mabs
Money Advice & Budgeting Service

Guide to Borrowing

FACT SHEET

Sometimes borrowing money can seem all too easy. You can get the item first then pay for it later. But unlike saving, borrowing comes at a cost. Lenders generally charge interest for what you borrow. This means that as well as paying back what you have borrowed, you have to pay back more. Before you borrow money there are lots of issues to consider. Here we answer some questions about borrowing.

Q. Is borrowing necessary?

A. Borrowing money or taking a loan or any other kind of credit is not something to be done lightly or quickly. The time you take in weighing up options before borrowing is time well spent. It will help you to be sure you have the right kind of credit for your needs, and so reduce your chances of getting into difficulties. So what do you need to consider?

- What am I borrowing for?
- Could I save for this instead?
- Am I sure I really NEED it?
- Do I really need it NOW?

Q. Can I afford to borrow?

A. Once you've decided that you do need to borrow, you must decide if you can afford a loan. The most important point is that you need some excess money to be able to make repayments on a loan.

Having a good understanding of your budget is essential as it can help you to understand where you're spending your money and help you work out if you have enough available income to pay off a loan. There is a useful interactive budgeting tool on the MABS website www.mabs.ie

It is also important to consider what the borrowing will mean for you into the future ….

- How long will it take to pay this loan back?
- What would happen if my income dropped?
- What would happen if interest rates went up?

If you don't have satisfactory answers to these questions, then think again before you borrow!

Q. What are the common types of credit?

A. There are many types of credit – ways to borrow money. Here are the most common.

- Personal Loans – This is a loan you might get from your bank or credit union. It has to be repaid in instalments over a fixed period of time, up to as much as 5 or even 7 years. Personal Loans can have a fixed or variable rate of interest. "Variable rate" means that the amount you repay can change if interest rates change.
  "Fixed rate" means that the interest rate and the amount you repay do not change.

- Secured Personal Loan – This is also a loan, but the difference here is that the loan is "secured".
  This means that a bank has lent you this money secured against an asset (something you own), which is usually a house.
  You need to be aware that if you fail to make repayments, you could be at risk of losing your asset (your house).

- Credit Card – This form of credit gives you an agreed amount of money (a credit limit) which you can borrow as you need and repay when it suits you, but you must make a minimum payment every month. Typically, the interest rate is high, which makes it an expensive way to borrow money.
  However, if you pay off your balance or your borrowing in full each month, you pay no interest.

- Overdraft – Often, a bank will allow a customer to arrange an overdraft facility. This means that you can spend more than what is actually in your account, up to an agreed amount. You pay interest on the amount you owe. Typically, the interest rate on overdrafts is variable and is higher than the rate charged on personal loans – ranging from about 11% to about 15%, depending on the bank. If you spend more than the agreed amount of your overdraft, your bank may charge you extra interest (surcharge interest) and fees.

- Moneylender Loan – A moneylender is a person or company that has a licence to lend money. Typically, their interest rate is VERY high. Very often, they will call to your door to collect the money you owe and give you a book for repayments. They might also sell goods on credit.
  All moneylenders should be licensed by the Central Bank of Ireland. You can check the Register of Moneylenders available at www.centralbank.ie to ensure that your lender is licensed. Many catalogue companies operate with a moneylender's licence.

  However, there are moneylenders who operate with out a licence – these are illegal. They charge whatever interest rate they want and behave however they like, which makes them potentially dangerous to do business with. As a customer, you have no protection if you borrow money from them – so you should avoid at all costs.

- Mortgage – This is a loan to buy property, secured against that property, and over a long period of time (generally from 5 to 35 years). You are at risk of losing your home if you miss repayments.

- Hire Purchase – This kind of credit is often used to buy cars, televisions, laptops and furniture. With hire purchase, you do not actually own the item until you have paid back the credit in full. For more information, see our Guide to Borrowing for a Car available at www.mabs.ie

Q. How do I compare credit?

A. When looking at which kind of credit is cheaper, you should compare the cost of the credit of each one borrowed over the same period of time to ensure you are comparing like with like.
This gives you the total cost to you, including interest and any administration charges and fees. The National Consumer Agency website www.consumerhelp.ie has a useful tool that helps you to compare personal loans, credit cards and overdrafts.

Q. How long will the borrowing last?

A. The repayment term or length of the credit can vary. When borrowing, remember that the amount of time you're going to repay the loan should not be longer than the life of the item you're buying. Also remember that the longer the repayment period, the more it will cost in interest.

Q. Is there paperwork involved in borrowing?

A. Yes. The paperwork which comes with borrowing money can be a little daunting – take your time with it and don't be afraid to ask questions.
Depending on the type of credit, you might be given a "pre-contractual information" notice that provides you with all the information that will be in the credit agreement itself. It is important that you review this notice and decide if you are happy to proceed.

You'll be given a credit agreement that sets out the terms of the credit you are taking on.
A credit agreement lists:

- Amount you are borrowing
- Number of repayment instalments (not in the case of an overdraft or credit card)
- Amount of each repayment instalment (not in the case of an overdraft or credit card)
- Interest rate
- Administration, charges or documentation fees
- Total cost of credit – what this credit is actually costing you

Be sure you understand what you're being asked to sign. Credit agreements include either a "cooling-off period" or a "right of withdrawal", which gives you time to change your mind. See the credit agreement for details.

You should keep copies of the credit agreement and any correspondence between you and your lender.

Q. What is Payment Protection Insurance?

A. Many lenders offer to sell you Payment Protection Insurance (PPI). This is insurance that should make your repayments for you, for a limited period of time, if you cannot repay the loan.
Be careful before taking this on. In general, PPI is only available under exceptional circumstances (for example, with some critical illness). It might be of no benefit to you, so be sure you read any policy carefully before making a decision. Never feel pressured into buying this insurance. Read all documentation twice – then read it again!

Q. Is it important to check the repayments?

A. Yes, it is important to ensure that you have a system set up to make the repayments as agreed. Check this regularly to ensure that the correct payments are being made on the dates that were agreed. You should also check and keep all statements you receive.

Remember that if you have to make monthly repayments, but receive your income weekly, you might need to put money aside every week to make the repayments.

Q. What should I do if I am having difficulty with repayments?

A. Sometimes it doesn't matter how careful we are, how well we budget, or how well we plan, things can go wrong – unemployment, a drop in income, illness etc. We can suddenly find ourselves with more borrowings than we can handle.

If you cannot repay the loan according to the credit agreement you signed, you should talk to your lender and offer to pay what you can afford. But before you make an offer, you should work out a budget for yourself so that the offer you make is realistic. It is also important to be sure that it is an offer that you will be able to keep to over a period of time – until the debt is fully repaid.

The lender is entitled to take legal action if you have failed to make the agreed repayment. The lender must notify you in writing that legal proceedings are to be taken. They must also let you know what legal costs you might have to pay.

It is important that you don't ignore this correspondence. At this stage, you should get independent advice. Get in touch with MABS by contacting the Helpline on 0761 07 2000, or though one of our offices nationwide.

mabs Money Advice & Budgeting Service Helpline
0761 07 2000

The Money Advice and Budgeting Service has helpful information, budget sheets and sample letters available online at **www.mabs.ie**. Advice and information is also available by calling the MABS Helpline 0761 07 2000 (Monday – Friday 9.00 am to 8.00 pm.) and from over 60 offices nationwide.

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