**FACILITATOR CHEAT SHEET**

# Different types of credit

## *(with definitions if any of group do not know what they are)*

**Bank loans** – money borrowed from a bank and paid back over a set period, with interest.

**Credit Cards** – a card that allows you to buy goods on credit. Interest is charged if the full cost of the goods is not repaid at the end of each month. You have to pay the minimum amount shown on the statement each month.
*NB: If you have paid for goods/services over £100 using a credit card and something goes wrong- the credit card provider will generally refund the cost. So it can be good for online purchases etc.*

**Mortgages** - this is just like any other kind of loan – you borrow money and you pay it back with interest over a period of time (standard is 25 years). The key difference is it's **secured** against your home. So if for any reason you can't repay it, the lender can repossess and sell your home to recover their money. (Good to use repossess, as in the news a lot at moment)

**Pawnbroker** – this is a loan secured on goods left with the pawnbroker. At the end of an agreed period, the loan AND interest must be repaid in order to have the goods returned. Otherwise the pawnbroker can sell the goods. The interest is very high.

**Cash Converters** – Shops where you can take goods in (usually electrical stuff e.g. TVs) and get cash for them, usually well below the market value. This is not credit as such but a different way of obtaining cash.

**Doorstep Lenders** – Loans provided at a set interest rate by agents who come to your house. Repayments are collected by the agent at your door, usually weekly in cash. Doorstep lenders (e.g. Provident) are perfectly legal and regulated by the FSA. However they do charge very large interest rates and some use pressure to get people to borrow money. They will offer credit to people who otherwise couldn't get it.

**Home Credit Agency/Provident etc** – are two examples of "doorstep lending" companies.

**Buy Back Stores** – these stores work pretty much as pawnbrokers but tend to deal with electronic goods such as DVD players rather than gold and jewellery (traditionally what pawnbrokers use).

**Logbook loans -** a loan secured on your vehicle. You will be asked to sign a document called a 'bill of sale' and to hand over the vehicle registration document. The interest rate is likely to be very high and, if you fail to keep up with the repayments on the loan, your vehicle may be seized without notice.

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**Cheque Cashers** – companies that will give you cash on cheques made payable to you, but charge a handling fee and a percentage of the cheque value. You will receive money quicker than waiting for a cheque to clear, but you will get less money than the cheque is for.

**Money Store/ The Money Shop/ Oakham /etc** - High street stores that will lend you money without credit checks and quicker than a bank, but at very high interest rates. They spring up usually in poorer areas - they usually offer 'cheque cashing', 'payday loans' (see other definitions) and other products.

**Payday loans** – a short term loan which you pay back in full once you receive a wage or benefit payment. Often have to show your benefit book or payslip to borrow money. It is a short period of repayment but, has very high interest rate.

**Secured Loans:**
→**on house –** borrowing money based on the fact you own a house - if you fail to repay, your house is taken away
→ **on car** – borrowing money based on the fact you own a car- if you fail to repay, your car is taken away

**Catalogues** – credit offered to you when you buy items from a catalogue and receive the items immediately but pay back the cost over a longer period of time, with interest. Usually this interest is quite high.

**Friends or family** – borrowing from those around you - usually informally.

**Store Cards -** A card issued by one specific shop, that lets you buy goods on credit at their shop or chain of shops. Store cards are generally a very expensive form of borrowing and sold heavily by shop assistants.

**Buy now, pay later** – credit where you are offered the goods immediately but then you pay off the cost at a later date. Often you get a period of 'interest free' – if you pay in this period, you don't get charged interest. If you don't pay in this period, interest is added (and backdated) and you pay in instalments. . Often used for big purchases like TVs and sofas.

**Hire purchase -** hiring goods by paying in instalments, but with an option to buy once you've paid all the instalments. Until you do, you will not own the goods and you cannot modify or sell them without the lender's permission. If you miss payments, the goods will be taken back, and you lose the money you have paid.

**BrightHouse** (used to be Crazy Georges) - a store that sells furniture and home goods - paying back weekly over 3 years. This means the amount to pay back seems very small, but the items are usually more expensive than buying them elsewhere, and high rates of interest are charged. You may also be required to take out insurance before you can buy the goods.

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**Community support payment or Budgeting loan/advance** - grants and loans that used to be available under the **social fund system**. Someone who might have applied for a grant/loan under the general social fund heading now has the following options:

- apply for a budgeting loan (once person is on Universal Credit this will be called a budgeting advance) - an interest free loan repayable as a deduction from benefits and administered by DWP
- apply for a crisis advance (essential costs after an emergency) or community support payment (what used to be community care grant but with more restrictions) from the local authority. You will need to find out how this is administered in your own local authority area(s).

**Loan Shark –** people who lend money to you illegally - i.e. they don't have a licence to lend. They often work from home, charge very high interest rates and may take illegal actions to collect the money they have lent you, such as threatening violence or taking away your credit cards or valuables. If you are using a loan shark - report it to the police!

**Credit Union** - owned and run by their members, for their members. Some credit unions may lend money to you as soon as you become a member. Others will lend money to you after you have shown them you are able to save regularly. The APR on their loan is capped by law so they often charge much lower interest rates on loans than other alternatives.

**Tab or tick or slate** – a running total of drinks/food bought in a pub/wine bar or goods bought at a shop. Generally one would pay for the drinks/food at the end of a visit but in some communities where people are known to each other payment can be held over until the next visit. Similarly in some local shops this form of credit might be available. These are very informal (and therefore unregulated) arrangements.

**Equity release schemes** - this is a form of credit for those over 55 who own their own home and have little or no mortgage. Money is given against the value of the property and recovered on moving or death. It provides a lump sum payment but people will receive much less than the value of their property. It is a very complex form of credit and should not be undertaken without first reading Age UK's equity release fact sheet and then taking financial (and possibly legal) advice.