

## GUIDE TO CREDIT IN THE UK

**Law:** To authorize credit you must have a license issued by the Financial Conduct Authority (FCA)

### The Consumer Credit Act 1974

The majority of credit agreements are enclosed under the act and these are known as regulated agreements.

Having a regulated agreement allows certain information to be incorporated within:

- Amount borrowed
- Period of time of agreement
- Fees
- Interest Rates
- Payment Plan
- Cancellation Rights
- Total Charge for Credit
- Annual Percentage Rate

Total Charge for Credit and Annual Percentage Rate must be integrated within the agreement otherwise it becomes unenforceable pending a court order.

A regulated agreement further entitles you to a signed (by both parties involved) duplicate of the agreement. An unsigned document or no duplicate also makes the agreement unenforceable pending a court order.

In addition you are entitled to ask for another copy to be sent upon request although there will be a fee.

Lastly, they have a duty to inform you of all the next steps to be taken before court action can take place. This includes the drafting of a default notice.

### How do you know if it is a regulated agreement?

This should be clear in the agreement as it is usually shown beneath the heading stating the Consumer Credit Act. The majority of agreements whether its hire or credit are more often than not regulated. The ones that do not tend to appear under the bracket are usually regarding low cost credit from a credit union.

### Did the agreement laws change post 6<sup>th</sup> April 2008?

Yes, if your agreement is pre 6<sup>th</sup> April 2008, there was a cap on the amount of credit that would be protected by the Act.

### **Which credit to go with?**

When looking to use credit, you should be sure the additional payments would not affect you. Pay close attention to your constant outgoings each month and potential emergency expenses to ensure you will still be able to make your payment plan.

The key is to not rush in to a decision and weigh up the various options when it comes to credit. You should focus on the APR and the time frame of the agreement when looking at costs. Potentially if you assemble a fixed interest loan personally it will be cheaper than using a supplier. A good indicator is to try an estimate if using a credit card, the time frame it will take you to pay off, also further taking on board interest rates.

Its important to not focus on the first good or item you see. You should continuously be looking to find the item in another place for a more affordable price thus reducing the figure you originally wanted to borrow.

Be sure to look at the entire cost for each deal, as although someone may offer you a unique deal or interest free, it is possible the good itself is boosting that cost. Therefore you may be able to reduce that cost purchasing your good form elsewhere.

In the case of a time period agreement where there is a interest free rate, clarify what happens after this time period has finished if there are debts still outstanding.

### **Can you receive insurance to cover your payments?**

Yes, but search around, policies vary and you should pay close attention to the groups that are disqualified from cover before committing, these can include, self-employed individuals or pregnant women.

### **Should you use a credit broker?**

A credit broker can make the task easier for you, but they will charge a fee or commission for arranging on your behalf. Therefore if you can seek a loan without a credit broker to help, this could be advantageous.

Furthermore brokers tend to be attached to lenders and frequently will not provide the complete spectrum of offers. They must inform you if they work independently or have firm connections in place. If a broker has not completed your loan agreement within six months, there is a limit on the fee they can charge of £5.

### **Can you secure a loan on your home?**

Yes, but it is unadvised to do so. If you fail to comply with the payment plan installed, potentially you could lose your home.



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### The 'Pre-Contract Information' document

The seller upon the regulated credit agreement must give this document to you. The information contained should include:

- Loan information
- Terms and Conditions
- Financial Quotation
- Cancellation Rights

The seller has a duty to inform you about the fees incurred from late payments and how legal action could be taken against you. You should, in addition, be able to take a copy of the documents away with you to measure up against a contrasting loan agreement.

### What if there is an issue with the product or service?

If there is an issue, such as the product is faulty, you will be able to make an **Equal Liability Claim** if the items are bought on credit. The claim can only be made if the product in question costs in excess of £100 but does not exceed a limit of £30,000. You may well be entitled to compensation from the credit company and not the establishment that issued the product.

This is the advantage of using credit, if the seller of the good has no money to compensate you, due to the establishment withdrawing or going into liquidation, there is a way for you to still make a claim.

If the credit company does not believe they are accountable, you can submit a complaint with the Financial Ombudsman Service.

