Let's Talk

Borrowing – July 2023

Most of us will need to borrow money at some point in our lives, whether it's for a student loan, a car, or to pay for your first home. There are lots of different ways to borrow money, so before borrowing it's a good idea to find out details of the different options available so you can make a choice about which one is best for you.

The most common forms of borrowing are personal loans, credit cards, overdrafts and mortgages. More details of each type are given in this guide.

You will typically pay interest on what you borrow and possibly other charges as well. A useful way of comparing costs is to use the Annual Percentage Rate (APR). You should also look at how much you have to pay overall (the total amount payable) and whether you can afford the repayments now and if your circumstances change.

Credit Cards

Making payments with credit cards is quick, simple and convenient, so it's easy to understand why people get into credit card debt.

A credit card allows you to spend money on credit. It is a rolling credit facility. It also allows you to buy items and withdraw cash (at a cost) and some providers will allow you to transfer credit card debt from another provider. Unlike a debit card, the money doesn't come out of your bank account straight away. Instead, you receive a statement of your borrowing once a month. You then have the option to pay off the full balance on the card, or an amount less than that, as long as you make at least the minimum payment. If you don't repay in full, you'll usually be charged interest, and this can mount up quickly, so always try to pay off as much as you can. You'll be given a credit limit, make sure you keep within this, as the charges for not doing so can be high.

Credit cards have to be applied for, as they are a form of borrowing. They are issued by banks or other large companies. Credit cards have credit limits and require you to make a payment each month. Any credit balance which you do not pay back each month will incur interest and is applied each month. Credit card interest rates can often be high.

If you do use your credit card for withdrawing cash, you may be charged a fee plus a higher interest rate, which could start adding up straight away. Try to avoid using cash withdrawals as credit card debt can increase quickly if you use your card this way.

If you already have credit card debt and are currently paying interest on this debt, it may be possible for you to transfer this debt to a 0% interest rate credit card.

This could potentially save you money in interest. When transferring your outstanding balance from one credit card to another you will be charged a small fee, this is usually a percentage of the transfered amount.

When applying for a credit card make sure you check the offer and its terms and conditions.

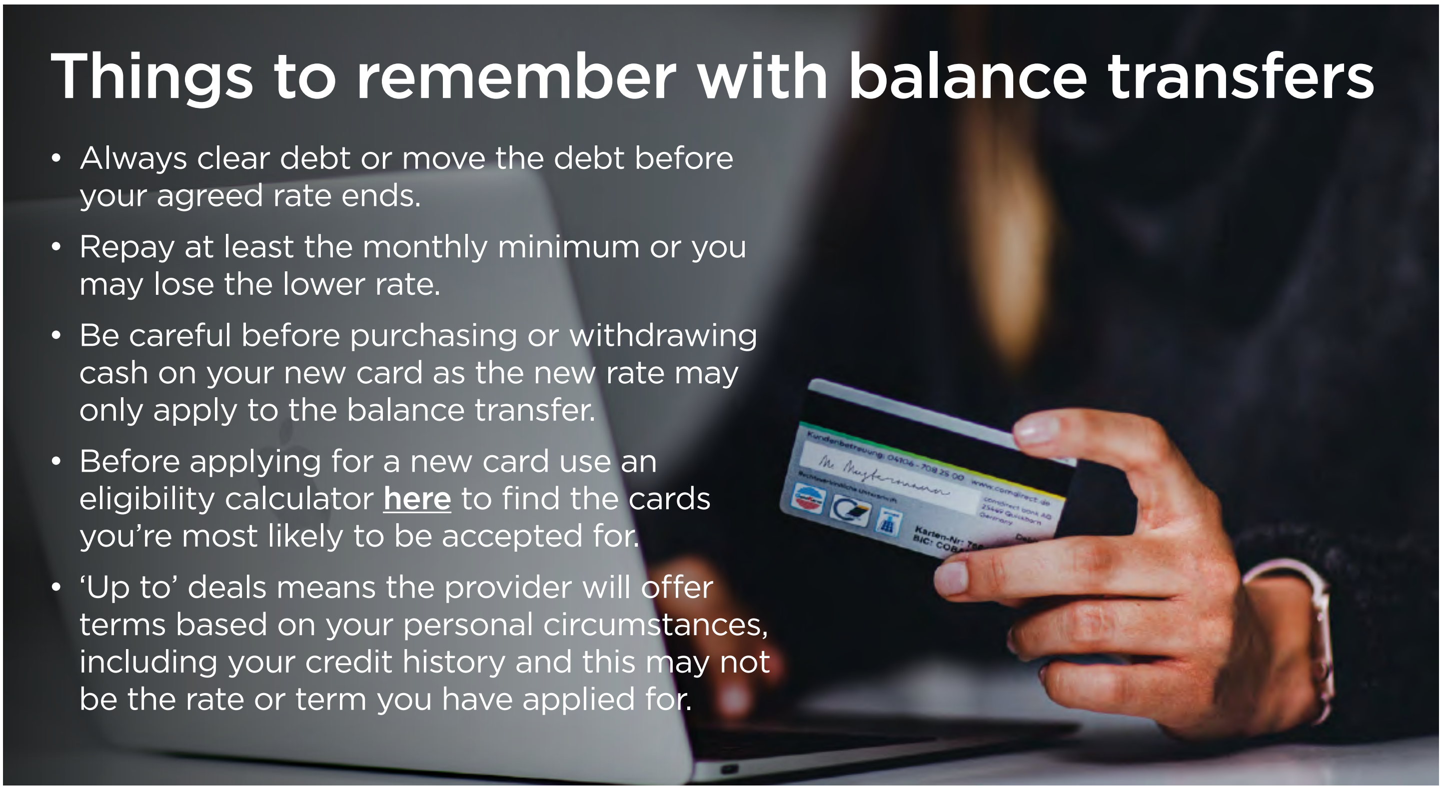
The annual percentage rate (APR) is used by providers in order for you to be able to compare one card with another.

