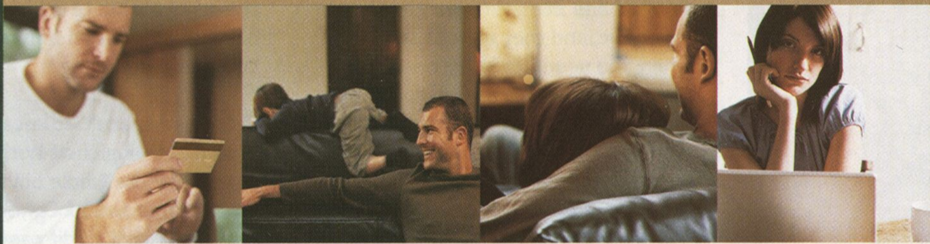
ABCUL Credit Unions

Understanding Credit Choices

Borrowing Options



When you need to borrow money to get you through a difficult period or to help you afford a treat for you and your family, you need to be careful when choosing credit. Think about the following:

- *Can you afford the repayments?*
- *How much you will have to repay in total?*
- *How many repayments do you have to make?*
- *What happens when you miss a repayment?*
- *Is there a penalty if you repay early?*
- *Set up fees or loan insurance are sometimes added to the loan and can increase the loan amount.*
- *Interest free credit might seem attractive but you may be paying more for the goods.*

Credit unions are financial co-operatives owned and controlled by their members. They offer savings products and affordable loans as well as being local and ethical. Credit Unions are regulated by the Financial Services Authority and savings are protected by the Financial Services Compensation Scheme. One of the many benefits of borrowing from a credit union is that there are no hidden charges or early repayment penalties.

Talk to your credit union about how we are different from other lenders

What are the borrowing options?

Unsecured Personal Loan - Personal loans can be a sensible way to borrow a substantial sum over a term of between, say, one and five years. But they can be expensive, and they are not so good when you need flexibility or a short-term credit facility. The cheapest rates may be restricted to the most credit worthy customers or those who are borrowing larger sums so, you should shop around.

Some lenders offer *'optional'* payment protection insurance and try very hard to persuade you to take it. This type of insurance can be a good thing if you fall ill or lose your job, but might not be appropriate to your circumstances and is often expensive. You may already be covered by other insurance so don't be pressed into taking it out unless you need it. Watch out for lenders trying to persuade you to add to your loan half-way through.

Be cautious about doorstop lenders. They may seem quick and convenient but may charge very high interest rates.

Secured Loans - Can be a sensible way to borrow for certain expensive items, such as home improvements. Because the loan is secured against your home, the interest rate should be cheaper than an unsecured loan and you may be able to borrow more. Also, you can cut your monthly payments by stretching the loan over a longer term. Think carefully before tying up the value of your home in this way.

Beware of putting all your unsecured debts into a long term secured loan. Don't use the reduced payments as a green light to build up even more debts on your credit card, personal loan or overdraft. The consequences of not being able to keep up your payments are much more serious than with an unsecured loan. **If you don't keep up the repayments of a mortgage or any other loan secured on your home you could end up losing it.**

Credit cards and Store cards - Short term borrowing costs nothing - as long as you pay the whole bill within the interest-free period. Low introductory rates can make credit cards a very cheap way to borrow over, say, six months. If you are careful to control your spending they can be a cheap way to borrow money to buy for things now that you want to pay for later.

However, it is easy to rack-up large debts by spending more than you can really afford, especially if you have several cards. Introductory low rate periods can be much shorter than you expect. Some cards have an *'exit fee'* if you switch to another card after the introductory period ends.

Some lenders offer *'optional'* payment protection insurance and try very hard to persuade you to take it. This type of insurance can be a good thing if you fall ill or lose your job, but might not be appropriate to your circumstances and is often expensive. You may already be covered by other insurance so don't be pressurised into taking it out unless you need it. You may also be charged if you exceed your credit limit or forget to pay your bill on time. Interest rates are often very high and this can be an expensive way to borrow.

Some store cards charge a very high rate of interest. This can be around twice the interest rate of other types of credit.

Hire Purchase (HP) - Allows you to buy big ticket items (a car, for example) on credit. You might find this useful if you can't borrow enough to fund your purchase through a bank loan or credit card.

You don't own the item you have purchased until you have paid back all the money you owe. The HP company can claim the goods back if you don't make your payments. If you have paid a third or more of the value of the goods, the HP company would have to get a court order to get them back. You may still owe money on goods that have been taken back. **Always read the small print!**

Where can I borrow?

You can obtain credit from the following:

- Bank
- Building Society
- Home Lender
- Finance Company
- Credit Card Company
- Credit Union

Where you go depends on what type of lending you need.

Always check a firm is authorised by the Financial Services Authority (FSA), or is the agent of an authorised firm - before you do business with them. If they are not authorised and things go wrong you will not have access to complaints procedures and compensation schemes.

You can check whether a firm is authorised on the FSA Register.
Go to www.fsa.gov.uk/register
0845 606 1234

What is APR?

APR stands for the Annual Percentage Rate of charge. You can use it to compare different credit and loan offers. The APR takes into account not just the interest on the loan but also other charges you have to pay, for example, any arrangement fee.

All lenders have to tell you what their APR is before you sign an agreement. It will vary from lender to lender. Generally, the lower the APR the better the deal for you, so if you are thinking about borrowing, shop around. Don't forget that sometimes bank loans are cheaper than the credit schemes offered by stores.

Ask the lender: *does the APR vary, or is the rate fixed?* If the rate is variable, your repayments could go up or go down. If the rate is fixed, your repayments will stay the same.

Remember a *'typical'* APR might not be the one you end up paying. The lender only has to charge the *'typical'* APR to 2/3 of loans to advertise that rate.

Borrowing from your credit union

Credit unions are co-operative savings and loans businesses owned and controlled by the people who save and borrow with them.

They offer loans for all types of purposes at an affordable interest rate.

Loans are very flexible - you can borrow small or large amounts over different periods.

The interest rate is fixed so your repayments always remain the same.

Interest is charged only on the reducing balance left to be repaid each month, not on the total amount borrowed.

There are no arrangement fees or set up fees.

There are no charges if you want to pay off the loan early.

You can also save with the credit union whilst you are repaying the loan.

Where to go for information

Association of British Credit Unions Ltd - 0161 832 3694 www.abcul.coop
The main trade body for credit unions giving information about how to find your credit union, how credit unions work and how to set up a credit union.

Financial Services Authority - 0845 606 1234 www.fsa.gov.uk
The body that regulates the financial services industry in the UK including banks, building societies and credit unions.

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