



# Best and worst ways to borrow in 2009

What to watch out for if you need to borrow money

**A**s the credit crunch bites, it's getting more difficult to borrow money and more expensive, too. The cost of taking out a loan or borrowing on a credit card has gone up since 2006, even though the Bank of England base rate has gone down 3.5%.

We found big differences between the cheapest and most expensive deals. Choosing the right sort can make all the difference to how much you repay.

## IN BRIEF

In this report we help you to:

- save money by choosing cheaper credit deals
- make the most of your credit card
- avoid rip-off loan deals.

Which? Best Buy Your Personal Loan. [co.uk](http://co.uk), than with Black Horse. See the table below for details.

## CREDIT CARDS

Credit cards can be a good choice if you're making a big purchase, but with average interest rates of around 17%, they can be an expensive way to borrow over the long term.

## Balance transfers

There are deals that charge 0% interest on balance transfers for set periods, such as six months or longer.

Balance transfer fees have been going up, but it is still possible to find a fee-free deal and a 0% deal can still be a good way to clear a debt.

If you do transfer a balance, make sure you don't use the card for spending. The APR is likely to be higher for purchases than for balance transfers, and payments you make will almost certainly go to paying the cheapest debt first, leaving you racking up interest on the more expensive debt.

## Rising interest rates

The average credit card APR is now 17%, up from 16% in 2006. The cheapest deals have disappeared and it's now much harder to get a card with a rate below 10%. In 2006, there were more than 20. There's quite a difference between cheap and expensive credit cards. See 'The right card', facing page, and *Money Monitor*, p29 for our Best Buys for borrowing.

## LOANS

Unsecured loans are, as a general rule, a good way to borrow larger amounts. Interest rates tend to be lower than credit cards or overdrafts, and they go down the more you borrow. You will also know in advance how much you will have to pay back each month and how long it will take to clear the debt.

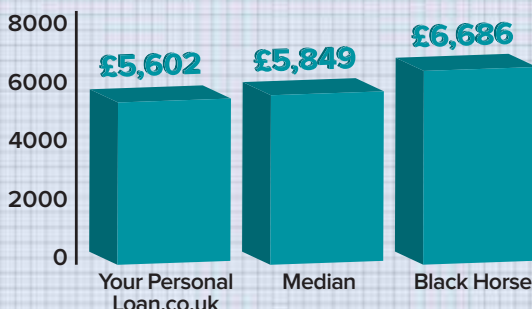
Loans are getting dearer, though. The average interest rate (APR) on a £5,000 loan over three years is 11.9%. In 2006, it was 8.2%. That's a difference of £270 in repayments over the three years. For a £10,000 loan over five years, the average APR is now 9.5%, up from 7.1%.

The difference between the best and worst loans can be huge. Borrowing £5,000 over three years is £1,084 cheaper with



## CHOOSE THE RIGHT PERSONAL LOAN

Here's how much you repay if you borrow £5,000 over three years (includes loan amount)



Rates correct at 5 January, 2009.



**Which? online**  
Borrowing money

Visit [www.which.co.uk/money](http://www.which.co.uk/money) to find Best Buy credit cards and loans. For more advice on the best ways to borrow, see also [www.which.co.uk/bestwaystoborrow](http://www.which.co.uk/bestwaystoborrow).

## TAKING CONTROL

### Verity Hartley 31

IT service level manager

When Verity wanted a credit card five years ago, Virgin seemed the perfect choice as it was willing to offer her the credit limit she needed. She used it to buy items such as a games console and DVD player (pictured). But with an APR of 34.9%, it proved to be an expensive choice. Verity still uses the





card to borrow, though these days her balance tends to be below £1,000. She would be better off therefore, with one of our borrowing Best Buys, such as Barclaycard Simplicity. Or she could transfer her balance to a 0% deal. Now she knows how expensive the Virgin card is, Verity has said she will 'cut the card up and throw it away'.

**'I'll cut the card up and throw it away'**



## Store card spending spree

### Store cards

When a shop offers a discount on what you're buying if you take out a store card, it can be very tempting. But with interest rates as high as 29.9%, borrowing money on one is a really bad idea.

Used carefully however, a store card needn't cost a penny. Most have a 56 day interest-free period, giving plenty of time to pay off the balance before you get charged interest.

### Spending spree

We sent a researcher (pictured right) out on to a busy shopping street to see how many store cards he was offered. The researcher visited big high-street stores such as BHS, Debenhams, House of Fraser, M&S, Next and Topshop. He posed as a customer and, in less than an hour, was offered store cards in half a dozen shops.

All the shops required ID and a credit check. If he passed these tests, he could have racked up £2,000 credit. Most of the shops offered incentives such as discounts off shopping to encourage him to take out the card.



**Which? researcher goes looking for credit on a busy shopping street**

### In-store credit

In-store credit is another expensive way to borrow money (often charging around 29% interest).

However, 'buy now, pay later' deals offer a few months when you pay no interest and don't make repayments.

At the end of this period, you can pay the whole amount off, or start making monthly repayments. If you opt to pay in instalments, interest will be charged back to when the agreement started. The only way to avoid paying any interest is to pay off the whole amount within the buy now, pay later period. Be warned that lots of these deals come with fairly hefty fees. For example, Homebase charges a £29 'settlement fee', Land of Leather £35.

