

What exactly is a secured loan?

Sometimes the terminology surrounding the loan and finance business can be confusing, especially if you're new to it. Our guide will help you to understand exactly what a secured loan is and what the implications are when you apply for one and what happens when you also are accepted for one.



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Introduction

A secured loan is essentially a loan against your home or other collateral to guarantee the bank that you will repay the debt. Secured loans are often taken out to finance weddings, home restorations, travel or to consolidate debts.

To qualify for a secured loan, you must possess something of value and a need for money. Homes are most often used as collateral but autos, boats and property can be used also. There is much more to acquiring and paying a secured loan, however.

Lenders

Personal secured loans are typically provided to you by a bank or other financial institution. Personal secured loans require you to be able to put an asset up to secure the loan, this is typically your home. Since this affords a measure of security to the lender, you get lower interest rates and a longer period in which to pay back your loan.

With a personal secured loan you can borrow from £5,000 to £75,000 that can be paid back over an average period from 5 to 25 years depending upon the amount repayable each month. Upon the banks approval of your loan, you will receive the lump sum in the form of a cheque.

Lenders will often approve personal secured loans for applicants with less-than-stellar credit because they have an item of value to confiscate if you default. Lenders have a smaller risk and will usually offer a lower interest rate on a secured loan than they will on an unsecured line of credit, like a charge card.

How Secured Loans Work

A secured loan is essentially a loan a bank gives you with the promise of payback (like a credit card) with the additional security of the ability to lien your home or other security should you default. Why would a bank want a house? Well, they don't.

Secured loans can be very beneficial to banks because they are taking much less risk loaning money. They have recourse if you fail to pay off the loan. They still make some interest from you for as long as you have the loan. After you have paid off the secured loan, you end up with the home you started with and the bank ends up with more money than they started with.

You probably do not mind as much about the benefits to the bank as much as you mind the benefits to you. For starters, a secured loan offers you the chance to get your hands on money that may take months or years to save up. If you are a bad credit risk banks are more likely to loan you money if you have something of value to back up the loan. Interest rates are usually much lower on secured loans than on those that are unsecured, like credit cards. You save money by being charged less interest and you get to free up equity in your home or other valuable.

If you default on your secured loan you should understand that the bank can take the collateral for the entire loan – not just the remaining balance. If you used your home as collateral, they can possess the house. For this reason it is imperative that you contact the lender if you are unable to make your payment.

Secured Loans to Manage Debt

Have you run up a large credit card debt? Do you have other unsecured loans you would like to consolidate? Are you able to make just the minimum payments? A secured personal loan may help fix your finances.

If you have £5000 credit card debt accruing 16% interest and make monthly payments of just over £100, you will pay an additional £760 in interest over the four years and eight months you'll be paying off the credit card balance. Add the annual fees you might have to pay for your credit card and you might pay well over £1000 for the credit.

Add to that an auto loan of £2000 at 10% and an additional credit card debt of £2500 from your last holiday being charged 18% interest and your monthly payments are well into the hundreds of pounds.

To manage your debt you might want to take out a secured personal loan. This type of loan is usually lower interest, from 5% to 8% and can be used for anything. There are a few steps you should take before you go online or walk into a bank to apply for a secured loan.

Calculate Your Debts

Pull out all your bills. Calculate how much you owe for charge cards, lines of credit, auto loans or any other debts you would like to pay off. For the purpose of debt consolidation, you should not consider the monthly payment of these debts but rather the total pay off cost. How much cash would you need to close the account today?

Add up the Monthly Payments

Tally how much money you spend every month in payments to those debtors. If you are stretching your budget too thin, you'll want to find a loan with a monthly payment a little less than your current monthly payments. If you are trying to pay down debt as fast as you can and you are comfortable adding a little more to your monthly payments you should make payments a little more than your current total monthly payments.

Calculate Equity

Equity is the amount of value you are holding. This is usually homeowner equity. To calculate how much unused equity is in your home, you need to know two numbers: the current value of your home (free e-appraisals are available online) and your outstanding mortgage. Subtract your mortgage balance from your home's current value and the remainder will be the value of your home's equity. Banks and secured loan lenders will often let you borrow 100% or even 110% of your homes untapped equity.

