

## Borrowing from YOUR credit union

*There are many advantages to borrowing from a credit union:*

- Affordable loans for all purposes
- Flexible amounts and repayment periods
- Fixed interest rates
- Interest charged only on the reducing balance (not on the total amount borrowed)
- No set-up fees
- No penalty charges for paying off the loan early
- Opportunities to save while you are repaying the loan.

## For more information

### **Association of British Credit Unions Ltd (ABCUL)**

The trade body for credit unions and a great source of information on all aspects of credit unions.

**Tel: 0161 832 3694** [info@abcul.org](mailto:info@abcul.org) [www.abcul.coop](http://www.abcul.coop)

Credit Unions are authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

### **Financial Conduct Authority (FCA)**

0800 111 6768

[www.fca.org.uk](http://www.fca.org.uk)

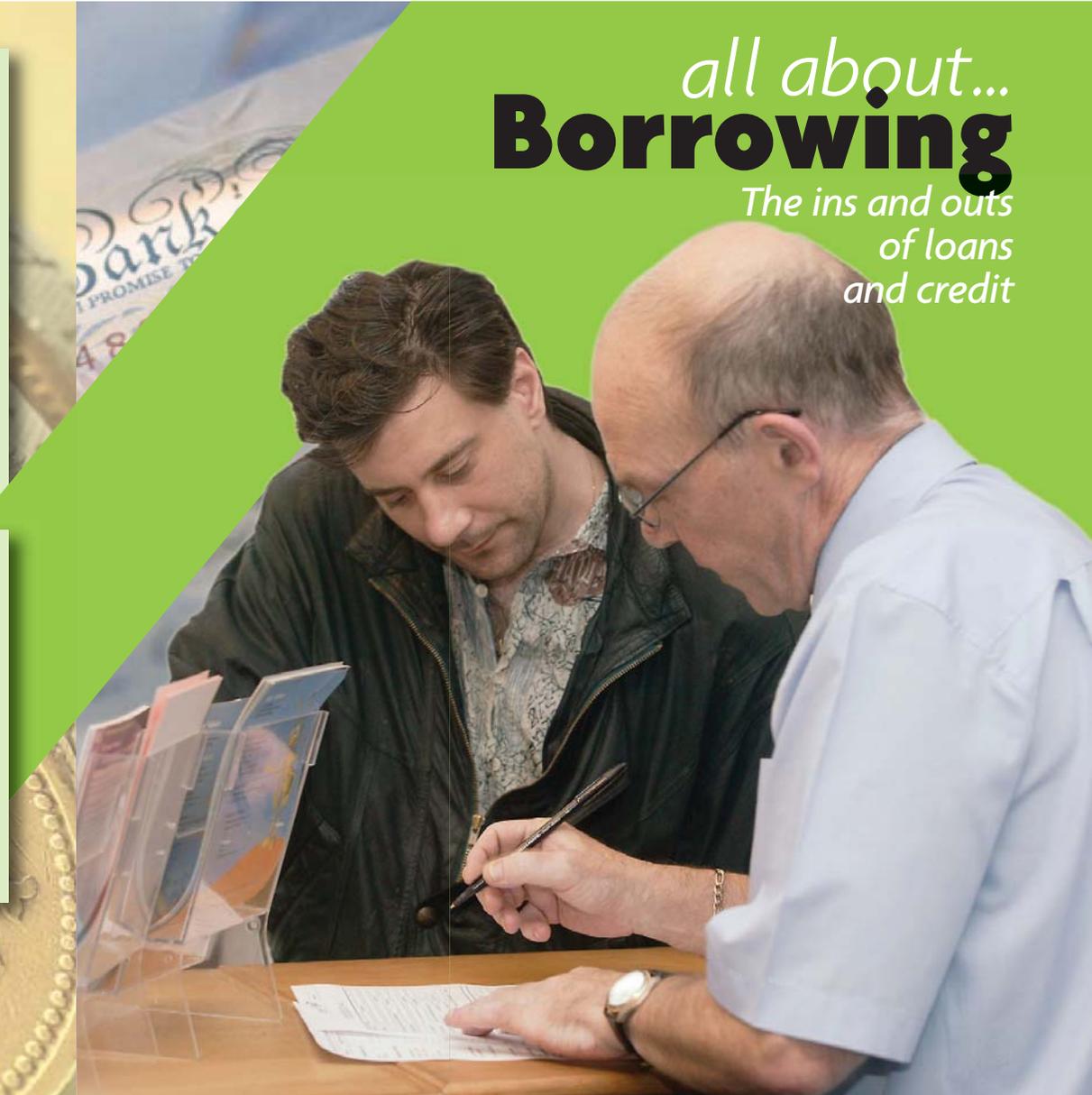
### **Prudential Regulation Authority (PRA)**

