



Understanding Loans

It is vital that you think carefully before taking out any form of credit.

When you apply for a loan, a responsible lender will carry out an affordability check with you, taking into account your income and expenditure to ensure you can afford to repay the loan.

The lender will advise you of the amount of weekly/monthly repayments along with the consequences of non-payment and any additional charges or fees that could be added to the amount you borrowed.

If you are struggling with your money and need help budgeting then [contact us](#) and we will be able to help.

What you need to know

The main things to consider when shopping around for credit are:

APR = the 'Annual Percentage Rate'. This is rate of interest you have to pay back every year, on top of the money you have borrowed.

Term = the length of time you will be paying the loan back for.

Affordability = whether or not you can afford the regular repayments. Any missed payments will be noted on your credit file and could affect any future loans you apply for.

Check = you need to check that the lender is authorised by the Financial Conduct Authority (FCA). This can be done on the FCA website <http://www.fca.org.uk>



Types of credit

Type	Explanation	Beware
Bank Overdraft	An 'authorised overdraft' is an agreed amount with the bank that you can go overdrawn. You may be charged daily/monthly interest to use your overdraft.	If you borrow more than the amount you have agreed with the bank this is known as an 'unauthorised overdraft' You could incur expensive interest and bank charges
Credit card	A credit card can be used to pay for goods or services or to get money from a cash machine You are allowed to spend up to a certain amount on the card this is known as the ' credit limit '	If you only pay the minimum amount each month, you are only paying off the interest off the balance, so it will take you longer to clear the debt. If you miss your monthly payment this is noted on your credit file and could affect your future borrowing
Secured loans	A loan backed up by property or other guarantee of some kind; For example – Mortgage or Hire purchase agreement	If you don't keep up with repayments the lender will have the right to repossess your home or car
Personal loans	A loan for a fixed amount, repayable by set monthly instalments over an agreed period of time	If you don't keep up with regular repayments, this could affect your credit score and any future borrowing



<p>Credit Union Loans</p>	<p>Similar to a bank or building society, Credit Unions are set up to offer their members affordable loans with lower rates of interest. Your local credit union is White Rose Credit Union (part of Leeds City Credit Union) http://www.leedscitycreditunion.co.uk</p>	<p>Low cost loans and helpful service but as with any loan you need to make sure you can afford the repayments.</p>
<p>Payday Loans</p>	<p>A short term loan for a small amount of money</p> <p>Available from high street shops and on the internet.</p>	<p>Beware - interest rates (APR's) can be really high !</p> <p>'Roll over' fees and charges can be added to your debt.</p> <p>The most common way to repay the loan is with your debit card by providing your card number. This sets up a Continuous Payment Authority (CPA) which allows the lender to take money as and when they believe you owe it.</p> <p>From 2 January 2015, if you take out a 30 day loan and repay on time you should not be charged more than £24 in fees for every £100 borrowed. If you default on the loan the lender can only charge a default fee of £15.</p>



<p>Doorstep Lenders</p>	<p>Doorstep lenders call at your home to lend and collect the repayments you owe.</p> <p>The loans are usually for smaller amounts.</p>	<p>You will be charged a high rate of interest for borrowing this way</p>
<p>Loan Sharks</p>	<p>Loans sharks are illegal money lenders who do not have a licence to lend people money.</p> <p>You can report a loan shark in confidence by calling 0300 555 2222 or email - reportaloanshark@stoploansharks.gov.uk</p>	<p>In many cases you will receive no paperwork confirming the amount borrowed and payments to be made.</p> <p>Loan sharks can often turn violent if you fail to keep up the repayments and you could pay 10 x the amount of money you borrowed or more.</p>