30 April 2005 The Business - RTÉ

How likely am I to get a personal loan?
Most lenders use a "credit scoring" system when assessing a loan application. A credit scoring system might involve information provided directly by you on your application form, any information the bank or institution already holds on you, and any information from a credit search. The scoring system allocates points to each piece of relevant information and produces a total score. Points are given for things like income, occupation and home ownership. If the total score falls short of a set level the loan application is refused. However, different lenders will operate slightly different scoring systems so a refusal by one institution does not necessarily mean you'll be refused by all lenders.

How can I compare the loans on offer?
The best way to compare the loans offered by different institutions is to look at the APR figure given. The lower the APR, the lower the interest you'll have to pay.

What does APR mean?
APR stands for Annual Percentage Rate. It is the annual rate of interest charged on a loan and it takes into account all the costs involved over the term of the loan, such as set-up charges. You can use the APR figure to readily compare loan quotations from different institutions. However, bear in mind that some institutions quote their lowest rates in advertisements but these rates do not apply to all borrowers. You may have to go through the application process before you'll get a clear idea of the APR they will offer you.

What's the difference between a fixed rate and a variable interest rate loan?

(1) A **variable** interest rate moves up and down to reflect changes in the financial market. Changes in the rate do not affect what you pay each month, but it will determine how long it will take you to repay your loan. If the interest rate drops over the term of the loan, you will repay the loan sooner. If the rate increases, it may mean your final payment is a little larger or it may add an additional repayment.

(2) A **fixed** interest rate loan means that the repayments are worked out at the beginning and never change. That way, you can budget and know exactly how much you will pay over the term of your loan.

Which should I opt for --- a fixed rate or variable rate loan?
Only you can decide what the best option is for you. Fixed rate loans tend to have slightly higher APRs which means the total cost will be a little bit higher, but they are guaranteed not to change over the duration of the loan period and that security is favoured by some borrowers. Penalties may apply if a borrower wishes to pay off a fixed rate loan ahead of schedule.
At the present time, variable rate loans tend to have lower APRs and they tend to be more flexible about early repayment allowing users to reduce the total cost of borrowing if their circumstances improve.

What other questions should I ask a lender?
- Is the loan being offered a fixed rate or variable rate loan? Be sure you are clear about this.
- Is there a set-up fee, arrangement fee or documentation fee associated with taking out a loan?
- Are there penalties for early repayment? If so, what exactly are these penalties?
- Can payment "holidays" be arranged for particular months of the year?

Also, you should clarify if the monthly repayment figure given in your quote includes loan protection insurance? If so, are you sure you want this?

What is "loan protection"?
Loan protection is a form of insurance which covers your monthly loan repayments if you become seriously ill, have an accident, if you're made redundant or in the unlikely event of your death. If you opt for loan protection, the cost of this cover is included in your monthly repayments. Bear in mind, it is quite expensive and the illnesses/accidents covered are very specific. Read the small print carefully.

What if I change my mind about taking out a loan?
If you sign up for a loan, you usually have 10-14 days to cancel the agreement. This is called a "cooling-off period". You must write to the lender advising them of your decision and, if you've received the funds, you must return the entire loan funds.

What's the difference between borrowing from the credit union and borrowing from a bank?
Every credit union is different but as a general rule, credit unions offer considerable flexibility to members who take out loans with them. Although the APR may seem a little higher than other financial institutions, there are no hidden fees or transaction charges and you can repay your loan earlier or make larger repayments than agreed with no penalty. Furthermore, repayments are calculated on the reducing balance of the loan. This means smaller interest repayments as you repay your loan.

SELECTION OF FINANCIAL INSTITUTIONS REVIEWED

(1) Ulster Bank www.ulsterbank.ie 1890 587 587
(2) Tesco Finance www.tesco.ie/finance 1850 520 520
(3) National Irish Bank www.nib.ie 1850 600 600
(4) Bank of Ireland www.bankofireland.com 1890 365 365
(5) PermanentTSB www.open24.ie 1890 500 121
(6) Allied Irish Bank www.aib.ie 1890 24 24 24
(7) One Direct www.onedirect.ie 1890 22 22 22
(8) Credit Union www.creditunion.ie

OTHER RELEVANT LINKS

(1) IFSRA General Consumer Information --- http://www.itsyourmoney.ie 1890 77 77 77

(2) Irish Credit Bureau --- an electronic library or database that contains information on the performance of credit agreements between financial institutions (i.e., banks and building societies) and borrowers (i.e., the citizen) (01) 260 0388

(3) Irish Bankers' Federation --- "Applying for Consumer Credit" Factfile
http://www.ibf.ie/pubs/factfile.shtml