Apply for a Loan

Once you know your total unsecured debt and your home's equity, you can begin searching for lenders. If you have more equity in your home than debt,

you should be able to obtain a loan to pay off your debt completely. If you have more unsecured debt than equity, you won't likely qualify for a loan to pay off all the debts but that shouldn't stop you. Paying off your highest interest debt will still save you plenty of money.

Pay Off Debts

Looking at the cheque and imagining all that you could spend it on will be tempting. Don't give in, though. Pay off your debts completely or, if you didn't qualify for a loan to cover it all, pay off the highest interest debts first.

Final Steps

To completely eliminate debt, you must make changes. This often means cutting up charge cards once they are paid off and not applying for more. Continue making payments on time to both your remaining unsecured debts and your secured loan. Pay additional money to your debts whenever possible. Don't add more debt to your existing debt, borrow only what you need to pay off those high interest loans and avoid borrowing more or taking out more credit.

Secured Loan Case Study #1 – Managing Debt

Emma is a recently divorced 42-year old living in a house in the trendy part of Berkshire. She's tired of dodging collectors and finding late notice letters in the post each day. Her husband packed up and left her in the house they shared along with a house full of furnishings – and all the debts.

She'd made the move with him just a few years ago from her modest flat in a safe but cheap neighbourhood to the hip house, as they named it. The house was expensive and the furnishings were elaborate and who cared what it cost. It was a dream come true for both of them.

Emma would be able to afford the mortgage on her own with a roommate. She could pay the utilities without a problem. What she was finding she couldn't do was pay down the bills from the furniture they'd purchased or the cruise they'd taken. There was also a credit card they'd used to transfer an outstanding balance on another card, her petrol card and utility payments were being sent in later and later each month.

Her debts are:

£14,500 on credit card 1 for the 12-day Mediterranean cruise and a few odds and ends – 11% interest

£6,800 on credit card 2, a balance transfer currently at .5% interest but will go up to 16.5% interest in 2 months

£480 on petrol card at 7% interest

£6,275 on furniture store credit being billed 13% interest each month

£575 in overdue utilities

Current debt is £28,630. Her current income allows for her portion of the mortgage payment, enough to keep the utilities current, auto payment and all necessities each month with about £500 to spare. Even making just minimum

payments - £620 per month – it will take no less than 6 years to get out of debt.

Believing the only way out is bankruptcy, Emma went to see an lawyer that specialises in insolvency. The lawyer had good news for her. A little number crunching and researching and this is what they found:

The house has a market value of about £374,000. The mortgage balance is £350,500. That leaves the equity value of £23,400.

The lawyer explained to Emma that she could take out a loan against the equity of the house. She applied at the bank and qualified for a secured loan, a loan that was secured by the equity in her home. The lowest interest rate offered was 6.1% with a £100 application fee. She accepted the loan then returned to the calculator before making her next move.

Total debt of £28,630 minus the secured loan of £23,300 (after the application fee is deducted.) That leaves a debt of £5,330. Emma decided to apply for another balance transfer credit card and to transfer the balance (£5,330) to the new card paying 0% interest for an introductory period of 9 months.

Emma gained control of her debts by borrowing against the equity in her home. The loan of £23,400 will take just 5 years to pay off at £455 per month. The balance transfer card will take 4.5 years to pay off if Emma applies for a new balance transfer card before the former expires and she makes £50 payments each month.

The total cost for the privilege to borrow would have cost £3,809 instead of nearly £10,000 in interest.

Secured Credit Cards

Another type of secured loan is a secured credit card. These are great for building credit if you have no credit or a bad credit rating. The application process for secured credit cards is even quicker and easier than a loan secured with equity. The security the bank holds is even more valuable with a secured credit card – the collateral is cash you pay when you open a secured credit card account.

Secured credit cards are neither a good long term credit option nor a feasible way to consolidate debt. They are great for building credit if used for only a year or so and paid off each month.

