Sainsbury's Bank

Guide to switching loans

Whether you're on the hunt for better interest rates or a shorter loan period, or looking to consolidate a number of smaller loans into a more manageable arrangement, there are a number of things to consider when switching loans.

The following guide can help you assess whether a new loan agreement will meet your needs, and offers practical advice to assist you through the process.

What type of loan are you looking for?

Loans are available on a secured and an unsecured basis. If you're thinking of switching from one to the other, you should weigh up the pros and cons of each arrangement.

Unsecured loan	Secured loan
You do not need an asset to apply, and if you have an asset you are not placing it at potential risk. The amount you are offered depends on your credit history, income and personal circumstances.	Requires security, usually your home. If you cannot make repayments, you place your asset at risk. The amount you are offered depends on the amount of equity you have in your property, income and personal circumstances.
Typically (but not always) higher interest rates, so the amount you ultimately repay will be higher.	Often (but not always) lower interest rates due to the added security of your associated assets.
Offered loan amounts are likely to be smaller.	Access to higher loan amounts.
Terms are often simpler and tend to be more flexible in terms of early repayment and overpayments.	Terms are often more restrictive, sometimes to the extent of there being little point to paying back your loan early.

Unsecured loan	Secured loan
Traditionally offer shorter repayment terms.	The ability to pay your loan off over a longer period (note that while this can assist you month on month, it may end up costing more overall).
As you are offering no security to underpin your loan, you may need a good credit rating to qualify, and this might include not being refused credit in the past. Other lending criteria, like your level of income, may also be higher.	A bad credit rating might not hamper you as much as if you are securing the loan with an asset.
Failure to keep up with payments will adversely affect your credit rating and ability to borrow in the future, and could incur late payment charges.	Failure to keep up with payments may place your asset at risk, as well as incurring late payment charges and a black mark on your credit rating.
Generally better for smaller amounts (under £25,000) over shorter periods of time, or if you do not own an asset to use as security.	Generally better for larger amounts (over £25,000) over longer periods of time.

You can find out more about personal (unsecured) loans in the Sainsbury's Bank Guide to personal loans.

Consolidation loans

You may be considering a loan in order to consolidate your debt into a single, perhaps easier to manage arrangement. There are some loans on the market that advertise themselves as consolidation loans.

Consolidation loans can seem attractive as they allow you to manage your debt more easily as you are dealing with a single account. They can also often allow you to spread your repayments out over a longer period than a standard personal loan.

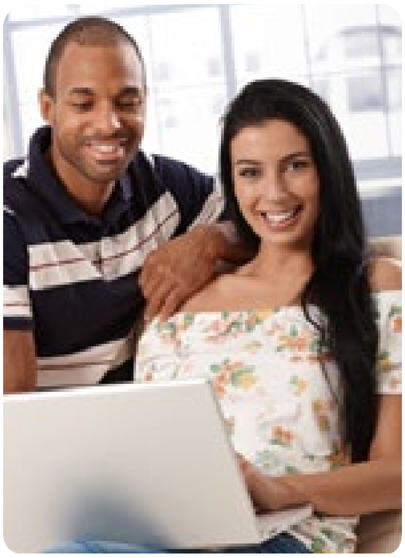
However you should think carefully before making this move. A consolidation loan is a secured loan, which may need to be secured against your home. This carries its own set of risks, such as the chance of losing your home if you miss payments. And the longer repayment period, while easier on the pocket month to month, can end up costing more in interest in the long run.

Consolidating is a viable option if you have a lot of debt sitting at high interest rates and the consolidation loan significantly reduces that. You should also make sure that your overall debt doesn't end up increasing due to transfer and arrangement fees.

Managing a consolidation loan requires discipline. It is all too easy to consolidate and take the pressure off yourself with reduced monthly payments, and then ending up accumulating more debt.

Finding the best deal

The credit industry is changeable, so keep an eye on the market and shop around for the best deal.



In general when using a comparison site to check different deals, it's a good idea to confirm that the exercise won't reflect on your credit record. Sometimes lenders will run a credit check on you and if this happens too often over a short period of time, it can be detrimental to your credit rating.

The best deal is not always the one with the lowest interest rate. Before you commit to anything, check for additional costs like transfer and arrangement fees, and check how much it is going to cost you to move away from your current lender.

If you are considering switching loans in order to arrange a shorter repayment period, you should also first make sure that you are able to afford the higher monthly repayments. Take the time to create a budget plan to make sure that you can afford the change.

Read the small print

Make sure that you fully understand the terms of your new loan agreement before you sign anything. Thoroughly read the small print and check for extra fees for arranging the loan, as well as any fees that are payable under particular circumstances, like if you wish to repay your loan early.

