

Date	18 <sup>th</sup> April 2025
Publication	Mint
Spokesperson	Akash Bararia

# Should you take a top-up loan on your existing personal loan?

Akash Bararia

**I'm repaying a personal loan, but due to recent unexpected expenses, I find myself needing additional funds. I've an option to take a top-up loan on my existing personal loan, but I'm not sure if it's a better route compared to a fresh loan. Could you explain how a top-up loan works, what are the pros and cons, and what factors should I really consider before deciding to go ahead with it?"**

—Name withheld on request

A top-up loan on an existing personal loan can be a convenient way to access additional funds without going through the process of applying for a new loan. It allows borrowers to utilize their existing loan relationship with the lender to avail of extra credit. However, before opting for top-up loans, several factors need to be considered:

## Key considerations

### • Increased loan burden:

A top-up loan adds to your existing debt, which means your monthly payments will be higher. It's important to check if you can comfortably afford the extra repayment before taking the loan.

• **Flexible fund utilization:** A top-up loan can be used for different purposes like medical bills, home repairs, education, or growing a business, unlike some loans that have restrictions on how the money can be spent.

• **Interest rate consideration:** The interest rate for a



ISTOCKPHOTO



**ASK MINT**

PERSONAL LOAN

top-up loan is usually aligned with or slightly higher than the existing personal loan. Borrowers should compare rates to ensure affordability and negotiate with the lender on the rates.

### • Adjusting loan tenure:

A top-up loan can have the same repayment period as your existing loan or a longer one, which can impact the total amount you pay back.

Top-up loans affect credit score in many ways, such as increasing the total outstanding loan amount, which may impact credit utilization ratio, which is a key factor in credit score calculations.

Maintaining a good repayment history is key, as timely payments on both the original and top-up loan can improve creditworthiness, and missed payments may lower the credit score. Additionally, having a longer credit history generally benefits the score, but managing multiple loans responsibly is essential to maintaining a strong financial profile.

Before applying for a top-up loan, it is important to review the loan terms like eligibility criteria, interest rate and additional fees. Borrowers should assess their financial stability to ensure increased EMI fits within budget without impacting essential expenses. Exploring alternative options such as gold loans, loans against fixed deposits, or credit lines can help find a better borrowing solution. Consulting a financial advisor can also provide valuable guidance on whether a top-up loan aligns with long-term financial goals.

A top-up loan can be a useful financial tool if managed well, offering additional funds while leveraging existing loan relationship. It is also important to evaluate affordability, credit score impact and other financing options.

*Akash Bararia is the head of sales finance at HDB Financial Services Ltd.*

Do you have a personal finance query? Send in your queries at [mintmoney@livemint.com](mailto:mintmoney@livemint.com) and get them answered by industry experts.