How much it actually costs you will depend on how you use the card – in other words, how much you spend on it each month, on purchases or other transactions, and how much you repay.

The APR assumes that you use it only for purchases, and doesn't take into account the cost of balance transfers and cash withdrawals. It also ignores any introductory rates. The APR doesn't include any charges for late payments, exceeding your credit limit or returned payments.

Store Cards

A Store cards has to be applied for in the same way as a credit card does. Store cards are issued by retailers and you can normally only use them for shopping in their own outlets. A lot of store cards will have introductory offers that sound like a good deal, but there may be a high interest rate once the introductory period is over. The interest rates for store cards can be a lot higher than credit cards, which can make this an even worse form of credit card debt. So always check which is cheaper overall.



Things to remember with balance transfers

- Always clear debt or move the debt before your agreed rate ends.
- Repay at least the monthly minimum or you may lose the lower rate.
- Be careful before purchasing or withdrawing cash on your new card as the new rate may only apply to the balance transfer.
- Before applying for a new card use an eligibility calculator **here** to find the cards you're most likely to be accepted for.
- 'Up to' deals means the provider will offer terms based on your personal circumstances, including your credit history and this may not be the rate or term you have applied for.

Pay Day Loans

A payday loan is short-term, unsecured loan, which were originally intended to provide you with money until your next payday, but can now run for longer, although they are not recommend to be used for long term borrowing. The amount you can borrow range from as little as £50 to over £1,000.

The interest rate of a payday loan is high, although there is now a cap on the amount of interest and default fees that can be charged.

You should only consider using a pay day loan if you find that you have no other option and due to the following situations:

- **You only need to borrow a relatively small amount of money**
- **You only need a loan for a brief period**
- **You are able to repay the full amount with interest – usually around 20%**

Buy Now Pay Later

Buy now pay later arrangements are often offered by retailers on major purchases, this could be a new sofa or laptop.

They are regulated credit agreements often provided by a finance house. These type of loans often allow for a period of time where no interest is charged or allow for payments to be deferred for an agreed period of time.

Loans

A personal loan is usually a fixed amount, borrowed over an agreed period of time which is repaid in instalments, usually on a monthly basis. This can be one of the cheaper forms of borrowing but there might be both a minimum amount you can borrow and length of time you have to pay back the loan so it might not suit everyone's requirements.

