

Quick Guide to Borrowing and Escaping Debt

A free guide from



Types of personal loans

The two most common types of personal loans are secured loans and unsecured loans.

Secured loans tend to be for larger amounts of money, say over £25,000, and for longer periods of time, typically five years or more. Mortgages are a form of secured loan, whereby you borrow money against the value of your property. But smaller secured loans exist, which are also tied into your personal assets.

If you miss repayments on a secured loan, you risk losing the assets tied to the deal – often your house. The main benefit of secured loans, other than being able to borrow more money over a longer period, is that the interest rates on offer tend to be low and can be fixed or variable.

Unsecured loans are usually used for smaller sums, of £1,000 or more, and over shorter periods of time, say a few years. They don't require any personal assets to be tied into the agreement, although failing to repay the loan will still have serious consequences.

One type of unsecured loan which is becoming increasingly popular in the UK is a *payday loan*. A payday loan is a very short-term loan of a few hundred pounds, typically between £100 and £1,000, which can be taken to tide you over until your next payday. The interest rates tend to be much higher than traditional loans taken over a year or more, but the application process is usually quick and the cash is only borrowed for a short period.

APR

One way of comparing the interest rates or potential cost of different loans is looking at the APR, or annual percentage rate. This is an industry-wide standard which lenders in the UK must make clear for their products. An APR is the amount you will pay in interest over a year, plus other charges.

Many lenders advertise a 'typical APR', which means the lender has offered that rate to at least 66% of its customers.

APR is a useful measure for considering and comparing many loans, but it's not the only thing you should make your judgements on. There are some circumstances – such as loans of less than a year – where it's not necessarily a straightforward comparison tool to use.

Whether you are comparing APR rates or not, always ensure you understand the full cost of any loan from the provider before committing

Choosing a personal loan

Different types of loans suit different purposes – you wouldn't buy a car with a credit card and you wouldn't take out a five-year loan for a weekend away! If you don't do some basic homework and take the first loan you are offered, you could end up paying far more than you needed to, or be saddled with repayments for far too long. Here are a few pointers when considering a loan...

- Shop around - whenever there's choice in life, it's never a good idea to commit to anything without at least researching some of the alternatives, especially a financial commitment
- Can you afford it - it's vital you think carefully about whether or not you can comfortably afford to repay the loan you are considering. If you have any doubts, don't take the loan in the first place
- Consider the loan duration - the repayments might be smaller with longer loans, because you are spreading the repayments more thinly, but the total amount you have to repay may be higher because you're paying interest over a longer period
- Check out any fees - some loans come with additional fees, such as arrangement or early repayment fees. They could be worth paying if the overall cost of the loan is still appealing, but make sure any such cost is taken into account
- Look into flexibility - you might not always have much choice, but it can pay to have flexibility, especially with a longer-term loan. It could mean you can pay more or less than usual some months, take a repayment holiday, or pay off the loan early without any extra charges
- Ensure you have a good understanding of what's being offered - any advice you are given should be clear and, if you don't understand something or feel you are being bamboozled by jargon, don't be afraid to ask for clarification

Credit history

Your credit history can have a big impact on the cost of borrowing money and the options available to you. It is like an ongoing school report that chronicles your financial behaviour.

Your credit history also looks at your current debt and a number of other factors. Always remember it's easier to harm your credit rating than to improve it - prevention is better than cure!

Most lenders use some form of credit checking to assess your application for a loan, so ensure you do everything you can to protect your credit rating and, if you are having problems getting credit, it's worth using a service like www.mycallcredit.co.uk to find out more about your rating and how you can improve it.

Is Wonga right for me?

Wonga.com delivers instant money when people need it. No other UK lender can approve loan applications and get the cash to any bank account within an hour. There are cheaper ways to borrow money, but none as quick or convenient as a Wonga loan.

It's impossible to give one piece of advice to everyone about the right type of loan for them - it's down to individual circumstances - but our service is designed to tide you over for short periods, when you know some money is coming your way.

The service is not designed for managing existing debt, as a long-term credit solution, or if you aren't sure whether you will be able to pay back the full loan repayment on time. The official APR is higher than a standard loan, but you're only borrowing the money for up to 30 days and APR is a calculation that looks at the cost of a loan *annually*.

The application process is completely transparent and we calculate the cost of the loan up front, before you apply.

Facing up to debt problems

If you are feeling the strain financially, or you're starting to struggle repaying a loan, it's never worth kidding yourself and pretending there isn't a problem. The sooner you are honest with yourself and those around you, the sooner you can start taking action to rectify the situation.

Make a list of any outstanding credit – the lender's details, how much you owe and how much your repayments are.

If you're struggling to keep up with repayments, talk to your creditors quickly. Depending on the lender and the type of credit, you may be able to reduce your payments, extend the loan period, suspend repayments for a short period, or even repay the loan early - if you have a small amount owing and want to reduce the number of your monthly repayments.

Budgeting

Draw up a basic monthly budget, showing your combined income (such as salary and any benefits you receive) against regular outgoings like bills, entertainment and housekeeping costs. If you're left with a positive sum each month, that figure should help you decide what kind of repayments you can afford – whether you are considering a new loan, or calculating how to pay off existing credit.

If you're left with a negative figure – in other words your monthly outgoings are regularly higher than your monthly income - you should think carefully if there are any monthly costs you can reduce or remove altogether. Cutting back on luxuries and non-essential costs in the short to medium term is well worth it if it means you can settle debts and be more financially stable in the long run.

If you are budgeting to work out what you can afford to pay back to existing creditors, try to work out a timeline of which debts you might be able to settle and when, plus prioritise the most important debts and tackle them first.

High priorities could include a mortgage or rent arrears (because you stand to lose your home), household bills which are a necessity (such as gas or electricity for heating) and court fines.

Seeking further help

There are organisations like Citizens Advice which can help with advice and counselling when you are having financial difficulties. Don't bottle up stress and anxiety about financial problems. Check out the useful websites below.

Debt worries

If you're having financial trouble, you can visit www.adviceguide.org.uk, www.nationaldebtline.co.uk or www.clsdirect.org.uk for debt counselling and advice.

Check your credit history and find out how more about how you can improve your rating

You can request to see a copy of your credit history and get more advice on how to improve your credit rating here:

www.mycallcredit.co.uk
www.annualcreditreport.co.uk
www.equifax.co.uk
www.creditexpert.co.uk