

Loans made simple

A loan can help makes those big things a little more accessible, like that new car or those home improvement plans. It can also be a sensible option to consolidate debts into one more manageable, potentially cheaper monthly payment. Whatever the reason, a loan gives you the opportunity to borrow a larger amount of money and pay it back over a set period of time, with the added security of fixed monthly repayments – so you know exactly how much you need to pay each month.



A loan can be a good borrowing option if:

- you want to borrow a larger amount of money, for example more than £5,000;
- you want the flexibility and bargaining power of being a cash buyer, for example buying a car;
- you want to pay off some current debts and make just one manageable repayment each month;
- you want to spread your repayments over several years.

Types of loan

There are two main types of loans – secured and unsecured. A secured loan is money lent to you that's 'secured' against something you own, usually your home but it could also be a car or something else of value. This can be sold if you don't make your repayments each month.

An unsecured loan (usually called a personal loan), is money that's lent to you that isn't secured against anything.

How do personal loans work?

Very simply, you borrow a lump sum and repay it over a set period of time, usually from one to five years. You'll be charged interest by the company lending you the money, this is added to the amount you repay each month.

How do I work out how much a loan will cost?

When you're considering a loan, it's important that you feel comfortable that you can make the repayments. Don't overstretch yourself and only borrow what you can afford to pay back comfortably.

Most providers have loan calculators, which will quickly and simply give an indication of how much loan payments could be for different amounts and over different time periods.



The rate shown on the calculator isn't necessarily the rate you would be offered (the rate you get is often based on your credit rating). Some providers will give personalised quotes before you apply, so you know the rate you would get before you complete the application (and the credit search).

Always check this doesn't affect your credit score before you get a quote – as too many searches can affect your ability to get credit and the rates you're offered.

Generally speaking, loans between £7,500 and £15,000 work out cheapest in terms of the rate of interest charged, followed by loans between £15,000 and £25,000. Smaller loans of £1,000-£5,000 tend to have the highest interest charges.

However, it's important you don't borrow more than you need just to get a cheaper interest rate as this will cost you more in the long run.

APR explained

APR stands for Annual Percentage Rate, and is the combination of interest charges and any arrangement fees shown as a percentage of the amount you want to borrow. Many loans don't have arrangement fees so you'll only be paying interest charges.

Representative APR explained

The law says companies who lend money only need to offer the advertised rate to 51% of people who are accepted. This rate is known as the representative APR and it's the one you'll see advertised on each loan.

The rate you actually get is based on your credit score. So the better your credit score the more likely you are to get the advertised, or representative APR. If your credit score is slightly lower, for example because you've missed a payment in the past or you already have a lot of credit, you may be offered a higher rate than the advertised one.

Why you should look beyond your bank

You could opt for a loan from your bank but it might end up being a lot more expensive than if you'd shopped around. Some banks charge much higher rates of interest than the cheapest rates available.



The law says companies who lend money only need to offer the advertised rate to 51% of people

Peer-to-peer loans

Peer-to-peer loans are a relatively new way of borrowing. The idea is a person who wants to get a better rate of interest lends their money, via a third-party website, to another person who wants to borrow. The borrower sets the interest rate and this can often be cheaper than rates you'll find on the high street.

Payday loans

Payday loans, also known as quick loans, are designed for people who want to borrow smaller amounts of money over a shorter time period (for example £200 over 30 days), to tide them over until payday. While this can be convenient, payday loans are generally very expensive ways to borrow, with very high interest rates.



The dangers of applying for several loans

If you've applied for a loan and been rejected, or you haven't received the advertised representative APR, you might be tempted to apply for another loan from somewhere else to see if you get a better rate.

The danger here is every time you apply for a loan it is recorded on your credit report. This credit report is one of the main things lenders look at when you are applying for credit.

So if you've made several loan applications it might look like you're desperate for money and that's likely to make lenders less likely to lend to you.

Some lenders offer what's known as a 'soft search' or 'quotation search' where you can see if you're likely to be accepted for a loan without your application being recorded on your credit report.

Changing your mind

Once you have applied for your loan you have a 14-day 'cooling-off' period where you can change your mind. This starts from either when you sign the loan document or when you receive a copy of the loan agreement, depending on which is later.

What if I can't make my monthly repayments?

If you're struggling to make your monthly repayments you should tell your loan company as soon as possible. They'll be able to help you find an arrangement that works for both you and them.

What next?

If you think a personal loan is the right option for you, it takes less than 2 minutes to get a **personal quote** from Ikano Bank to see how much repayment would be.

If you're concerned about your credit rating then you can find out how you can access your credit report using the advice on the **Ikano website**

If you need help managing your money you can get free, confidential advice from:

Step Change Debt Charity
www.stepchange.org

National Debtline
www.nationaldebtline.co.uk