### Can you cancel your credit related agreement?

You have a 14-day period in which you can cancel the agreement without having to offer up a reason. You must speak to the creditor and make a note of anything that is said and who you are speaking to. It is best to cancel via a written document as evidence. Once the cancellation is complete, confirm this further by letter and keep a duplicate copy. You can still cancel the agreement after 14 days, to what extent depends on the category of credit, but your rights and obligations when doing so will be set out within the contract drawn up.

If you have a **Credit Card Arrangement**, when cancelling this arrangement in writing you should include the sending of the card itself, which has subsequently been cut into parts.

With regards to the cancelling of **Hire Purchase or Conditional Sale Arrangements**, this can occur at anytime by informing the creditor you are returning the product and would like to end the arrangement. Although this method relieves your payments, you will be liable to still pay back half the amount of money outstanding for the rest of the contract period and for any damages to the product. If you have already paid over a third of the total funds requested, the credit company do not have the right to repossess the product unless they have a court

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order. Anything contradictory of this results in the arrangement becoming invalid and the debtor having the rights to recuperate all of the funds already used for payments.

### **Is this the same for regulated hire agreements?**

No, this can be ended at any point after the initial 18 months of the arrangement. Within the contract, the necessary notice period required to cancel should be included. This notice is usually between payments or three months. Expectations to this rule apply for business users or expensive hire, which includes those making payments in excess of £1500 per annum. Unique circumstances may apply allowing you to resolve the arrangement prematurely and obtain a rebate.

### **Can the credit company cancel the agreement?**

If you do not maintain your payment plan agreement, the creditor will send you a default notice in preparation to explore action against you. If you do not abide by the default notice, the creditors could end the agreement; repossess any products and request full payment of all the funds to be owed.

The Default Notice will include:

- The reason for the notice
- Action you now need to take
- What will happen if you do not comply
- A time period to see a change

With regards to the credit card agreements, your lender, with a substantial reason (questions of fraud), can prevent you temporarily or sometimes permanently from using your card. They have the ability to cancel the agreement with a two-month notice period after informing you in writing. Your card may also be frozen, but that does not mean your agreement has become invalid. The card will become available again once some of the credit acquired have been relieved through payment or there is a reduction in what you are spending.

### **What are the steps taken to see if you can receive credit?**

- Credit reference checks
- Creditworthiness Assessment
- Circumstance Enquiries
- Credit Scoring

Your lenders will inform you if your application has been turned down but they do not need to give you a reason. Creditors must inform you if you have been turned down due to information they have received from a credit-referencing agency and the name of that agency. In the case of credit scoring, the lender may, through a code of practice, tell you the reasons for your credit rejection.

Lenders cannot reject you from credit for any of the following reasons:

- Race
- Sex
- Sexuality
- Religion
- Disability
- Where you Live

Lenders can reject you from credit due to:

- Age
- Learning Disabilities

These are in the case of they do not believe you are able to fully comprehend the arrangement you will be entering into.

Complaints regarding credit refusal or information on your credit reference file can be sent to the Office of the Information Commissioner.

#### **Credit Scoring:**

Takes into account the following factors when awarding points:

- Occupation
- Age
- Homeowner
- Marital Status

#### **What information do the credit reference agencies hold?**

The information is often held for a period of 6 years. You can write to the three creditor reference agencies asking to see a copy of your information for a small cost. Wrong information can be corrected, but nothing correct can be withdrawn. The agencies are: Equifax (0844 335 0550), Experian (08444818000) and Callcredit (0870 060 1414) or visit them online.

- Financial Situation
- Bankruptcy Details
- Court Judgement Details
- Various Credit Accounts
- Details on any Property Repossessed
- Data list of people who have applied for a credit check on you.

**What information is not held with the credit reference agencies?**

- Extensive Information on your bank accounts and building societies.
- Details on Council Tax arrears
- Details on Liability Orders
- Details on Community Charges

**Can you have your credit repaired?**

There is such a thing as credit repair agencies but although they will promise to alter your records for a charge, they do not have any ability to do so and have the same authority as you do.

**What if you cannot pay off your credit card debt?**

Credit Card Companies have a code of conduct in which they are bound to. There are circumstances forbidding them from obtaining any outstanding money owed. This occurs if you are using a not-for-profit organisation like Citizens Advice for guidance, they cannot retrieve the outstanding debts for 30 days.

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