

Credit

What the law says

Anyone who offers credit must be authorised by the Financial Conduct Authority (FCA).

Most **credit agreements** are covered by the Consumer Credit Act 1974. If your agreement is covered by the Act, it is called a **regulated agreement**. If you have a regulated agreement, you are entitled to:

- have specific information included in your agreement, such as the **amount** you are borrowing, the **length** of the agreement, **interest rates**, any **charges**, the **amount and frequency of payments** and **your cancellation rights** (if applicable -see below). It must also include the **total charge** for credit and the **Annual Percentage Rate (APR)**, which is the annual cost of credit after interest and all other charges have been added together. If this information is not included, the agreement may be **unenforceable** without a court order
- be given a copy of the agreement, which should be signed by **both** you and the creditor. If you have not signed the agreement or been given a copy of it, the agreement may be unenforceable without a court order
- be sent a **statement** or copy of other documents on request. You may have to pay a small amount
- be informed of the procedures to be followed, such as sending you a **default notice**, before court action is taken.

Is your credit agreement a regulated agreement?

Your agreement will state under its heading whether it is regulated by the Consumer Credit Act. Most agreements involving credit or hire charges (for example, credit cards, personal loans, and most catalogue credit and hire agreements) are likely to be regulated. There are some exceptions, such as low cost credit from a credit union. Also, if you took out an agreement before 6 April 2008, there was a limit on the amount of credit covered by the Act. If you want to check whether your loan is regulated, get advice from an experienced debt adviser, for example at a Citizens Advice Bureau (see below).

Buying on credit

Before applying for credit, you should work out your regular outgoings to be sure you can afford the extra payments each month. You will need to allow a

certain amount for extras such as haircuts or holidays and for emergencies such as household repairs. The following steps will help you find the best deal:

- **shop around**, to see whether you can buy the goods or service cheaper elsewhere, as this will reduce the amount you have to borrow
- **compare the cost** of different types of credit by looking at both the **APR** (see above) and the **length** of the agreement. A fixed interest loan that you arrange yourself may be cheaper than arranging a loan through the supplier. If you are using your credit card, try to estimate how long it will take you to repay, taking the monthly interest charges into account
- you may be tempted by interest free or other special deals. Look at the total cost of the deal - you may be able to buy the goods cheaper elsewhere. If interest-free credit is offered for a limited period, make sure you check what happens if you don't finish paying during this period. Often there is a high rate of interest payable from the beginning of the agreement.
- if you are offered **insurance** to cover your payments in certain circumstances, check the cover is right for you and that you do not fall into one of the excluded groups. Some policies exclude, for example, self employed people or pregnant women. Can you find cheaper or more inclusive cover elsewhere?
- **don't** take out a loan **secured on your home** without considering the consequences. If your circumstances change and you are unable to keep up your monthly instalments, you could **lose your home**
- before using a **credit broker**, shop around for a loan yourself first, as you will either have to pay them a fee or commission for using their services.

A broker must tell you whether they are independent or whether they are tied to any lenders. If they are tied to one or more lenders, this may mean that they won't tell you about the full range of products on the market. If you have been negotiating with a broker who hasn't arranged a loan within six months, the maximum they can charge you is £5.

Before you sign a regulated credit agreement, the seller must give you a document called '**Pre-contract information**'. This should contain information about the loan, including a financial quotation, terms and conditions, cancellation and termination rights. The document should be easy to read, and in a form that you can take away, so that you can compare the loan with other products. The seller must also explain any features of the agreement which might make it unsuitable for some people or which may work to their disadvantage. You should also be warned about the consequences of failing

to make repayments at the right time, for example, charges for late payments and the possibility of legal action being taken against you.

Faulty goods or services bought on credit

If you pay for goods or services on credit and things go wrong, you may be able to claim compensation from the credit company instead of the company which sold you the goods or services. For example, you may have bought a washing machine which is faulty or your internet connection isn't working properly. This is called **making an equal liability claim**.

This can be useful where the trader or supplier has gone out of business or has no money to compensate you.

To be able to claim, the price of any single cash item must be more than £100 but not more than £30,000. If the credit company won't accept responsibility, you can make a complaint to the Financial Ombudsman Service. You can also contact your local Citizens Advice Bureau, or contact the Citizens Advice consumer service on 0345 404 0506.

Cancellation of a regulated credit agreement

By you:

You have the right to cancel a credit agreement within 14 days of signing the credit agreement. You don't have to give a reason.

You'll need to **act quickly** and notify the creditor immediately that you wish to withdraw. It's best to do this in writing although you can give notice verbally if you haven't much time. Make a note of what was said and the name of the person you spoke to. You should then confirm this in a letter. Make a copy of your letter and send it recorded delivery.

