



# Advice Service

## BORROWING MONEY: ADVANTAGES & DISADVANTAGES

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



[Adviceservice.lincoln.ac.uk](http://Adviceservice.lincoln.ac.uk)

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Student Support Centre

ASK FOR THE



You've been hit by a string of unexpected expenses, leaving you around £200 short each month. How do you manage in the short term until you're back on track?

- **Authorised overdraft**

Using an authorised or agreed overdraft to fund short-term expenses can be sensible, especially if it's an account with no charges or fees.

### **Advantages**

If you have an agreed overdraft limit this is one of the cheapest ways of short-term borrowing: it could be as low as 0%, making it free.

No repayment schedule: you are not committed to repay a certain amount each month.

### **Disadvantages**

You must pay it off within the agreed time. An overdraft is meant to be short-term: if you are using an overdraft to live on you are heading for financial problems.

If you go over your authorised overdraft limit, you will incur substantial charges. Unauthorised overdrafts can be more expensive than payday loans.

The bank can “call in” (ask you to repay) an overdraft at any time.

- **Credit cards**

### **Advantages**

If you're able to clear your credit card each month - or you have a 0% purchase card and you can comfortably clear the balance before the 0% period expires – the borrowing is free.

You can get rewards with credit cards such as cash-back or air miles.

Using a credit card responsibly increases your credit score and makes it easier to get credit in future.

### **Disadvantages**

If you can't clear the balance in time, the card's standard interest rate kicks in. Typically this is between 16- 18% and you may find it difficult to make any headway. Making the minimum payment each month does not decrease the outstanding balance, it only pays off the interest.

Missing monthly payments or paying them late can incur penalties, usually around £12. This also affects your credit rating and can make it harder to get a mortgage in future.

Surcharges: some retailers may charge you extra for using a credit card, usually between 1.5% and 3%.

- **Personal loans**

Mainstream lenders like banks and building societies offer personal loans of between £1,000 and £25,000 for any purpose you want.

**Advantages**

The interest rate is fixed: you know exactly how much you'll repay each month.

Competitive interest rates available – between 8-13% on a loan of £5000.

Quickly accessed – the money can be in your account in 24 hours.

**Disadvantages**

Not really useful if all you need is £200: minimum loan is usually £1000 and the minimum repayment term is usually 1 year.

If you want to repay early, there is usually a fee for this.

You need a good credit rating and usually a regular income (like a salaried job).

The contract with the lender requires you to stick to the payment schedule. If you lose your job and start missing payments as a result, you will incur penalties (so the loan gets bigger).

Loans are usually repaid out of a current account with the same lender. If the loan payment goes out and causes you to become overdrawn, the bank could refuse to pay your other direct debits. This could put you in debt and you will also have charges for the failed direct debits.

- **Payday loans**

A payday loan is a one-off, short term loan designed to keep you afloat until you receive your monthly wages. Generally you can borrow between £80 - £1000.

**Advantages**

Very easily accessible: apply online. You can have the money within an hour.

Limited credit checks and tolerant of poor credit history

**Disadvantages**

Extremely expensive: rates of interest over 1000% APR. They charge more for a month than a typical credit card does for a year.

If you fail to pay back the money in time, interest and charges mean that the debt gets much bigger in a very short time. Never, ever take out a payday loan unless you are positive you can pay it back on time: and if you CAN pay it back on time, you probably could have found a cheaper alternative to a payday loan anyway.

Payday loans are collected by continuous payment authority. A continuous payment authority or recurring payment is where you give a vendor permission to regularly take cash from your debit or credit card - whenever it feels it is owed money. You do not control the date the money goes out of your account, nor the amount the lender can take. You have the right to cancel a CPA, but it can be difficult.

Payday loan applications go on your credit file. Some mortgage lenders say they will not lend to applicants with a history of taking payday loans as they think it indicates poor money management.

- ***What will you pay to borrow £250 for 14 days? (total cost)***

(moneywise.co.uk)

<b>First direct</b>	<b>Authorised Overdraft</b>	<b>£0</b>
<b>HSBC</b>	<b>Credit Card</b>	<b>£12.13</b>
<b>Instant Loans Direct</b>	<b>Payday Loans</b>	<b>£17.50</b>
<b>Co-Operative Bank</b>	<b>Unauthorised Overdraft</b>	<b>£23.10</b>
<b>Wonga</b>	<b>Payday Loan</b>	<b>£40.78</b>
<b>Halifax/Bank of Scotland</b>	<b>Unauthorised Overdraft</b>	<b>£70</b>
<b>Natwest/RBS</b>	<b>Unauthorised Overdraft</b>	<b>£84</b>

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)