



Personal Loan Guide

Everywhere you look there's another advertisement promising to solve all of your financial problems, but how can you be sure that answering that call is a safe option?

Despite the current state of the global economy, loans are still readily available. Taking out a loan is certainly a good means to getting your finances in order and to improving your standard of living with an extra advance of money. However, it is important to realise that taking out a [personal loan](#) can be complicated. It's vital that you know what you are getting into so as not to be taken advantage of by lenders and loan companies.

Firstly, it's important to educate yourself about loans and their many facets so as not to choose the wrong one and end up in a worse situation. There are different ways in which you can become trapped if you're not up to speed on the personal loan process. Firstly, it is important to remember that the rate the adverts promise is not necessarily the rate you will end up with. Rates are determined on a customer-by-customer basis and are based on the personal circumstance of each borrower. Furthermore, your intentions in regards to the loan - how much you want to borrow and for how long - can have long term effects on how much money you will ultimately be responsible to pay back.

Choosing the Right Type of Loan

Make it Personal

Let's say you want to take out a loan but don't want to secure it against your other possessions, such as your home. An [unsecured personal loan](#) is the best type for you. An unsecured loan is not tied into any of your belongings, rather, it is



guaranteed by a contractual obligation. Unsecured loans may be more difficult to attain, as unsecured loans are riskier for the lender.

Generally, an unsecured loan allows you to borrow up to £25,000, which can be paid back on a monthly basis over several months or years, depending on the size of the loan and the monthly affordability.

Fixed loans are the most common personal loans. In this case, repayment amounts are set over a specific period of time. Variable loans are less common. With variable loans, the interest rate is determined by the lender's best rate, which may fluctuate.

Plan ahead

There are many loans and lenders out there with rates that can vary from 6% to 20%, so it is important to search out the best deal which will save you hundreds in interest in the long run. Remember to compare like-for-like.

Before borrowing a large amount of money, it is important to determine how much money you can repay over a set amount of time. You need to work out a monthly budget and to determine how long it will take you to repay the lender. Keep in mind that the more time you take to repay the loan the more interest will accumulate. Planning ahead will also ensure that you do not find yourself with unwanted early repayment fees.

Hints and clues

- Only compare like-for-like loans.
- Try to negotiate for a better rate. **You never know if you do not try!** Can you borrow an extra £5 or reduce the term by a year and achieve a better rate band? Ask and find out if a minor alteration gets you better value.



- Certain lenders may charge a fee for instant or same-day electronic transfers. Request a normal delivery of two or three days to avoid this fee.
- Remember to shop around. Use independent brokers to ensure you are getting the best loan rate for which you qualify.

Where to go

It may be comforting to talk things over face-to-face with someone to get advice before taking out a loan, but more often than not signing up for a loan at your local bank is a much better deal for them than it is for you. Internet offered loans offer some of the best rates around, just be sure to read all of the details and the fine print before agreeing to any loan.

Take interest in your loan

The Annual Percentage Rate (APR) is important to look out for as it includes the overall rate of interest plus extra charges, but the “typical APR” does not tell you the same information. The typical APR shows that more than two thirds of the people who have a successful application for the loan are eligible for that rate, leaving a large percentage of borrowers who will be offered a higher rate or refused a loan.

Loan approval and APR are based on personal circumstances, your yearly earnings and your credit history to match your risk level.

It's also important to check which extra charges are included in the APR, as the lender may sneak in other charges not included in the APR you are quoted.



Hints and clues

- In addition to checking the APR, remember to investigate the monthly repayments and to determine the actual sum of money that you are expected to repay before agreeing to any loan.
- Make sure to ask if there are any penalties for early repayment of the loan.

Know your history

Borrowing money without putting down any collateral makes you a risk for the lender. This risk is heightened by any negative financial marks in your history. Missed or Late Payments, [Defaults and County Court Judgments](#) (CCJs) that may have been taken out against you for not repaying past debts will count against you. You may also find it difficult to receive loan approval if you are self-employed or fit into any other high-risk group.