Once the 14 days has passed, any rights you may have to cancel your agreement will be included in your contract and will depend on the type of credit you took out:

- **credit card agreements** can be cancelled by writing to the creditor, enclosing the card(s) **cut in pieces** and making arrangements to repay any money you owe. If you have a second card held by someone else, this should also be returned
- **hire purchase or conditional sale agreements** can be terminated at any time by giving notice that you wish to return the goods and cancel the agreement. This may be an expensive option, as you will be liable for half the total amount payable under the agreement as well as any arrears outstanding and compensation if any damage has been caused to the item. Once you have paid a third of the total amount payable under the agreement, the credit company cannot

repossess the goods without a court order. Repossession without a court order in these circumstances cancels the agreement so the debtor can recover all the payments they have made

- **regulated hire agreements** can be ended at any time after the first eighteen months by giving notice, unless a shorter period is provided for in the agreement. The minimum notice you have to give is the notice stated in your agreement, the period between payments or three months, whichever is shortest. There are some exceptions to this rule for business users and expensive hire (currently those with payments over £1500 per annum). In some cases, you may be entitled to settle the agreement early and obtain a rebate. The formula for calculating any rebate is set out in law. An experienced adviser, for example, at your local Citizens Advice Bureau, could help you check it.

By the credit company:

If you are in breach of your credit agreement (for example, behind in your payments), the creditor must send you a **default notice** before they can take certain types of action against you. This notice must specify the breach, tell you how to remedy it, what action will be taken if you don't and give you a time limit to put the matter right. If you fail to act on this notice, the creditor may be entitled to terminate the agreement, demand early payment of the sum owing, or repossess goods.

A lender can end a **credit card agreement** by giving you two months notice in writing. They can also end your right to use your credit card either permanently or for a temporary period, but they must tell you in writing that they are going to do this and have a good reason. For example, the lender may suspect you of fraud or have a reason to believe you won't be able to repay what you owe.

If your card is refused because you're over the limit, this doesn't mean your agreement has been ended. You should be able to put things right by paying back some of the money owed or reducing the amount you want to spend.

Credit refusal

You **cannot insist** on being given credit. The lender must assess your creditworthiness before granting you credit. This will normally be done by asking you questions about your circumstances and by carrying out a credit reference check on you through a credit reference agency. Some lenders also use **credit scoring** to decide whether to give credit.

Creditors do not have to give reasons for refusing to give you credit, although you must be told if your application is refused because of information they've got from a credit reference agency and you must be given the name of the agency used. If credit scoring is used, the lender may be obliged, under a code of practice, to tell you the main reason for refusing you credit.

Lenders are not allowed to discriminate against you when deciding whether to give you credit. This means they aren't allowed to refuse to give you credit just because of your race, sex, disability, religion, sexuality or where you live.

However, a credit company is allowed to refuse credit to someone just because of their age or if they have learning disabilities and are unable to understand the nature of the contract they're entering into.

If your application for credit has been refused and there is a dispute about an entry on your credit reference file, you can complain to the Office of the Information Commissioner. Their website is www.ico.gov.uk.

Credit reference agencies

There are three credit reference agencies, **Callcredit**, **Equifax** and **Experian**, who collect and store information on everyone's financial situation. Information held includes details of court judgments, bankruptcy, any property repossessed, any other credit accounts you have and a record of everyone who has requested a credit check on your file. The agencies do not hold detailed information about your bank and building society accounts. Details are not held about all court actions including liability orders for community charge and council tax arrears. Credit information is usually held for six years. You can check the information held by the credit reference companies by writing to them asking for a copy. Alternatively, you can apply online via the website. A small fee is payable. You can ask that incorrect information be corrected, but cannot ask that correct information be removed. You can contact Experian on 0844 481 8000, Equifax on 0844 335 0550, and Callcredit on 0870 060 1414. The website addresses are: www.experian.co.uk, www.equifax.co.uk, and www.callcredit.co.uk.

Credit repair agencies

Beware of companies which promise to repair your credit record for a fee. They have no special powers to do anything you could not do yourself.

Credit scoring

Credit scoring is a system of awarding points for such things as your age, occupation, marital status and whether you own your own home. If you have been refused credit, you can ask the lender to review the decision and you could provide any additional information you think would be relevant.

Credit card debts

If you can't pay the money you owe on your credit card, the credit card company must keep to rules set out in a code of conduct. For example, if you

are seeking advice from a not-for-profit agency such as Citizens Advice, they must hold off collecting the debt for 30 days. In some cases, this time period can be longer.

Further help

Citizens Advice Bureau

Citizens Advice Bureaux give free, confidential, impartial and independent advice to help you solve problems. To find your nearest CAB, including those that give advice by e-mail, click on [nearest CAB](#), or look under C in your phone book.

Other information on Adviceguide which might help

- Help with debt fact sheet
- Credit
- Dealing with people you owe money to
- Help with debt
- Sample debt letters

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This fact sheet was last updated on 12 June 2014 and is reviewed regularly. If it is some time since you obtained this fact sheet, please contact your local Citizens Advice Bureau to check if it is still correct. Or visit our website - www.adviceguide.org.uk - where you can download an up-to-date copy.