## What is a Short Term Loan?

A short term loan is a type of loan that is obtained to support a temporary personal or [business capital](https://corporatefinanceinstitute.com/resources/knowledge/finance/capital/) need. As it is a type of credit, it involves a borrowed capital amount and interest that needs to be paid by a given due date, which is usually within a year from getting the loan.**The loan involves lower borrowed amounts, which may range from $100 to as much as $100,000. Short term loans are suitable not only for businesses but also for individuals who find themselves with a temporary, sudden financial problem.**

Short term loans are ideally meant to cater to the immediate liquidity requirements of the borrowers. It is up to the borrower to evaluate and choose the method of financing best suited to the business so as to enjoy maximum facilities at a minimal cost.

### Characteristics of Short Term Loans

Short term loans are called such because of how quickly the loan needs to be paid off. In most cases, it must be paid off within six months to a year – at most, 18 months. Any loan for a longer loan term than that is considered a medium term or long term loan.

Long term loans can last from just over a year to 25 years. Some short term loans don’t specify a payment schedule or a specific due date. They simply allow the borrower to pay back the loan at their own pace.

within about a year, there are lower total interest payments. Compared to long term loans, the amount of [interest](https://corporatefinanceinstitute.com/resources/knowledge/accounting/interest-expense/) paid is significantly less.

 **Advantage**

#### 2. Quick funding time

These loans are considered less risky compared to long term loans because of a shorter maturity date. The borrower’s ability to repay a loan is less likely to change significantly over a short frame of time. Thus, the time it takes for a lender underwriting to process the loan is shorter. Thus, the borrower can obtain the needed funds more quickly.

#### 3. Easier to acquire

Short term loans are the lifesavers of smaller businesses or individuals who suffer from less than stellar credit scores. The requirements for such loans are generally easier to meet, in part because such loans are usually for relatively small amounts, as compared to the amount of money usually borrowed on a long term basis.

Advantage of another points

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* **Faster Approval:**Short term loans do not require lengthy approval processes as compared to other forms of loans.
* **More Accessible:** These loans ensure that funds are accessible even to small-time businesses/ individuals.
* **Lower Interest Costs:**As the repayment period is shorter, the amount of interest paid by the borrower is lower.
* **Increases Credit Score:**Availing such a loan and paying it off without any default can help increase the creditworthiness of the borrower.
* **UnSecured:**Such loans are usually unsecured and borrowers do not require any collateral to avail these loans.

### Disadvantage

The main disadvantage of short term loans is that they provide only smaller loan amounts. As the loans are returned or paid off sooner, they usually involve small amounts, so that the borrower won’t be burdened with large monthly payments

* **Lower borrowing Amount:**Sometimes, the borrower may require a larger amount which cannot be availed through short term loans.
* **The strain on Small-time borrowers:**Any interest rate hike or penalties may cause strain on small-time borrowers, which may result in default and subsequent lower credit score.
* **Not Suitable for Long term projects:**Availing such a loan for a long term project may result in high-interest costs.

**Types of short term loan**

**Personal loan**

**Bank overdraft**

**Demand loan**

**Bridge loan**

**Trade credit**