

Sainsbury's Bank



**Sainsbury's Bank Guide to
personal loans**

What is a personal loan?



A personal loan is money borrowed by an individual from a bank, building society or other financial organisation.

Personal loans are different from other forms of unsecured credit, such as overdrafts or credit cards because they consist of a specific amount of money that is paid to the borrower as one lump sum and repaid over an agreed period of time, at a fixed rate of interest. The lender charges you interest on the outstanding balance until the loan is paid back in full.

Uses for personal loans

People choose to take out a personal loan for many reasons. Often to finance large purchases, such as buying a car or to undertake home improvements.

Lenders carry out their own checks and a decision is based on the applicant's individual circumstances. However, you should also take time to decide whether taking out a loan makes sense for your financial situation.

Choosing a personal loan

Taking out a personal loan is likely to be a significant commitment. Before you start the process, it pays to do your research and find one that suits you.

There are a number of factors to consider before taking out a personal loan. The most important question is can you afford it? Consider:

- Interest rate (APR), fixed or variable
- Length of the loan term

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- Monthly repayment costs
- Initial set-up costs
- Penalties for missed or late payments
- Early repayment options (is paying the full balance off early allowed? If so, is there a fee for doing this?)

You should also take into account the benefits and disadvantages of taking out a personal loan;

Benefits of an unsecured loan	Disadvantages of an unsecured loan
The lender has no claim on your financial assets if you don't keep up repayments.	Unsecured loans generally have higher interest rates than secured loans.
Allow borrowers to borrow a large sum of money for a period of a year or longer	A borrower's financial situation can change, making repayments more difficult
Fixed monthly repayments allow borrowers to budget	Missed or delayed payments can negatively impact credit histories and attract late fees

Before you apply

Once you find a potential loan, there are ways to make sure it's the right one before you apply.

Check your credit

Getting approved for a personal loan will be largely dependent on your existing financial situation, your employment status and your credit history. Before lenders approve your loan application, they will want to make sure you have the credibility and financial means to pay back the loan on time. If you have a good credit rating, it's more likely that you will be eligible for low interest loans.

Lenders will run their own checks on your credit history, but it can be a good idea to check your credit rating first, before you apply. Applying and being refused multiple loans in a short amount of time can signal financial trouble or fraud, so it's best to only apply for loans you believe you will qualify for.

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Three companies that offer credit report services in the UK are [Experian](#), [Equifax](#) and [Call Credit](#).

Calculate the interest

Before you apply for a personal loan, use a loan calculator to determine the total amount of interest you will pay during the payback period. By entering the original loan amount (principal), the interest rate (APR) and the payback period (1 year, 2 years, etc.), you can see how much you will pay in interest and therefore how much you will repay in total.

Remember, you're only charged interest on your outstanding balance. For example, a £10,000 loan with a 5% APR and a 1 year payback term will accrue £272.89 in total interest, not £500 like you may initially think.

Representative APR

When you look at an advert for a personal loan, or carry out an online loan quotation, the rate advertised is referred to as the 'Representative Example'. This rate must reflect at least 51% of business expected to result from the advertisement or communication. The rate offered to each individual will depend on their personal circumstances, credit assessment procedures and other related factors.

Help and advice



Governmental bodies like [The Money Advice Service](#) and the [Citizen's Advice Bureau](#) can also help you make informed decisions.

Finally, keep in mind that interest rates (APRs) can vary widely from lender to lender. A trusted comparison service like [Which?](#) can help you to compare different options.

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The logo for Sainsbury's Bank, featuring the text "Sainsbury's Bank" in a white, sans-serif font. A white, curved line swooshes under the text, starting from the left and ending under the word "Bank". The logo is set against a bright orange rounded rectangular background.

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