

Debt

solace

Most of us tend to borrow when we buy a house, furniture, or use a credit card. This is what it means to take on debt and is not bad as long as you repay and borrow from a reputable organisation regulated by the Financial Conduct Authority (FCA).



What do you need to know?

1. When you borrow, you will be charged interest

- This means paying back the money you borrowed plus an additional amount. Before making any decision to take a loan out, look at how much you will repay and any extra costs or fees.

2. Do not borrow money if:

- You cannot afford to pay it back
- You could alternatively save and then buy with the saved money
- You are worried your income could fall
- You do not really need the item

3. Research

- Use price comparison sites and loan calculators
- Look for the lowest interest rate (often shown as Annual Percentage Rate or APR)
- Be aware of your own personal circumstances

4. Things to look out for:

- Amount borrowed
- Rate of interest which is often quoted annually
- The 'Term' of the loan -how long the repayment period is
- Fees for setting up the loan & early repayment fees
- Your credit rating –the better the cheaper it is to borrow

Understanding a Debt Repayment Plan

If you are behind with your payments, you can arrange a debt repayment plan with your creditor by following these steps:

1. Put together a budget based on your income, spending and other debts
2. Work out how much you can afford to pay your creditors by:
 - Working out the total amount you have to repay your debts each month
 - Work out what percentage of your total debt you owe each creditor
 - Divide your total based on what you owe each creditor as a percentage of your total debts
3. Contact your creditors to agree to a debt repayment plan by phone, email or letter and make an offer to pay the amount you can afford. If you come to an agreement, send a written copy. You can use one of the template letters provided by StepChange.

Understanding your Credit Rating

Whenever you take out a loan or use credit, this is recorded on your credit report which thereby determines your credit rating depending on factors such as whether you have:

- Kept up with your repayments
- Gone over your credit limits
- Taken out a multiple loans at once

You can check your credit score for free using free trials on Experian & Credit Score.

The Two Ls: Loans and Lenders

Your income and credit score are important factors in determining your options for borrowing money.

The lower your income or the poorer your credit score, the fewer options available. Here are the most popular types of loans available to you:

Credit cards

- Helps with purchases or to defer payment on purchases
- Interest rates: 6.5%-40% unless on a 0% introductory period

Store cards

- Assists with purchasing of goods from specific shops
- Interest rates: 13-40% if you do not pay the amount back on time

Bank Loans

- For larger amounts
- Interest rates: 3.5%-13%
- Hard to obtain for people with poor credit scores and lower income

Bank Overdrafts

- Interest rate: 10%-20% or a fee structure

Higher cost options like Payday lenders, & pawnbrokers

- Interest rates or fees equivalent to 1000% APR or more-Avoid

Recognising you're in trouble:

- If you are often going over your overdraft limit and having to pay fines
- If you are using loans to repay loans
- If you are behind on your rent, mortgage or household bills
- If you must take out loans to pay for household expenses
- If you are behind on repayments for any loan

Get help

Forcing or coercing someone into debt is also a form of economic abuse. Please visit [Surviving Economic Abuse](#) for further resources on understanding your options for dealing with debt, your credit report and enforcement agencies.

Seek help if:

- You are being evicted from your accommodation
- You have received notifications for a court hearing
- Bailiffs are threatening to visit you
- Please contact specialist debt support organisations like [StepChange](#)