- **Early settlement -** If you'd like to be able to pay your loan back early, you need to make sure that this is permitted in the agreement terms, and that doing so would be accompanied by a reduction in your interest. Some lenders will charge a fee for early repayment as compensation for the loss of interest they would have earned.

  As a UK consumer, you are entitled under the The Consumer Credit (Early Settlement) Regulations 2004 to receive an interest rebate when you repay part or the entire loan amount before its final due date. Most lenders reserve the right to charge a certain amount of interest after the request for early repayment.

- **Permitted overpayments -** Make sure that you understand if and how you are permitted to make overpayments, and the effect that making extra payments will have on your loan. Overpayments do not usually impact on your monthly repayments but rather shortens the period of your loan, which can then reduce your interest payments.

However most lenders do not simply allow you to make overpayments on an ad hoc basis, and if you fail to comply with the terms of your contract, you might not gain any real benefit from paying extra.

You are usually obliged to provide the lender with some notice that you plan to overpay, and then will need to make the payment within a stipulated period of the notice. Also make sure that you thoroughly read the small print for any exclusions or fees that may be related to overpayments.

- **Repayment holidays** - Some lenders offer repayment holidays, often at the beginning of the loan period. This can offer a welcome respite, however you should be aware that although your payments are deferred, you will still be paying interest for that period.

Will you really be paying less?

Before you commit to a new arrangement, take some time to make sure that you've worked out both the true cost of the new loan and the cost of repaying your existing loan early.

- **Read your current loan agreement for caveats -** Before you leap in, refamiliarise yourself with your existing loan agreement to make sure there are no sticky get out clauses such as expensive exit fees that negate the benefits of the new arrangement.

- **Do you qualify for the rate being offered? -** You should be aware that you may not be offered the 'Representative APR' being advertised. APR stands for Annual Percentage Rate and it takes into account not only the interest being charged, but also any additional fees associated with the loan. The APR is the rate which lenders expect to be taken up by 51% of borrowers.

Your offer will be based on your credit rating, any information the lender already has on file about you (e.g. if you hold an account with them), plus the information you provide on your application form.

Lenders offer terms that are relevant to you as a borrower and you will only be offered the terms advertised by a lender if you qualify.

A significant influencing factor for unsecured loans is your credit score. This is where lenders find out about your borrowing history to help establish whether to lend you money and at what interest rate. It's a good idea to check your credit score before you apply for any loans.

Sometimes your score can be adversely affected by easy to remedy factors like an incorrect address or the misspelling of your name on the electoral register.

- **How much is switching loans really going to cost you? -** When working out the cost of your new loan, you need to take into account the loan amount, the loan term, the cost of fees and your interest rate. And note that the APR (Annual Percentage Rate) will reflect the fees you need to pay, and so provides a truer picture than the loan interest rate.

  Use these calculators to make sure the loan you're considering will fit your needs:

  - The Money Advice Service loan calculator, which shows your monthly repayments, total interest and total cost of the loan
  - The Sainsbury's Bank Switch and Save calculator, which works out whether you will be saving money if you switch from your current loan to a Sainsbury's Bank Standard loan

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Switching loans checklist

Switching loans can be a big decision and you will want to make sure that you've looked into all relevant aspects before signing on the dotted line.

✓	Check your credit rating and address any easy to rectify issues like updating addresses and spelling mistakes in the electoral register
✓	Use the loan comparison links above to find out what lenders are offering at the moment
✓	Use one of the loan calculators above to work out your preferred repayment period
✓	Check your existing loan agreement for early repayment fees or any other get out clauses that may cost you money
✓	If you are shortening your loan period, draw up a budget to make sure you can realistically afford the repayments
✓	Read the small print of the new loan agreement to make sure there are no hidden costs and that you can overpay or repay early without significant penalties
✓	If all is in order, complete the application
✓	Once this has been approved, sign the documentation and set up the new direct debit
✓	Once the new loan amount is in your account, use it to repay your previous loan as the new lender will not do this for you

Where to find free impartial debt management advice

Governmental bodies like The Money Advice Service and the Citizen's Advice Bureau offer free advice that can help you make informed decisions.

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Links:

1) http://www.sainsburysbank.co.uk/library/default/resources/guide-to-managing-and-improving-your-credit-score.pdf
2) http://www.sainsburysbank.co.uk/library/default/pdf/loans-guide-to-personal-loans.pdf
3) https://www.moneyadviceservice.org.uk/en/tools/budget-planner
4) https://www.moneyadviceservice.org.uk/en/tools/loan-calculator
5) http://www.sainsburysbank.co.uk/borrowing/bor_switching_calculator.shtml
6) https://www.moneyadviceservice.org.uk/en/articles/where-to-go-to-get-free-debt-advice
7) http://www.adviceguide.org.uk/england/debt_e/debt_borrowing_money_e/debt_types_of_borrowing_e/debt_loans_e/personal_loans.htm

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