Secured credit cards are beneficial to the lending bank because they get to hold your opening deposit while charging you interest and annual fees for as long as you leave the account open. Interest rates are usually the same or even a bit higher than traditional credit cards. Opening deposits are usually a few hundred pounds.

The benefit to you, the credit card holder, is the opportunity to control your debt by setting your credit card limit. Your spending limit is set by the funds you deposit into the credit card account. Another advantage of a secured credit card is that it adds to your credit rating or credit score.

Secured Loan Case Study #2 – Secured Credit Card

Michael very recently went off to university and wanted to start building credit. He'd been refused a credit card three times because of lack of credit and was approved for a card at the astonishing rate of 23% interest. Then he found information on secured credit cards.

He applied and was approved for a card with a credit limit equal to the money he sent in to secure the loan. He sent in £500 and received his card a few weeks later. The interest rate for his secured credit card was 12%.

Six months later, after making on-time payments and keeping the balance low, the bank added £200 to Michael's limit, unsecured. Six months after that, Michael closed the account and opened a real credit card account to continue building a good credit rating. He was approved for an unsecured card by the same bank that had denied him one a year earlier. The secured credit card helped Michael build credit over the course of a year.

Secured Loan for Home Improvements

If you have considered a refurbish of your home or out of doors but were unsure where to get the money, a secured homeowner loan might fit the bill. You will be able to add value to your home or property by borrowing against the value, or equity, you already have in your home or property. ‘

If you are planning to sell your home or property in 3 years or more and want to add to its market value, consider adding a new bathroom or a major kitchen improvement. Keep it simple and not terribly elaborate.

If you are planning to sell within 3 years, your funds are better invested in fixing central heating and installing ceiling fans. Put a fresh coat of paint on the walls and plant flowers throughout the yard.

Secured Loan Case Study #3 – Home Improvement

The Kelley family lived in the same home for more than 20 years. The kitchen had memories and marks of the three Kelley children and all their friends. The bathroom walls were still covered with the pink floral paper Mrs. Kelley put up when she was pregnant with their middle child. Paint in the bedrooms was dingy and needed updating. They didn't have enough money in savings to fix up the whole house and didn't want to go room by room.

Mr. Kelley went to his bank and asked what his options were. In addition to a credit card, the Kelley's also qualified for a secured loan. They owed £23,000 on their mortgage but the house had a market value of £210,000. They qualified for a loan up to £187,000!

After reviewing the estimates they'd received for the larger projects in the house and the do-it-yourself jobs, they came up with a total of £33,000 needed for the refurbishing. Mr. Kelley wanted to celebrate with his family when the project was complete by taking them skiing in Switzerland. The cost for the trip would be about £8,000.

Mr. Kelley returned to the bank and applied for a loan, secured with the equity in the home, for £41,000. Eight months later, the house had new paint on all the walls, updated flooring and beautiful built-in bookcases. They brought in an appraiser who concluded the house had a market value of £231,000, or a return of £21,000 for the £33,000 they spent.

Mrs. Kelley and the children squealed with glee when Mr. Kelley presented them with his plans for the ski trip.

The secured homeowner loan added value to their home and their family.

Professional Tip #1 – Boost Market Value

Adrienne Chinn is an experienced interior designer in the UK with knowledge of the market value added to homes through redesign. Taking out a personal secured loan gives you the opportunity to borrow money in order to increase the value of your home by making improvements. Here's what she has to say about investing in your home through interior design.

“While it is almost certain that investment in property will pay long-term dividends (it's said that the average London house price is set to rise from £250k to £600k in the next twenty years), the behaviour of the individual will still be ruled by the prevailing level of confidence and the latest house price rumour in the newspaper. The safest approach for you as a homeowner is to conduct all home improvements because you want to enjoy the improvement.

Consider the new bathroom and the new kitchen as luxuries that will make your lifestyle better. As long as these major improvements are not overly stylised or personal to your particular taste, they will certainly add to the saleability of your property. This in itself is an advantage if you come to sell.

But do understand that these works are unlikely to increase the value of the property in line with the cost of the project. Research conducted in the UK has shown that even well-planned and well-executed major improvements will not return the full cost of the work if the house is sold within 30 months of completion. In purely financial terms it makes more sense to sell a property that falls short of your living requirements and search out an existing property that fulfils those needs.

