.

In case that the customer's default, which is not rare in many cases, the issuers have to implement legal actions to collect unpaid debts. This is an unfavorable situation that results in a waste of resources for the card issuer. Thus they should be very careful, and the granting of credit cards and credit limits should be done with proper due diligence.

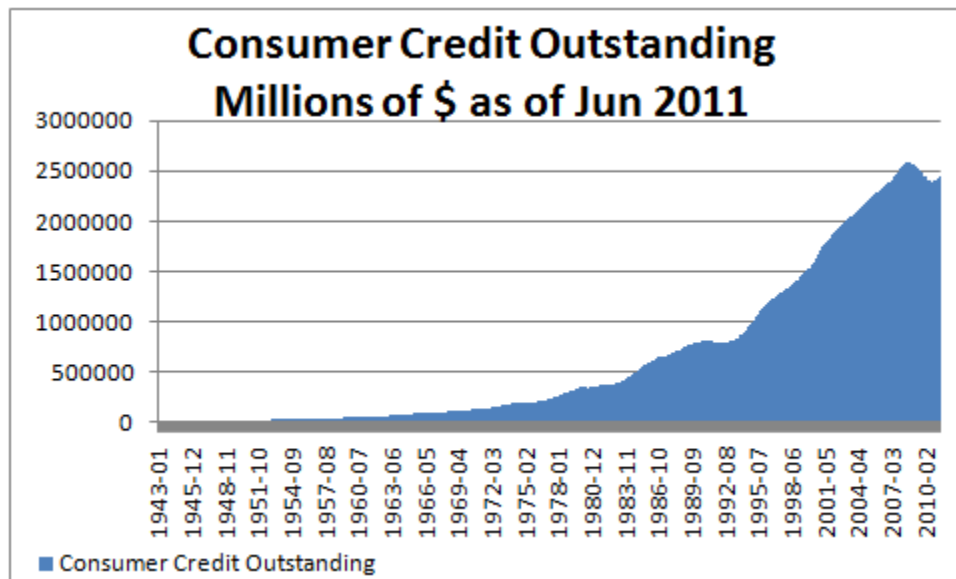


Figure 02: Defaulting rates for credit cards have increased drastically within the last years.

What is the difference between Secured and Unsecured Credit Card?

Secured vs Unsecured Credit Card

Secured credit card is a card that is safeguarded against a form of collateral usually a security deposit.

Unsecured credit card is a card that is not protected against a form of collateral.

Credit Limit

Credit limit of secured credit card is low and depends on the security deposit.

Unsecured credit card holders enjoy higher credit limits.

Interest Rate

The interest rate applicable for secured credit cards is lower than the rate for unsecured credit cards.

Unsecured credit cards are subjected to higher interest rates due to the inherent risk.

Recovering Debt by the Issuer in Case of Default

In case of default in secured credit card, the issuer recovers the unpaid debt through security deposit.

Legal actions have to be taken to recover unpaid debt with unsecured credit cards.

Summary - Secured vs Unsecured Credit Cards

The difference between secured and unsecured credit card depends on a number of factors such as the requirement of collateral, credit limits and interest rates. Unsecured credit cards are the more common type of credit cards used; however, issuers have to carefully monitor them in order to recover debt on time and reduce the possibility of default. Furthermore, credit card default rates

in countries that use high amounts or credit cards are increasing, sometimes making massive losses for card issuers.

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How to Cite this Article?

APA: Difference Between Secured and Unsecured Credit Card. (2017, June 07). Retrieved (date), from <http://www.differencebetween.com/difference-between-secured-and-vs-unsecured-credit-card/>

MLA: "Difference Between Secured and Unsecured Credit Card." *Difference Between.Com*. 07 June 2017. Web.

Chicago: "Difference Between Secured and Unsecured Credit Card." *Difference Between.Com*. <http://www.differencebetween.com/difference-between-secured-and-vs-unsecured-credit-card/> (accessed [date]).



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