## The right card

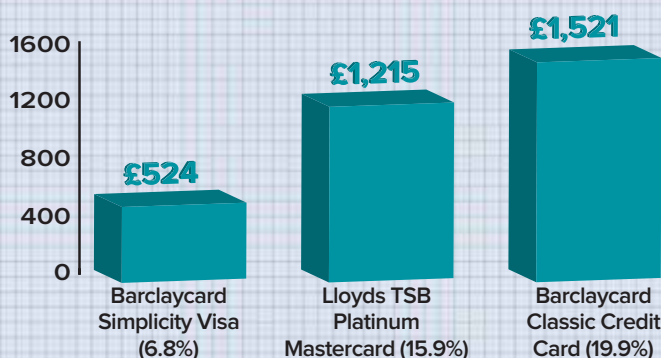


There can be quite a difference in how much you pay back on different credit cards, even from the same

### Choosing the wrong card from the same firm can cost you

company. Repaying £5,000 over three years is £997 cheaper with Barclaycard Simplicity Visa compared with Barclaycard Classic CreditCard.

### £5,000 - 3 YEAR CREDIT CARD REPAYMENT



Rates correct at 5 January, 2009.

# Be wary of 'cash in a hurry'

Credit unions are a much cheaper way to borrow than doorstep or payday loans

## A doorstep too far

If you need money in a hurry, it might be tempting to get a loan from a doorstep lender. Also known as home credit companies, they specialise in lending fairly small sums, with weekly or fortnightly repayments collected from your home.

Or perhaps you've seen adverts for payday loans, which promise to advance you some cash on your salary. These loans can

seem attractive if you're struggling to get credit from a mainstream lender as they promise a quick decision with no credit check.

## A sting in the tail

Both types of loan have a big sting in the tail. The money may be easy to get, but it could be a nightmare to repay. APRs on doorstep loans commonly run at anything from 188 to 400% and even higher.

With even the cheapest of these deals, if you paid back £300 at £15 a week over 26 weeks, it would cost £90 interest.

That same £300 loan would cost £180 interest if borrowed at 400% APR and paid back over 32 weeks. Companies which offer these loans include CLC Finance, LoansAtHome4U.co.uk and Provident Personal Credit. The table below shows some of the main lenders.

The APRs on payday loans are even higher, though this is partly because you are borrowing over such a short period of time. 1,500% APR isn't unusual. It is possible to roll a loan over into another month. You may have to apply and some

lenders allow you to do it only a limited number of times. If you do roll the loan over, the charge is added each month the loan isn't paid off.

As the table 'Payday loans' below shows, if you rolled over a £320 loan for six months, you'd pay nearly £500 interest, 150% of the amount borrowed.

## Logbook loans

Similar in cost to payday loans, logbook loan companies lend money secured against your car. They promise no credit checks and quick access to the money, and you can generally borrow more than with a doorstep loan. But they come at a high cost. Even with one of the 'cheaper' deals, £1,500 paid back at almost £50 a week over 58 weeks would set you back £1,400 in interest, an APR of 273%.

## A cheaper way to get credit

Rather than get stung by a home credit or payday loan, credit unions are an excellent alternative source of credit. They don't require you to have a credit check

**Credit unions are an excellent alternative source of credit**

and most won't charge more than 1% a month (12.7% APR). If you borrowed £1,000 over a year you would repay only £1,067. Most credit unions are happy to lend small sums and there are no hidden fees or penalties for early repayment. Their loans come with free life insurance.

For more on credit unions and to find one local to you, contact the Association of British Credit Unions (ABCUL) on 0161 832 3694 or at [www.abcul.org](http://www.abcul.org).

## Free debt advice

If you're struggling to make debt repayments, here are places to get free advice.

**Citizens Advice Bureau**

[www.citizensadvice.org.uk](http://www.citizensadvice.org.uk)

**Consumer Credit Counselling Service**

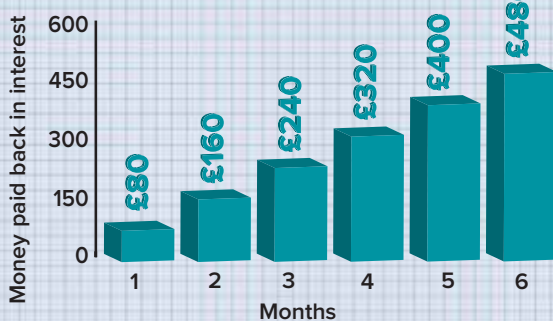
0800 138 1111; [www.cccs.co.uk](http://www.cccs.co.uk)

**National Debtline** 0808 808 4000

[www.nationaldebtline.co.uk](http://www.nationaldebtline.co.uk)

## PAYDAY LOANS

### Rolling over a payday loan of £320



HOME CREDIT COMPANIES	APR	HOW MUCH YOU PAY			TOTAL £
		TOTAL CHARGE FOR CREDIT (£)	WEEKLY PAYMENT (£)	NUMBER OF PAYMENTS	
MUTUAL CLOTHING AND SUPPLY CO. LTD	188	90	15	26	390
CLC FINANCE LTD	365.1	165	15	31	465
PROVIDENT PERSONAL CREDIT	365.1	165	15	31	465
SHOPACHECK FINANCIAL SERVICES	440.3	177	15.9	30	477
LOANSATHOME4U.CO.UK	399.7	180	15	32	480

Source: [www.lenderscompared.org.uk](http://www.lenderscompared.org.uk). Criteria: £300 advance paid back over 23-40 weeks. Postcode used for search CV3. Search done on 5/1/2009. Where multiple loans were offered by a provider, the one with the least total interest was selected.

## AVOID THIS CARD

**Using the Easy Shop card could be expensive**



Home credit company Provident Personal Credit has taken an unwelcome step towards the more mainstream store credit market by launching a card you use at Argos.

The Easy Shop Payment Card lets you spend £100-£500 which you would pay back on a weekly basis at a staggering 222.7% APR.

If you borrowed £300 on the card and paid it back at £15 a week over 27 weeks (six months), you'd end up paying £105 interest.

A much cheaper way to borrow small sums such as £300 would be to use a Best Buy credit card, if you qualify for one.