But people don't make decisions about their homes based simply upon pounds and pence. Many personal feelings and commitments contribute to the decision-making process. So, if you decide to expand and renovate your home, there are a few ground rules that you should observe:

Don't improve a house to the point where the sales price you would expect (or require) is more than 20% above the most expensive properties in the immediate vicinity. These properties will tend to cap the maximum sale price you can achieve;

- Central heating is expected; if you don't have it you should fit it;
- Retain period features wherever possible and heed the architecture of your property when designing your improvements;
- Do not install an extra bathroom at the expense of a bedroom;
- Replace an outdated kitchen. But be aware that the value added may not retrieve the cost. There's nothing wrong with adding a luxury kitchen for your own enjoyment, but face the fact that it's money spent;
- Do some research before you knock down walls and go open-plan. It may help the salability, but does it reduce the value? Local estate agents can help you here;
- If you have three bedrooms then keep it that way. If you convert one to an office or home gym, make sure you can easily convert it back again prior to selling;

- The addition of a third bathroom to a two-bathroom house is unlikely to recoup its cost, especially if it is a luxury feature such as a wet room;
- Out-and-out luxury installations such as swimming pools, while impressive and lovely to have, are unlikely to pull back much more than 10% of the build cost in added property value.
- As an interior design company we have the flexibility to work anywhere along the scale, from high-end luxury refurbishment to value-added, buy-to-let property development.”

Secured Loans for Life Events

From the moment you set eyes on your baby girl, you know that eventually she will leave the security of your home into the arms of a man. You will be the one paying for it but you may not think about saving up for it. The wedding for your lass will cost anywhere from £5,000 to £1 million. Unless you have that sort of money laying around in a bank (less than 5% of all Brits do) than you will need a loan before the wedding bells can chime.

Educational opportunities are very difficult to plan for because they often come up at the last minute. The secured loan approval process usually takes less than a month, giving you the money you need pay for trips or additional tuition when learning breaks present themselves.

Secured Loan Case Study #4 – Daughter's Wedding

A daughter (or son's) wedding is often the most magical time in a parent's life. It can also be the most expensive. When else in your life would you consider spending £11,000 on one day?! According to the Wedding Guide website, the wedding costs are typically:

Bride's Wedding Ring £200
Groom's Wedding Ring £150
Wedding Dress £700
Headdress and Veil £150
Bridal Bouquet £75
Shoes and Accessories £125
Bride's Beauty Treatments £75
Bridesmaids' Dresses £500
Groom's Outfit £150
Flowers (Buttonholes, Church etc) £200
Printing £300
Transportation £300
Civil/Church Fees £200
Photography £400
Videography £400
Wedding Cake £200
Reception Venue or Marquee £600
Reception Decorations £150
Wedding Reception £2,000
Evening Reception £750
Drinks £750
Entertainment £500
Bride's Going Away Outfit £150
Wedding Night Venue £125
Honeymoon £1,500
Wedding Insurance £50
Other Expenses £300

TOTAL £11,000

Unless you have £11,000 gathering interest in a bank account, you will need to borrow some or all of the money needed for your daughter's wedding. A loan secured with the equity in your antique collection or diamond jewelry is a wonderful low-interest way to borrow money for these once in a lifetime events.

Secured Loan Case Study #5 – Son's Trip to Antarctica

Nicolas aspires to be a travel writer. Though he's just 20-years old, he has already been offered a book publishing deal upon completion of a trip to a very exotic location – the Antarctic. His research is complete, the last step to take is making the trip. He found a holiday online that will meet his needs and allow him to see all he needs to see. How to pay for it, though?

Nicolas' mother and father went online and applied for a loan secured with the equity in their home. The online application process took less than 20 minutes and they were approved instantly. Three days after they were approved for the loan, the funds were deposited into their bank account. Six weeks later, Nicolas was on his way to Antarctica.

His travel book on Antarctica is coming along and should be on store shelves by the end of 2006. He plans on paying back his parents for the secured loan they have continued to pay.

