



# Advice Service

## BORROWING MONEY

In this guide you will find detailed information about personal loans, credit cards, store cards, change cards and overdrafts.



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# BORROWING MONEY

## PERSONAL LOANS

A bank, building society or finance company can give you a personal loan whether or not you're a customer. You can apply for a loan in person at a branch or by post, phone or online.

### How personal loans work

You normally borrow a fixed amount, repayable by set monthly instalments over an agreed period of time, called **the term** of the loan.

You'll usually be charged a fixed rate of interest and sometimes extra fees. Some lenders give loans with a **variable interest** rate. This means that the interest rate may go up or down during the term of the loan. If the interest rate goes up, you will need to increase your payments to make sure you pay off the whole loan in time.

You'll usually be asked to make the repayments by direct debit from your bank account. If you don't make the payments on time, you may be charged a fee. See below for more information about direct debits.

The lender may ask you what the loan is for. This helps them make a decision about whether to lend you the money. Anything you buy with the money (e.g. a car) belongs to you, not the bank.

A loan is a straightforward simple way of borrowing money, and because you know the terms from the start, you can plan for the repayments.

### Direct debit

A Direct Debit is an instruction to your bank or building society which allows an organisation to collect payments from your account.

This is done using a Direct Debit instruction. Payments can only be made to the named organisation.

If there are any changes to the amount to be collected or to the collection date, you should be given at least ten days notice.

If you don't have enough funds in your account to cover a Direct Debit payment, your bank may not make the payment. It doesn't have to tell you that the payment hasn't been made. If the payment is made, you may incur bank charges for any unauthorised overdraft.

If either the bank or the organisation collecting the Direct Debit makes a mistake, for example, by taking the wrong amount, you are entitled to a refund from your bank. This is covered by the Direct Debit Guarantee Scheme.

You may cancel a Direct Debit at any time. If you have a problem with a Direct Debit, you should contact your bank.

Note: if you are paying off a personal loan with the same bank where you have your current account, and the loan is paid out of the current account each month, you may not be able to cancel this payment: often these are not direct debit payments but something called an internal transfer. If you are in this situation and you are having financial difficulty, get specialist advice. You may need to open a new bank account to protect your income.

### **Paying a personal loan off early**

You can normally pay off a personal loan at any time before the end of the term and you may be entitled to a refund of interest if you do: or, alternatively, you may be charged a fee for paying the loan off early. Ask the lender when you apply or look at the **credit agreement**.

### **Doorstep loans**

Home credit, or **doorstep loans**, is where you borrow money and the lender calls at your home to collect the repayments. The loans are usually for smaller amounts and you will be charged a very high rate of interest for borrowing in this way. Doorstep lenders may also offer trading cheques and vouchers. These can be exchanged for goods, usually clothing and soft furnishings and usually at specific shops. You repay the amount to a company agent who normally calls at your home.

Because the repayments are made to someone who calls at your home, this can be very stressful if you are having difficulty making payments. Sometimes people get into difficulty simply because the collector failed to call.

This type of credit is often marketed at people who have difficulty getting credit in other ways and so it is very expensive. If you can, try to avoid doorstep credit.

### **Payday loans**

Payday loans are short-term loans for small amounts of money. They are available from high street shops and internet sites. They are often marketed on the basis that getting a loan is quick and easy and that they may lend you money even if you have a poor credit rating. The interest rates are very high.

Payday loans are an expensive way to help you get over a temporary problem and are not suitable for long-term use.

### **Loan sharks**

To lend money lawfully you have to be licensed by the Office of Fair Trading (OFT). People who lend money without a licence are breaking the law. They are known as **loan sharks**.

A loan shark will never call themselves a loan shark and sometimes it can be difficult to tell whether the person you are dealing with is lending illegally. Often you will have been introduced to a loan shark via a friend, colleague or family member.

Signs that you might be dealing with a loan shark include:

- no paperwork, or very little
- always dealing in cash
- your lender meets you in a public place, or at your home
- you have no idea how much you owe, or how much you have repaid already
- your lender takes away your bank card or takes items from your home
- your lender, or someone on his behalf, threatens you or your family with violence
- your lender asks you to do something suspicious, or illegal, as a way of repaying the debt

If a loan shark threatens you or acts in a violent way, contact the police straight away.

If you borrow money from someone who doesn't have a licence you haven't broken the law, they have. You can find out whether a money lender is licensed by checking the Consumer Credit Register on the Financial Conduct Authority website: <https://register.fca.org.uk/>

If you think a money lender is operating without a licence, in England you can speak in confidence to the **Illegal Money Lending Hotline** on 0300 555 2222.

In England you can also email the Illegal Money Lending Team, email [reportaloanshark@stoploansharks.gov.uk](mailto:reportaloanshark@stoploansharks.gov.uk) or text **loan shark** and your message to 07860 022 116.

In Scotland, you can report concerns about a money lender to the **Trading Standards Scotland** which operates a 24 hour confidential helpline on: 0800 074 0878.

In Wales, you can report concerns about a money lender to the **Wales Illegal Money Lending Unit** which operates a 24 hour confidential helpline on: 0300 123 33 11.

In Northern Ireland you can contact the Trading Standards Consumerline, telephone 0300 123 6262.

The advisers can give you advice about your situation. The information you provide helps them to take action to stop illegal money lending.

You can find more information about loan sharks on the Directgov website at [www.direct.gov.uk](http://www.direct.gov.uk).

Don't borrow from loan sharks: get help instead. Seek advice as soon as you can.

