



Consumer
Finance
Association



Payday Loans

Short Term Lending – Long Term Benefit

Managing your borrowing

Most people take out a loan at some point in their lives, whether it's a few hundred pounds to cover an unexpected bill or pay for a special event, or a mortgage of thousands of pounds to buy a home.

But with so many different borrowing options available, how do you choose a suitable loan product? It certainly pays to shop around and get the best one for your particular needs.

The way we borrow has changed since the credit crunch. Previously, people used ongoing credit sources like credit and store cards or bank overdrafts, or long term repayment loans for higher value goods.

But this led to quite high levels of debt for some, which many consumers today wish to avoid. Instead, many people want to borrow small amounts over short periods to smooth out the peaks and troughs of their income and expenditure, but not to run up long term debt.

A market has developed for small sum loans, repaid quickly and accessible through both high street outlets and online. This is a relatively recent development, and this form of lending is often termed payday loans.

This type of short term loan offers significant benefits:

- You can borrow a small amount (usually between £100 and £800) quickly and conveniently.
- You can repay the loan in a short period (typically one or two months) without being saddled with repayments over many months.
- You can use this type of loan as an effective stop gap without running up long term debts.

Responsible payday lenders are looking at building a long term business to provide small sums to an increasingly wide range of customers. These are the businesses with the high standards, good quality products, excellent customer service and the understanding approach if a repayment cannot be made.



For consumers who want a small, short term loan from a reputable lender, here are five tips from the Consumer Finance Association:

1 You will need to be in work and have a bank account. Ensure that you only borrow the amount you need, and which you know you can repay on the agreed repayment date.

2 Remember that these loans are for short, not long term needs. If you need a larger amount, or a longer period of time to repay, look for a more appropriate credit product.

3 Make sure you understand the total cost of your borrowing. If it is not absolutely clear how much you must pay back, and when you must pay it, look for another lender who does explain this properly.

Lenders have to provide an APR (annual percentage rate), but this can be a misleading way of comparing the cost of different types of loan, as APRs get higher the shorter the term of the loan, and bank overdrafts are not required to show an APR at all. A clearer measure is to compare how much you actually pay back on top of the amount you borrowed.

4 Make sure you understand if there are additional charges should you fail to make a repayment on time. You need to know how much these costs are, and how they will affect your circumstances. Again, if your lender does not make this crystal clear – look elsewhere!

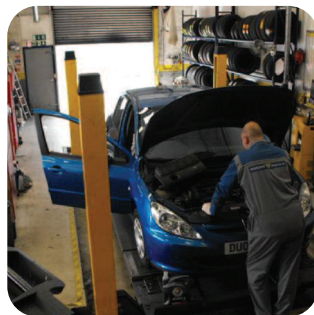
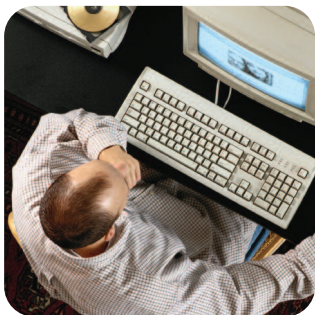
5 Check to see if your lender is a member of a reputable trade association – the responsible ones are. Most small sum, short term lenders are members of the Consumer Finance Association, the British Cheque & Credit Association or the National Pawnbroker's Association. Others may be members of the Finance and Leasing Association or the Consumer Credit Trade Association.

To find out more about short term, small sum loans, go to the Consumer Finance Association website www.cfa-uk.co.uk

The Consumer Finance Association (CFA) is a trade association which represents the interests of businesses offering short term, unsecured personal loans.

CFA members are licenced and regulated by the Office of Fair Trading.

Another loan may not be the right option if you are struggling to meet repayments on existing debts. If you have debt problems you can get free advice from the Consumer Credit Counselling Service by calling 0800 138 1111.



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