Overdrafts

An overdraft is a type of credit that's linked to a bank account. It allows you to spend more money than is in your account, up to an agreed limit. It's important to remember that overdrafts are a type of borrowing and should only be used short term, as they are repayable 'on demand'.

If you go overdrawn without the permission of the bank, or go over your credit limit, the provider may make additional charges.

Student Loans

Most people who have been to university in recent years will have had a student loan. There are currently 2 types, one to cover tuition fees and a maintenance loan to pay for living costs. Both will start to be repaid after graduation or leaving the course once you have starting earning over a certain amount.

For more information on student loans click **here** for the government website.

Mortgages

There are several different types of mortgage available, these may be specifically for first time buyers, re-mortgages or buy to let schemes. In simple terms a mortgage is a loan to buy a property. Your home or property may be repossessed if you do not keep up repayments on your mortgage. For more details of mortgages click **here**.

Loan Sharks

A report published by the Centre for Social Justice estimated 1.08 million people could be borrowing from an illegal money lender – more commonly known as a loan shark. This figure has more than trebled since 2010.

Loan sharks prey on the most vulnerable people in our society. They make false promises of a quick and easy loan, then demand extortionate levels of repayment once their victims are trapped in a cycle of debt.

A loan shark is someone who lends money illegally without the correct permissions from the Financial Conduct Authority (FCA).

Lending money without a licence is illegal. However, it’s important to know that if you borrow from an illegal money lender, you have not broken the law, they have.

Illegal money lending is a hidden and under-reported crime and causes a great degree of terror and fear in those who suffer from it. Borrowers become trapped in a spiral of extortion, facing intimidation, violence and financial ruin.

Loan sharks are often seen as a last resort for people who have no other option for obtaining credit, including those with poor credit histories who are rejected by mainstream lenders. With just one unexpected bill, people can quickly find themselves in the grip of an illegal lender.

The real danger of loan sharks is not just the large sums of money they lend out and extortionate rates of interest they charge. It’s the psychological toll it takes on victims and their families, leaving them feeling trapped and helpless.

Cyber loan sharks are also becoming more prevalent luring their prey in through social media and other online platforms. These online loan sharks use misleading ads, false promises of easy money, and harassment to trap unsuspecting victims in debt, using fear to suck them in and exploit their vulnerabilities.

If you’re considering using a loan shark, think again. They often make it look like they’re helping you out but in reality, it’s a trap.

Is your lender legal?

If someone is lending you money, they must be registered with the Financial Conduct Authority (FCA).

Financial Services Register lists firms and individuals that have authorisation to offer loans and credit. Make sure you do your research before borrowing money.

Your credit score

Your credit score is based upon information held in your credit report, also known as your credit file. Your credit score will help a lender see how reliable you are at managing your finances and is likely to influence their decision if you are looking for any type of borrowing. Your personal credit score is built on your credit history. If you are managing your finances well this will make a positive impact on your credit profile and score.

To check your credit score, use one of the various companies available online including, Experian, Equifax or CallCredit. For more details on the impact of your credit profile click **here** to read our guide.

Worrying about money can be extremely stressful and may lead to mental health conditions. Police Mutual are here to help. We want to break down the stigma surrounding debt and get people talking about money.

We've teamed up with **PayPlan***, one of the UK's leading free debt advice providers, who offer free and confidential advice to anyone in serious financial difficulties.

They're able to advise you on a range of debt solutions suited to your individual circumstances, helping to protect you and your family with a sustainable way to manage your debt.

Get free and confidential help to combat your debt, call **PayPlan*** on **0800 197 8433**.

Impact of not making repayments on your borrowings

If you are late making repayments, it will usually have a negative effect on your credit rating. Your credit profile makes a record of every payment you make, and if you have missed a payment this information is noted on your profile. This could have an impact on any future applications for credit.

If you have a low score rating and want to apply for a mortgage, loan or credit card in the future, you might have to pay a higher interest rate on what you borrow, or you may even be declined. This can be one of the knock on effects of badly managed borrowing.

Police Mutual

For more information about the products and services available from Police Mutual:

Call us 01543 441630
Visit policemutual.co.uk

We're open from 9am - 5pm Mon - Fri

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