Hints and clues

Make sure that the credit agencies, the agencies which keep track of your credit history, have accurate information. Your [loan application](#) may be affected by a credit agency.



Making Your Loan Work

Simplify your life - [debt consolidation](#)

Everyone wants to see money in their bank account and an even credit-card balance. Loans offer a means to do this by consolidating all of your pre-existing debt into one place. Loans are a good means of debt consolidation because often lenders charge lower interest rates than credit card companies and overdraft facilities.

Furthermore, it can be extremely difficult to manage debt that spans over several credit cards. It is not easy to keep track of every bill that comes and goes, and it may be overwhelming to fill out so many different payment slips. A personal loan helps to fix this by creating a more organized system of repayment. Also, it is possible to sign up for fixed direct debit payments, which can further aid you in organizing your life.

However, it is important to be careful when taking out a loan. When taking out a large sum of money to take care of all of your debt, you may have to commit to a longer repayment term, which will inevitably result in a higher amount of interest. While loan repayments may be more manageable and make you feel more secure with the money you have, you have to remember that debts do not vanish when you get a loan and you still have to repay the lender.

Debt consolidation still results in debt, maybe even more than you started with if you are not careful when searching for a loan, so be careful to use your money as wisely as you did before simplifying your debt.

Hints and clues

Once you have cleared your pre-existing debt, it is important to make sure that you do not fall into the same traps you did before. It's very easy for someone to go back



and max out there credit cards after consolidating his or her loans and to end up in a worse situation than before. The best thing to do is to cut up your credit cards and to remove the temptation to overspend all together.

Paying back the loan

Although many people are able to pay off loans early, you may actually face penalties for paying back the money quickly. Early Repayment Charges are put on loans so that the lenders can get as much interest out of the borrower as possible. If you pay back a loan of less than £25,000 up to one year early, you may face a penalty of one or two months interest.

Flexible loans allow you to pay back different sums of money at different times, but these often come along with a higher rate of interest. Also, remember to always be honest about your situation if you find your self in any difficulty. Ignoring the problem or avoiding the issue can put you and your family in serious trouble. The more honest and straight forward about your situation you are with your lender, the easier it will be for you and your lender to arrange the best way to get your payments on track again.

Remember, even with an unsecured loan, lenders may easily go to court and force you to pay back the money one way or another. This could put negative marks, such as CCJs, on your financial history. Do not forget what will happen if you end up missing a payment on your loan.



Hints and clues

Be honest about your financial situation to avoid being brought to court.

Loan Features

The price of protection

Lenders make a large amount of money by adding insurance fees on to loans known as Payment Protection Insurance (PPI). There are positive arguments for taking PPI. The insurance covers your repayments if you lose your job, or face sickness, and accident, or death. It gives you a certain amount of security, as you never know what lies ahead. However, the loan industry has long been criticized for making billions of pounds by adding Thousands onto the sum customers have to pay back in the form of PPI.

It is also important to determine whether you are eligible to claim on PPI. Certain groups of people, such as the self-employed and those on short-term employment contracts may not be eligible. Also, the insurance does not necessarily cover the entire term of the loan, so it is important to investigate how long the insurance will actually last.

Hints and clues

Decide whether you want PPI. Try to fully understand what is and is not covered under the insurance.



Flexible Features

Certain loans come with flexible features, which can make your role as a borrower easier. You may be able to find plans that include flexibility on your monthly repayment amounts, which include overpayments and underpayments depending on your situation. You may also find a plan which allows you to defer repayment, to take repayment holidays, or to withdraw money on a rolling basis up to a fixed limit.

Hints and clues

BEWARE! Flexibility features often come along with higher interest rates.

Know your rights as a borrower.

The Consumer Credit Act provides you with certain protection and rights. You must be given certain written information regarding the loan agreement, such as the APR, and you should receive a copy of the credit agreement. You must also be given a “cooling off period,” or a chance to pull out of the loan, which usually spans two weeks. Also, the largest early repayment penalty you can be charged on a [secured loan](#) is one month’s interest.