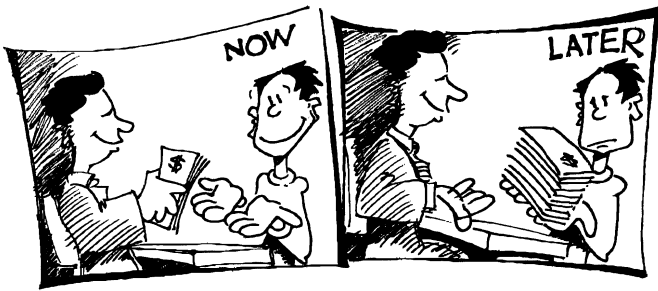


Need a loan?

Borrowing money always costs you money



Borrowing money is a common part of life. There are many types of loans, for example, personal loans, home loans, interest-free loans, lines of credit, overdrafts and credit cards.

The cost of borrowing money is made up of **interest** and **fees and charges**. Sometimes a loan with a higher interest rate may be cheaper than a loan with a lower interest rate because of the difference in the fees and charges that apply. You should always check the contract (terms and conditions) *before* you sign up. The cost of a loan varies greatly depending on:

- the type of loan (eg a **secured loan** will usually be cheaper than an **unsecured loan**);
- the type of lender (bank, credit union, finance company, shop); and
- how long you take to pay it back

Shop around and ask the lender what the full cost of the loan will be in dollars and cents, as interest rates vary between lenders. If you are having difficulty figuring out which is the best option for you, see **Getting help - financial advice**.

Interest - the extra amount you repay to the lender in addition to the money you have borrowed.

Interest Rate - the amount of interest you will pay is usually expressed as a rate - for example 12% per annum, or \$12 per year for every \$100 you borrow. Interest is added to your loan at regular intervals (often

monthly). If your repayments do not cover all of the interest that has been added to your loan, or there are no repayments required for a period, or you get behind in your repayments, you will probably also pay interest on the interest that has already been charged.

Fixed Interest - a set interest rate that does not change over the term of the loan.

Variable Interest - an interest rate that can be changed by the lender. It is not possible to calculate in advance the total amount you will pay on a variable interest loan.

Fees and charges - These are amounts you may pay in addition to interest, for example, establishment fees, stamp duty, taxes, monthly account keeping fees and late fees (default charges). For smaller loans these amounts can cost you more than interest.

Secured loan - a loan where the lender has taken a mortgage or charge over your property. This could be your car, your house or your personal goods like your furniture. If you cannot repay the loan, then the lender can take and sell the property without taking you to court first.

Unsecured loan - a loan where there is no mortgaged property. A lender cannot take and sell your property if you do not pay an unsecured loan unless they take you to court first.

Examples of interest rates (Feb 2006)*

Home loan variable rate	6-11%
Personal loan secured over used car	8-12%
Personal loan unsecured (bank)	11-16%
Personal loan unsecured (finance co.)	11-48%
Credit card (with interest free period)	15-19%
Credit card (no frills)	9-12%
Store card from major retail chain	18-27%

*Interest rates vary regularly.

Sarah's Story

Sarah needs money urgently. She sees a shop advertising "easy loans" and is told that she can borrow \$1,500 and pay it back over 3 months. She has to sign a lot of papers including a direct debit authority to allow the lender to take repayments directly from her bank account. When Sarah misses her second payment because there is not enough money in her account, she is charged \$35 by her bank and a \$25 default fee by the lender. She then realises that she has agreed to pay a \$500 establishment fee and a \$45 account-keeping fee, in addition to interest of 29% per annum. Sarah will have to pay back over \$2,500 even if she doesn't default again. Sarah should get **legal advice** as the interest rate on consumer loans in NSW should not exceed 48%. Fees, such as establishment fees and account keeping fees are included for the purpose of calculating the interest rate, which means that the effective interest rate on this loan is much higher than 29%!

Loan Contracts

When you borrow money you will usually sign a contract. This sets out all your rights and obligations about a loan or credit card. Sometimes the terms of the contract are in a separate booklet called **Terms and Conditions**.

The law says that most loan contracts must contain certain information about how much you are borrowing, the interest rate, the other fees and charges, and in many cases, the total amount you will have to pay back. You should read a contract before signing it, but contracts are often difficult to read, so always take the contract away, think about it overnight before you sign, and get advice if there is anything you don't understand.

Don't feel pressured into signing something you do not understand. You will usually have to stick to the contract whether or not you have read and understood it! If you feel you have been cheated or treated unfairly, get advice.



Witnessing?

Sometimes a lender or salesperson will ask you to sign a document to witness another person's signature, or as a personal referee to help the person get the loan. They may say that this is "just a formality". Never sign a document in these circumstances unless the space is clearly marked "witness" - otherwise you may be signing the contract as a joint borrower or guarantor.

Joint Borrowers and Guarantors

If you are asked to borrow money jointly with another person (**co-borrowing**), or to guarantee their loan, then beware! This is a big commitment. If that other person cannot repay the loan for any reason, (such as unemployment, sickness or separation), you will have to repay the whole loan plus interest. Whether or not you have any use or ownership of the goods brought with the loan proceeds makes no difference to your liability to pay. For instance, if you have borrowed money jointly with someone else to buy a car, you will still be liable for paying the *whole* loan plus interest even if the car is not registered in your name, if you do not drive the car, or the other person has taken the car.

Before agreeing to be a co-borrower or guarantor, ask yourself:

- Am I getting some benefit from taking on responsibility for the loan?
- Can I afford to pay the loan if the other person does not pay?
- Do I want to pay the loan if the other person does not pay?
- Is there another alternative? Maybe the borrower can approach a different lender, or provide security for the loan instead.

If someone has pressured you into signing something against your will, or you have already signed something you did not understand, you should get **legal advice**.

Getting help

FINANCIAL ADVICE

Credit and Debt Hotline: Information and referral to a financial counsellor who can assist you to work out whether you can afford a loan and explain basic contract terms, or to help you plan how to repay your loan:
1800 808 488

Accountant: If you have money to invest, you run a business or you are borrowing a large amount of money, consider talking to an accountant (you will have to pay for this service) - check your local phone book.

LEGAL ADVICE

Private solicitors can give independent legal advice about a contract (you will have to pay for this service). Call **NSW Law Society Community Referral Service (02) 9926 0300** to find a solicitor.

Consumer Credit Legal Centre (NSW) Inc. gives free legal advice to people who are experiencing difficulty with consumer loans: **(02) 9212 4111** or call the Credit and Debt Hotline **1800 808 488**

Law Access helps callers find information and services to assist with legal problems and questions
1800 806 913

TRANSLATING AND INTERPRETING SERVICE

You can call this free service and ask for an interpreter to assist you to explain your problem to one of the above services on the telephone: **13 14 50**

A project of Consumer Credit Legal Centre (NSW) Inc. 2006. Other Fact Sheets in this series are available at **www.cclcnsw.org.au** or **(02) 9212 4216**