

# ADVANTAGES AND DISADVANTAGES TO DIFFERENT TYPES OF BORROWING

## MONEY SUPPORTER TRAINING

**Five partner agencies** from the advice and support practitioner community across Scotland worked with Shelter Scotland and MAPs to develop this money first-aid training product. A total of 50 individuals were involved in the co-design process, contributing their own knowledge and experience to the information and resources within. The training product is intended to be **piloted with 250 individuals upon its release nationally.**

# ADVANTAGES AND DISADVANTAGES TO DIFFERENT TYPES OF BORROWING



**Banks (including online banks and building societies):**

## Key Features

- Loan may be Secured or unsecured
- Secured: Asset is pledged to the lender as security
- Unsecured: Does not require assets to be pledged as security

## Advantages

- Usually reputable lenders
- Protection of the Financial Ombudsman
- Should comply with Financial Conduct Authority
- Regular payments
- Generally offer good interest rates
- Can improve credit record.

## Disadvantages

- A bank account is usually required
- Only for sums over £500
- People with poor credit score are generally refused
- If loan is secured, asset can be repossessed to recover the amount due
- Credit rating affected if payments missed

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## Bank overdrafts

### Key Features

- Withdrawing more money from a bank account than what is available
- Interest is charged each day that account is overdrawn.

### Advantages

- Protection of the Financial Ombudsman
- Should comply with Financial Conduct Authority
- Quick access to extra money
- Overdraft can be arranged over the phone or online
- Some banks offer 0% rates.

### Disadvantages

- Need a strong credit record
- Need a bank account

- If overdraft is not agreed, daily charges will be high
- Withdrawing cash is very expensive
- Bank will bounce payments that have not been agreed. This incurs extra charges
- Credit rating affected if payments missed.

## Cash lenders

### Key Features

- Repayment structures set up so that whole loan is repaid over a short period of time.

### Advantages

- Usually regulated by the FCA
- Can apply online
- Some have branches.

### Disadvantages

- Interest rates are high
- Generally need a bank account
- Usually need to be in employment.

## Cash converters

### Key Features

- Can provide short-term and long-term loans
- They also offer a pawnbroking service which is a fixed term loan agreement secured on the item you pledge.

### Advantages

- Cash loans are received within 15-30 minutes.

### Disadvantages

- APR on short term loans are very high. Example: some cash converters charge 1281% APR
- Late repayments attract higher interest rates and fees.

## Catalogues

### Key Features

- Buying items by post.

### Advantages

- Small items purchased can be repaid interest free if paid by agreed date.

### Disadvantages

- Items are usually more expensive
- Interest rate is quite high if loan is spread over a long period.

## Credit cards and store cards

### Key Features

- A credit limit is given on the credit card
- Purchases can be made with the card up to the credit limit given.

### Advantages

- Can make immediate purchases
- No interest charged if balance paid in full by due date
- Cheap option if you get a 0% card
- Can improve credit record
- Loan can be paid over a longer term
- Able to move credit card balances to a lower interest rate card.

### Disadvantages

- Interest rates are quite high, especially store cards

- Need strong credit rating for best cards
- Temptation to roll the loan over for an indefinite period of time, incurring further charges
- Interest rate is quite high if loan is spread over a long period.

## Credit unions

### Key Features

- A co-operative with members who pool savings to provide each other with credit at low interest rates
- Members have something in common such as the same employer, living in the same area or go to same church.

### Advantages

- Charge low rates of interest
- No credit checks
- Account does not allow the applicant to become overdrawn.

### Disadvantages

- May not be eligible to join a credit union.

## Doorstep loans (also known as a Home Credit Loan)

### Key Features

- Doorstop loans can be applied for online
- Loans are generally for less than £1000
- Agent from the company will call on the borrower to deliver money and collect payments.

### Advantages

- Unsecured loans for tenants in private, council and housing association

properties as well as people in other living circumstances.

### Disadvantages

- No credit check required.

## Friends and family

### Key Features

- Borrowing from friends and family may be an option for some.

### Advantages

- Friends and family may not charge interest
- Loan may be accessed quickly.

### Disadvantages

- Impact on relationship if loan is not paid.

## Loan sharks

### Key Features

- Unauthorised people or companies who offer cash loans.

### Advantages

- Will often lend when no-one else will
- Access to money is quick.

### Disadvantages

- Interest rates are extremely high
- The full cost of the loan is sometimes not disclosed at the start.

## **Pawnbrokers**

### **Key Features**

- Offer a fixed term loan agreement secured on the item pledged.

### **Advantages**

- Item returned when loan is paid.

### **Disadvantages**

- Interest rate is high. Example APR could be 147%
- Pawnbroker will sell the item if loan and interest not repaid on time.

## **Payday loans**

### **Key Features**

- Short term loans for small amounts of money
- Usually paid back within one month.

### **Advantages**

- Quick access
- For people with a low or no credit rating.

### **Disadvantages**

- Company may not be registered with the Financial Conduct Authority
- If loan not paid back in full when agreed, interest rate gets higher.

# IF SOMEONE WANTS TO BORROW MONEY

**You do not have to be a specialist money adviser to provide vital financial support to others** and this training product has been designed for those who provide a range of frontline support services. As well as knowledge it also provides you with a toolbox-like collection of resources. Which you can make use of to facilitate the advice and support you provide to others.