020 7601 4878

[www.bankofengland.co.uk/pru](http://www.bankofengland.co.uk/pru)

# all about... **Borrowing**

*The ins and outs  
of loans  
and credit*



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Borrowing money is a decision that shouldn't be taken lightly. This leaflet explains the credit options available to help you make the right choice.

## Before you start

Before you sign on the dotted line for a loan or credit – **THINK!**



- Can I afford the repayments?
- With interest, how much will I have to repay altogether?
- How many repayments will there be?
- What happens if I miss a repayment?
- Is there a penalty if I repay early?
- Are there 'hidden' set-up and insurance fees?
- Is interest-free credit a good option? (It can sometimes end up costing you more.)

Use this checklist to weigh up the alternatives and find the right option for you.

## Lenders

You can obtain a loan or credit from:

- Banks
- Building societies
- Home lenders
- Finance companies
- Credit card companies
- Credit unions.

Always check that your lender is authorised by the Financial Conduct Authority (FCA) or is the agent of an authorised firm. The FCA operates complaints and compensation schemes if things go wrong.

## Your borrowing options

**Unsecured personal loans** allow you to borrow a large sum over a medium-term repayment period – generally between one and five years. Interest rates vary and this type of loan can be expensive so shop around and compare deals. Be particularly cautious about doorstep lenders who can charge very high interest rates.

Some lenders offer 'optional' payment protection insurance which covers your repayments if you should fall ill or lose your job. This can be useful, but is often expensive and may not suit your circumstances. Also, you may already be covered under other insurance. Only take this out if you need it.

**Secured loans** can be appropriate for borrowing larger amounts to buy expensive items. The loan is secured against your home, which means the value of your home is tied up with the loan. The interest rate may be lower than an unsecured loan and you may be able to borrow more. You can also reduce the monthly payment amount by extending the term of the loan.

**Beware** – it may seem tempting to put all your unsecured loans and credit card debts into one low monthly repayment secured loan, but the consequences are serious if you fall behind with payments. **If you don't keep up mortgage payments or any other loan secured on your home, you could end up losing it.**

**Credit cards and store cards** – allow you to buy the things you want now and pay later, if you carefully control your spending. If you pay off the full balance on time each month, you won't be charged interest.

However, it is easy to rack up large debts by spending more than you can repay, particularly if you have several cards.

Always read the small print when you sign up for a card. Introductory low interest rate periods can be shorter than you expect and some cards have an 'exit fee' if you cancel early. Most lenders charge a fee if you pay late or exceed your credit limit.

Interest rates for credit cards are often much higher than for unsecured loans. Store cards, for example, charge around twice as much as other types of credit.

**Hire purchase (HP)** enables you to buy big ticket items, such as a car, on credit. It is a useful alternative to bank or credit card loans if you are unable to borrow enough.

HP means that you take possession of the item, but don't own it until you have paid back all the money. The HP company can repossess it if you fail to make payments (although they will need a court order to do so if you have paid more than a third of the item's value). Even if goods are taken back, you may still owe money. Read the small print!

## The low-down on APR

APR (annual percentage rate) is the rate the lender charges on a loan or credit. APR includes both the interest rate and any charges, such as arrangement fees.

APR varies from lender to lender. Generally, the lower the APR, the better it is for you.

Always ask the lender if the APR is **variable, fixed or typical**. Variable APR means repayments could go up or down; fixed APR means they stay the same. The APR you are charged may not be the 'typical' rate, as the lender only has to apply the 'typical' rate to two-thirds of loans that advertise that rate. Check before you sign up.