Understanding Applications and Fees

The application process isn't quite as involved as a mortgage loan or even some credit cards, but it will take some time to fill it all out. Even online applications can take well over 15 minutes to complete.

You'll usually need the following information before you start the application process:

- Name
- Complete, current address and years of residence there
- All other addresses for the past 2 - 5 years
- Phone number
- Date of birth
- Current employer
- Employer address and years of employment
- Previous employers, including address and phone number, for the past 3-10 years
- Annual gross household income
- Account types, numbers and how long you've had them
- Driving licence

You may also be asked for:

- Identifier from a recent bill
- Mother's maiden name
- Residence type and monthly mortgage or rent payment

Credit Rating

Your credit rating is a number designed to tell a lender how much of a credit risk you are at a quick glance. The lower the number, the more risky you are. Your credit rating isn't as important with a secured loan as it is with an unsecured one. The banks are not risking their money with you, but rather, with the collateral.

Credit reports will usually report the payment history, amount owed, history length and any new accounts you have for each of the following types of debts:

- Mortgage and rent
- Utility bills
- Automobile loan(s)
- Equity and other secured and unsecured loan(s)
- Closed accounts
- Defaults
- Foreclosures
- Garnishments
- Bankruptcies
- Liens

- Other legal judgments against you

Your credit report can be adversely affected by:

- Late payments
- Being reported to a collection agency
- Bankruptcy
- Short credit history
- Too many open accounts
- Frequent inquiries

Identity theft is another problem plaguing credit reports. To combat identity theft:

- Keep and protect your information – don't give it out to everyone who asks. Never disclose your birth date or mother's maiden name unless you initiated the transaction.
- Opt-out of information sharing programs, especially at financial institutions.
- Shred or otherwise destroy your bills and any document containing personal information.
- Check your credit report once per year to make sure only your debt and credit appears. You should contact TransUnion www.transunion.com or Experian www.experian.com for a free credit report. You are also entitled to a free report if you've been denied credit.

With your annual credit report in hand, make sure the closed accounts are listed as closed on the report. Make sure the all lines of credit, no matter how small, are yours. If they aren't yours call the holder of the credit account or lender and immediately close the accounts. Contact your bank and the FBA.

Fees

Some secured loans are fee-free, others only seem like good deals until you find there are fees and charges you didn't expect. Become familiar with the terminology and fee types. Read the fine print and understand what you are agreeing to, before you sign on the dotted line.

Origination fee, arrangement fee, set up fee is either a flat fee for a percentage of the loan that is charged to set up, originate or arrange the loan. This fee is usually added to the loan so you won't have to come up with money to get the loan. This is a one time fee and is not charged on an annual basis. There are a number of "no arrangement fee" loans available. Do the math – will you save more by taking out a loan with a lower interest rate and a £100 arrangement fee or will you save more if you go for a no-arrangement fee loan with a slightly higher interest rate?

Finance charge is an amount or percentage you pay for a loan in addition to interest and other fees. Finance charges are rare for secured loans, much more common in unsecured loans, like credit cards.

Payment protection fee is a monthly fee or percentage of your loan you are charged to protect yourself in the event that you become ill or unable to make a payment. Payment protection insurance (PPI) can be very expensive and there are usually many stipulations. Policies that only pay out if you are made redundant offer the self employed no cover.

Late payment fee is a penalty charged if you are late making a payment. These can be very insignificant to extremely costly. If you don't always make your payments on time, make sure you are aware what tardiness will cost you.

Early repayment penalty fee is a charge you will have to pay if you repay your loan before it's due. The reason for this fee is that the bank was expecting to make a particular amount of profit, in the form of interest, when they approved your loan. By repaying early you are cutting into their profits so they want to penalize you. If you think you might pay off your secured loan early, look for a loan that doesn't have an early repayment penalty.

Credit limit increase fee isn't common but some lenders do still charge it. If you have a secured line of credit, usually in the form of a credit card where the loan is borrowed against an approved secured loan, you can request a credit limit increase.

