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Planning a credit card loan? It could cost you 40-50% more in interest

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Banks have been aggressively promoting credit card loans as a quick source of funds for customers. These loans are often just a few clicks away, appear pre-approved in your app, and promise instant disbursal. But while they seem frictionless, experts warn they can be deceptively expensive.

"It's important to understand the structure and intent behind these offers," says Siddarth, chief financial officer at MinEMI.

"Credit card loans are a way for banks to monetise inactive cards by offering quick credit, often at lower interest rates than standard card spending but still much higher than other loan types," he added

How credit card loans differ from swipes

Unlike regular credit card purchases that qualify for an interest-free period of up to 45 days, a credit card loan starts attracting interest from Day 1.

"A credit card swipe is revolving credit, you can pay in full or partially," explains Vibhore Goyal, founder at OneBanc.

"A card loan, by contrast, is a fixed EMI commitment with no interest-free buffer. The structure suits the bank, it guarantees interest income," he added

"These loans may appear within or above your existing credit limit," adds Shravan Shetty, managing director, Primus Partners.

What it costs you

Interest rate are usually 18-24 per cent per annum (flat monthly rate of 0.99–1.5 per cent)

-Processing fee: 1-2 per cent

-Prepayment penalty: 3-5 per cent in some cases

-Tenure: 6 to 36 months

"A Rs 1 lakh loan at 1.25 per cent flat rate will cost about Rs 10,000 in interest over a year," says Goyal.

"While a personal loan at 13 per cent reducing balance interest would cost Rs 6,800. That's nearly 40–50 per cent higher interest just due to the rate structure," he explained.

When it makes sense and when it doesn't

Experts agree these loans are best suited for short-term, urgent needs.

"Use them only when speed trumps cost, medical needs, sudden relocation, or unavoidable family expenses," says Manish Kumar Goyal, chairman and managing director at Finkeda.

Avoid lifestyle upgrades or non-critical purchases.

"We've seen people take Rs 1.5 lakh loans for house deposits and later struggle to qualify for home loans due to a high debt-to-income ratio," cautions Siddarth.

"If the loan helps avoid loss or generate return, like a job-certification course, it's productive. If not, it's just deferred pain," Goyal adds

Fine print borrowers often miss

- No grace period: Interest starts immediately
- APR confusion: Monthly rates look low, but real cost (APR) is often 20+ per cent
- Credit limit reduction: Loan amount may block your available credit
- Foreclosure charges and hidden fees
- Impact on future borrowing: Increases fixed obligations and FOIR

"The biggest trap isn't hidden. It's behavioural, people see instant access and assume affordability. But fast money comes at a premium," Goyal said.

Bottom line: A credit card loan isn't necessarily a trap but it is a financial commitment. Pause, compare, and ask yourself, "Is it really urgent, or just easy?"