## CREDIT, STORE AND STORE CARDS

### Credit cards

You can get a credit card from banks, finance companies and larger supermarket and store chains. You can spend up to your **credit limit**. If you pay off the total amount by the due date, you will not be charged interest. If you don't pay it off, you may be charged interest on the amount outstanding. The amount of interest varies between providers so shop around for the best deal.

If you go over your credit limit the provider may charge you a fee and some also charge an **annual fee**.

Credit cards can be used to buy goods anywhere, including over the phone, online or by post, and this can be their main advantage. They can be very useful in an emergency. However, they are also a great temptation if you carry them around.

Sometimes if you have used a credit card to pay for goods or a service, and something goes wrong, you can have rights against the credit card provider as well as the supplier.

The credit card provider will send you a statement each month. The statement shows you the following:

- details of each amount spent on your card since your last statement
- details of interest and other charges added to the account
- the amount due (the balance)
- the date you must make your payment
- the amount of the minimum payment
- how and where you can make payments
- how to contact your credit card provider.

You need to make sure that you pay at least the minimum payment each month: but take care: if you only make the minimum payment, you may find that you are only paying the interest each month and the capital (the amount you borrowed) never gets paid. You also need to keep an eye on the dates of payment: late payments incur charges (typically £12 a month) and will affect your credit rating.

It can be worth setting up a direct debit to pay your credit card each month: but if the direct debit is only for the minimum payment, try to make additional payments online or by post or phone as well.

### Store cards

Many shops have their own types of credit accounts known as store cards. You will often be offered a store card at the point of sale, usually on the basis that you can get a discount on the price of whatever you are buying if you take out a card. Beware: unless you intend to pay for the item in full before the end of the month, the interest on the card is likely to wipe out any discount you get.

There are two main types of account:

- **monthly account** where interest will be charged if the amount is not paid off in full at the end of the month (like a credit card)
- **budget account** where you pay a regular amount each month to cover the cost of goods bought throughout the year (like a loan).

Store cards can usually only be used to buy goods in the store that issued the card or its partner stores. They are also usually more expensive (higher interest) than a loan or credit card.

### Charge cards

Charge cards are different from credit cards because you have to pay off the amount you borrow in full at the end of the agreed period, usually each month. Interest is not charged on the amount you borrow but you may have to pay an annual fee for the card. Charge cards are rare and usually only offered to people with excellent credit ratings. You may also find that many retailers will not accept charge cards.

### Mail order catalogues

Mail order offers a way of buying goods by post, with payments being spread over a number of weekly instalments.

Mail order credit is usually interest free although the catalogue company may charge interest for more expensive items being paid for over a longer period. Goods bought in this way are usually more expensive than those bought in high street shops.

Where interest is charged, it is usually quite high so shop around to see whether you can get the same goods elsewhere more cheaply.

Mail order has advantages if you live in a rural area with access to few shops, or you have no transport to fetch a bulky item: but it is expensive.

## Being a catalogue agent

Some mail order companies let you become an agent for the catalogue: this means that you take orders for goods from other people. If you do this, make sure you set up a separate account for each of your customers. If you don't and any of your customers miss payments, you may have to pay back what the customer owes to the catalogue company. This can cause huge friction if your customers are friends or relatives.

## OVERDRAFTS

### Agreed overdrafts

You can ask a bank to agree that you can take more money out of your bank account than what's in there. This is called an agreed or **authorised overdraft**. The overdraft may be for a fixed amount over a set period, for example £500 to be repaid within six months. Or you may be given a limit on an ongoing basis to use whenever you like.

You'll be charged interest every day on the amount you overdraw. You may also have to pay an **administration fee** or **arrangement fee** when you set up the overdraft.

No written agreement is needed for an overdraft but the bank will usually write to you confirming the arrangement.

If you go over your agreed limit, the bank may return (**bounce**) cheques or other payments and you will be charged additional fees and interest. So it's a good idea to let the bank know in advance if you need to increase your overdraft.

### Going overdrawn without agreement

If you go overdrawn without agreeing this with the bank first, it's called an **unauthorised overdraft**. Try to avoid this happening as it's a lot more expensive than an agreed overdraft. You will usually be charged a much higher interest rate and also a daily fee. The bank will usually return (bounce) any cheques you write and other payments such as direct debits from your account. You'll be charged extra for unpaid items.

If you think you might go overdrawn, get in touch with the bank straightaway to make an agreement.

To avoid going over your limit, keep a record of all the money that goes out of your account, including cash withdrawals, direct debits and standing orders and debit card payments. Some bank accounts will send you a text message when you get near your limit.

## What to do if you have problems paying off your overdraft

If you can't pay off your overdraft or find yourself relying on it long-term, you may have financial difficulties. Speak to the bank about your options. The **Lending Code** says that the bank should treat you sympathetically. If you think your bank is not doing this you can make a complaint to the [Financial Ombudsman Service](#).

An overdraft can be a relatively cheap way of borrowing money for a short period of time

However, it's easy to start relying on overdrafts. If you can't pay off your overdraft or find yourself relying on it long-term, you may have financial difficulties. Speak to the bank about your options. The **Lending Code** says that the bank should treat you sympathetically. If you think your bank is not doing this you can make a complaint to the [Financial Ombudsman Service](#).

If you are struggling to pay back an overdraft or have other debts, get help from a specialist money adviser.

Do you need more help or would you like more information? Book a confidential appointment with one of our specialist advisers by emailing [adviceappointments@lincoln.ac.uk](mailto:adviceappointments@lincoln.ac.uk)