Grace period is a time period that you are permitted to be late with your monthly payment before late fees are charged. Some banks offer no grace period, others offer up to 15 days. It pays to know what your grace period is and the cost if you are late.

Annual percentage rate (APR), interest rate - this is the percentage rate your balances are charged. The APR is the annual rate. The interest rate is the monthly portion of your APR. To find your monthly interest rate, divide your APR by 12 (number of months in a year.) There are three types of interest rates or APR types for secured loans.

APR Types

Fixed rate describes percentage charged to purchases at a fixed or set, unchanging rate.

Variable rate is an interest rate that will change over time. There are three aspects of variable rates – and depending on the lender you may need to understand just one or all three.

The index is some number or percentage that usually has to do with the stock market or value of the Euro.

A margin is a percentage rate that is set by the lender. It could range from 0% to 10% or more. The margin is usually added to the index.

A multiple is a number your lender chooses, much like a margin but is applied differently. The multiple is usually what the index or the index and margin is

multiplied by. Depending on which of these variables are used in calculating your interest rate, the formula might look like:

$APR = \text{Index} + \text{Margin}$

$APR = \text{Index} \times \text{Multiple}$

$APR = (\text{Index} + \text{Margin}) \times \text{Multiple}$

If you find a low variable rate, look at the high/low caps. These are the highest and lowest the interest rates can go. Caps that are close together are best.

Introductory rate - A temporary, lower APR that usually lasts for six, nine or twelve months. These may sound great, but the interest after the introductory period has expired is often higher than secured loans without an intro rate. Calculate the costs.

Loan Examples

Choosing the secured loan that's right for you takes some consideration. The loan scenarios below can help you decide which might be best for you.

Loan amount - £1,000

- Loan offer #1, repayment in 12 months
- Introductory rate of 3.5% for 6 months, 6.8% thereafter
- Arrangement fee of £30
- No prepayment penalty

Monthly payment of £89. Total cost of the loan £57 interest + £30 arrangement.

- Loan offer #2, repayment in 6 months
- Interest rate of 6.1%
- No arrangement fee
- No prepayment penalty

Monthly payment of £172. Total cost of the loan £32.

Loan amount - £2,500

- Loan offer #1, repayment in 12 months
- Interest rate of 5.9%
- No arrangement fee
- Prepayment penalty of 1% of loan (£25)

Monthly payment of £215. Total cost of loan if not repaid early, £81. Cost of loan if paid off 1 month early (£235 per month) £105.

- Loan offer #2, repayment in 24 months
- Introductory rate of 3.5% for 12 months, 6.8% thereafter
- No arrangement fee
- Prepayment penalty of 1% of loan (£25)

Monthly payment of £104 per month. Total cost of loan if not repaid early, £70. Cost of loan if paid off 5 months early (£125 per month) £68

Loan amount - £5,000

- Loan offer #1, repayment in 2 years
- Introductory rate of 3.5% for 12 months, 6.8% thereafter
- Arrangement fee £50
- Prepayment penalty of 1% of loan (£50)

Monthly payment of £225 per month. Total cost of loan, £270.

- Loan offer #2, repayment in 3 years
- Interest rate of 5.9%
- No arrangement fee
- No prepayment penalty

Monthly payment of £152 per month. Total cost of loan if paid on time, £467. Total cost of loan if paid off in 24 months (£221 per month), £313

Loan amount - £10,000

- Loan offer #1, repayment in 3 years
- Interest rate of 5.9%
- No arrangement fee
- No prepayment penalty

Monthly payment of £304 per month. Total cost of loan, £936.

- Loan offer #2, repayment in 5 years
- Introductory rate of 3.5% for 12 months, 6.8% thereafter
- Arrangement fee £50
- Prepayment penalty of 1% of loan (£100)

Monthly payment of £190 per month. Total cost of loan, £1500 interest + £50 arrangement if paid on time. Total cost of loan if paid off within 4 years (£230 per month), £1140 interest + £50 arrangement + £100 prepayment penalty.

Loan amount - £17,500

- Loan offer #1, repayment in 5 years
- Interest rate of 6.1%
- No arrangement fee
- No prepayment penalty

Monthly payment of £340 per month. Total cost of loan, £2900.

- Loan offer #2, repayment in 8 years
- Introductory rate of 3.5% for 12 months, 6.5% thereafter
- No arrangement fee
- Prepayment penalty of 1% of loan (£175)

Monthly payment of £225 per month. Total cost of loan, £4432 interest if paid on time. Total cost of loan if paid off within 7 years (£245 per month), £3784 interest + £175 prepayment penalty.

Loan amount - £25,000

- Loan offer #1, repayment in 5 years
- Interest rate of 6.1%
- No arrangement fee
- No prepayment penalty

Monthly payment of £340 per month. Total cost of loan, £2900.

- Loan offer #2, repayment in 8 years
- Introductory rate of 3.5% for 12 months, 6.5% thereafter
- No arrangement fee
- Prepayment penalty of 1% of loan (£175)

Monthly payment of £225 per month. Total cost of loan, £4432 interest if paid on time. Total cost of loan if paid off within 7 years (£245 per month), £3784 interest + £175 prepayment penalty.

Loan amount - £50,000

- Loan offer #1, repayment in 10 years
- Interest rate of 6%
- Arrangement fee £50

- No prepayment penalty

Monthly payment of £555 per month. Total cost of loan, £16,675.

- Loan offer #2, repayment in 20 years
- Interest rate of 6%
- Arrangement fee £50
- No prepayment penalty

Monthly payment of £360 per month. Total cost of loan, £36,050.

- Loan offer #3, repayment in 15 years
- Introductory rate of 3.5% for 12 months, 6.5% thereafter
- No arrangement fee

Monthly payment of £400 per month. Total cost of loan, £26,682 interest if paid on time.

- Loan offer #4, repayment in 20 years
- Introductory rate of 3.5% for 12 months, 6.5% thereafter
- No arrangement fee

Monthly payment of £320 per month. Total cost of loan, £38,810 interest if paid on time.

Loan amount - £75,000

- Loan offer #1, repayment in 20 years
- Interest rate of 5.8%
- Arrangement fee £50
- No prepayment penalty

Monthly payment of £529 per month. Total cost of loan, £51,940.

- Loan offer #2, repayment in 30 years
- Interest rate of 5.7%
- Arrangement fee £50
- No prepayment penalty

Monthly payment of £435 per month. Total cost of loan, £81,760.

- Loan offer #3, repayment in 30 years
- Introductory rate of 3.5% for 12 months, 6.5% thereafter
- No arrangement fee

Monthly payment of £400 per month. Total cost of loan, £171,170 interest if paid on time.

Payment Security

Identity theft is a crime that has been on the rise every year for the past few years. It affects one in every four adults in the UK. The criminal activity of identity thieves costs the UK over £1bn a year. The good news is that two in every three adults in the UK are aware of the crime and are concerned about it.

While it may cost you hundreds of hours to fix your credit if a thief steals it, it costs almost no time or money to prevent it from happening in the first place.

Avoid sending your loan payments from an unsecured post box.
Better still, make your payments online if the service is offered.
Shred papers with account numbers rather than throwing them in the can.

Mail payments from the postal office; do not leave them in your mailbox. Post boxes are safest just before pick up.

UK Debt Statistics

According to Richard Talbot of Credit Action, personal debt in the UK was £1,228bn at the end of June 2006. A growth of 10.3% from the previous 12 months shows a steady increase that is in line with the spending trend. Mr. Talbot also reported:

- Total secured lending on homes passed £1 trillion (£1,000 billion) in May 2006. In June 2006 it was £1015.9bn. This has increased 11.0% in the last 12 months.
- Total consumer credit lending to individuals in June 2006 was £211.6bn. This has increased 7.3% in the last 12 months.
- Total lending in June 2006 grew by £9.8bn. Secured lending grew by £9.0bn in the month. Consumer credit lending grew by £0.8bn. There was hardly any growth in credit card lending in June most of the increase was in other loans and advances.
- Average household debt in the UK is approximately £8,569 (excluding mortgages) and £49,696 including mortgages.
- Average owed by every UK adult is approximately £26,334 (including mortgages). This grew by ~ £200 last month.
- Average consumer borrowing via credit cards, motor and retail finance deals, overdrafts and unsecured personal loans has risen to £4,540 per average UK adult at the end of June 2006.
- Britain's personal debt is increasing by ~ £1 million every four minutes.
- Servicing Debt: Citizens Advice Bureau (CAB) dealt with 1,128,000 debt enquiries last year. In the last decade the number of consumer debt problems dealt with by CAB has increased 118%. CAB clients have an average of £13,000 of debt which is nearly 17.5 times their monthly income. On average it would take CAB clients 77 years to pay back their debts in full.
- Government figures showed 23,351 people became insolvent between January and March - 73% more than in the first quarter of 2005 and 12% higher than in the final three months of last year. At the same time, the number of homes threatened with repossession was up 29% on the same period last year, with over 33,000 actions handled by the courts, according to figures from the Department of Constitutional Affairs.
- The average debt of a client coming to Consumer Credit Counselling Service (CCCS) for advice is now £32,000. The number of people earning more than £30,000 a year who are asking it for help has risen by 257% in the past three years.
- According to a report commissioned by One Advice, nearly 2 million people in the UK have unsecured debts in excess of £10,000. About half a million have unsecured debt higher than £20,000. People in the lower middle-aged bracket (35 to 44-year-olds) were the most likely to have substantial debts that weren't secured, with some 50,000 individuals in that demographic owing more than £10,000.

- Two million households are living on a financial knife-edge, susceptible to an economic downturn or changes in personal circumstances, according to a recent Financial Services Authority (FSA) report. A further half million households are already in serious financial difficulty paying bills and meeting debts, the report found.
- Four million people say they always run out of money at the end of the week or month.
- Three quarters (74%) of British couples find money the hardest subject to talk about with their partners according to a recent survey by the Financial Services Authority (FSA). They also found that over a quarter (27%) of couples regularly argue when they try to discuss their finances; about a third (32%) of couples lie to their partners about how much they spend on their credit cards; over a third (35%) of British couples are kept awake at night worrying about their money situation
- Research from AXA shows money worries are a significant cause of worry, anxiety and stress according to GP and leading mental health expert, Dr Roger Henderson, who recently published a paper identifying the condition Money Sickness Syndrome (MSS). Almost half (43%) of the UK adult population is affected by money worries and have experienced MSS symptoms. 3.8m people admit money worries have caused them to take time off work and more than 10.76m people suffer relationship problems because of money worries, with almost one in five complaining of a sex life slump.
- A quarter of those in debt are receiving treatment for stress, depression and anxiety from their GP.
- The average UK weekly pocket money for 7 – 16 year olds is £8.20 (£9.76 for 12 to 16 year olds, compared to £6.30 for seven to 11 year olds).
- Four out of every five women aged between 21 and 25 spend more than their wages every month.
- The NUS has raised concerns that students appear to be unaware of the extra debt that top-up fees will create, after research has suggested potential students are massively underestimating the level of debt they will build up whilst at university. The research shows that the average sixth former expects to leave university with just over £6000 worth of debt, despite the fact that this year's finalists are estimated to be graduating with debts of around £13,500 - and that is before top-up fees of up to £3000 are introduced this September.
- Young people have the highest level of unsecured debt in the UK, with the average person under 30 owing nearly £8,000, recent figures have revealed. People aged between 18 and 29 owe about £7,718 each through credit cards, overdrafts and loans, the equivalent of 36 per cent of their total household income, according to Alliance & Leicester. Student loans were found to make up 46% of this figure.
- The proportion of bankruptcies among the 18 to 29-age group has more than doubled in the last 4 years. It has jumped from 7.9% in 2001 to 18.7% last year.
- The amount of unmortgaged property wealth held by UK home-owners currently stands at £3.6 trillion. Housing equity is the largest component

of total wealth held by people living in the UK. Mortgage lending has helped fund a dramatic expansion of home-ownership, from 60% to 70% of the population during the last 20 years. Roughly 40% of the housing stock is owned outright, mainly by retired and older middle-aged households.

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