Introduction

Whether you are a student or a graduate it is important to understand all the different types of credit out there in the market place. Credit can be exciting and enabling, but it can also be an easy entry into debt difficulties.

When you understand what different credit products do and what the terms attached to them are, it makes it a lot easier for you to make an informed decision about what products would be best for you, and would meet the needs of your situation. For most credit products, your circumstances will usually determine whether you’re able to get the credit and the amount you are entitled to borrow.
The information outlined here tells you about the different types of credit available, and some pros and cons for each of them. It also tells you where to go if you would like more information about a specific product.

With the exception of Hire Purchase (HP) and pawnbroking, all the types of credit covered below are unsecured, which means that you do not need to offer anything, for example your home, as security. Secured lending in the case of HP, which is commonly used to purchase cars, means that the security (i.e. your ownership) of what you are buying is at risk if you do not keep up with repayments or, in the case of pawnbroking, the item you have pawned to get the loan.

Beware though – credit has to be repaid. When you take out credit you become a debtor, as you owe the credit (the money) to the company that you have borrowed from. So always read the small print and know what you are getting yourself into. What might seem like small decisions at the time can have big consequences if you’re not careful so it’s critical that you’re well informed.

Acknowledgements
NUS and Credit Action would like to thank the National Association of Student Money Advisers for their help in producing this booklet.
Loans specifically for education

Student loans

What’s this?

Student loans are provided by the Student Loans Company (a non-governmental organisation) to support eligible full-time students on undergraduate higher education courses, and some postgraduate students studying qualifications such as PGCEs.

You can usually apply for two types of loan. If you are charged tuition fees, a non income-assessed tuition fee loan is available to cover the cost of these. This money will be paid directly to your university or college.

You may also wish to apply for a maintenance loan to help pay for living costs such as rent and food. The amount you can borrow will depend on a variety of factors, including: your course, your year of study, when your course starts, where you study, where you live, and your household income. This money will be paid to you directly, in three termly instalments (or monthly if you are a Scottish student studying in Scotland).

Pros

These loans are not credit scored, so they are available even if you have a poor credit rating. You can receive them if you meet the eligibility criteria relating to residency in the UK and Islands, your course, any previous higher education studies you’ve undertaken, and that you
haven’t defaulted on any previous student loans you may have already received.

The interest rate on these loans is linked to inflation and so it is usually lower than rates for commercial credit. Student loans are written off in certain circumstances – e.g. for students who started their course in September 2006 or later any outstanding balance will be written off 25 years after the April following the end of your course (35 years in Scotland).

Repayments are linked to earnings, and so you repay nothing if you do not earn above the threshold (see below). Because of this, most creditors (including mortgage lenders) will not usually include your student loans when you are applying for credit as a graduate.

**Cons**

A combination of tuition fee loans and maintenance loans over a three or four year course can build up to a large amount of debt, and it may not be clear how quickly you will pay this off.

They are specifically exempted from bankruptcy legislation so cannot be written off in this way, and nor can they be included in an Individual Voluntary Arrangement (IVA).

**Where can I get it?**

You apply for student loans through your funding body. This could be Student Finance England, the Students Awards Agency for Scotland, your local authority in Wales, your Education and Library Board in Northern Ireland, or the NHS Bursary Unit.
When do I pay it back?
After you graduate, or otherwise leave your course, you will start to repay your loans from the following April, if you are earning £15,000 or more per year before tax. If you do not earn more than £15,000 you do not have to pay anything back. Payments are normally taken along with income tax and national insurance when you are paid your salary, or through the self-assessment tax process if you are self-employed. If you go abroad you will still be liable for repayments if you earn above a certain amount.

Professional and Career Development Loans

What’s this?
Professional and Career Development Loans (PCDLs) are bank loans paid for study, but supported by the Government. They can be taken out for any vocational course, but are most commonly used to support postgraduate study.

You can take out anything between £300 and £10,000, and use the loan to pay for tuition fees or living costs, or both. They are credit scored, so if you have a poor credit history, the bank may not be willing to make a loan to you.
**Pros**
The Government pays the interest whilst you are studying, and you do not have to make any repayments until after you complete your course.

The Government also subsidises the rate of interest so it is generally lower than for other such loans, although higher than for student loans.

PCDLs can be very useful to help fund postgraduate courses – the majority of which don’t have any other formal funding arrangements you can apply for.

**Cons**
Unlike student loans, PCDL repayments commence as soon as you complete your course, whether or not you are in employment. Therefore you should consider very carefully whether you will be able to make repayments.

**Where can I get it?**
Two banks currently make these loans: Barclays and the Co-operative Bank.

**When do I pay it back?**
You start to repay one month after you complete your course, over a period agreed with the lending bank.
Other professional studies loans offered by banks

What’s this?

Some high street banks provide professional studies loans, which work on a similar basis to Professional and Career Development Loans (PCDLs), but without the elements of Government support. In recent years they have become scarcer, as banks tighten their lending policies, but certain loans for specific professional courses such as medicine, dentistry, law, and veterinary science are still available.

These are credit scored, and so if you have a poor credit history, the bank may not be willing to make the loan to you.

Pros

Like PCDLs, you do not have to make repayments whilst you are studying.

Cons

Interest will be applied from the time you take out the loan, so you will be accruing interest during the period you are not making repayments.

Repayments will normally commence once you complete the course, whether or not you are in employment. Therefore you should consider very carefully whether you will be able to make repayments.

Where can I get it?

Currently, Natwest is the only bank to offer such loans, although other high street banks have offered these in the past.
When do I pay it back?
After you complete your course, in accordance with the repayment terms of the agreement you sign with the lending bank.

Emergency loans from university/college hardship funds

What’s this?
Universities and colleges are given money in the form of hardship funds to award grants and loans to students in need.

If you have a short-term cash-flow problem – for example, your student grants and loans are delayed, or a rent payment is due just before you receive them – you may be able to get an emergency loan from the hardship fund to help you for a short period.

Pros
These loans will normally be interest-free and the repayment date set to a time when you will have other money coming in.

If you have general financial difficulties, these loans could be converted into grants. You should speak to the discretionary fund administrator in your institution.

Cons
The loans are discretionary so cannot be guaranteed.

If you do not repay them as agreed, the university or college could impose
sanctions on you. For example, they may refuse to let you continue into your next year of study or graduate from your final year.

**Where can I get it?**
You should speak to the discretionary fund administrator in your university or college. These funds can have different names depending on where you study: they are called Access to Learning Funds in English universities, Learner Support Funds in English colleges, Financial Contingency Funds in Wales, hardship funds in Scotland and support funds in Northern Ireland.

**When do I pay it back?**
At a time or pattern agreed with the discretionary fund administrator.

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**Mainstream commercial credit**

**Bank overdrafts**

**What’s this?**
An overdraft is a credit facility that is typically attached to your current account. It allows you to withdraw money from your account when you’ve run out of available funds.

**Pros**
If you are a student or a recent graduate you may have an interest free overdraft available to you for the time of your studies and for some time after you graduate. This means that you won’t be charged interest for using your overdraft.
**Cons**

Overdrafts don’t stay interest free for ever, so make sure you know when interest will be applied.

Some accounts don’t have an overdraft facility and if you go over the funds you have available in your account you will likely receive penalty charges. This is known as an unauthorised overdraft.

If you are overdrawn as soon as funds enter your account your overdraft will be paid off. This can be a pro or a con depending on your attitude: it can be a ‘pro’ as you don’t have to worry about paying it back to your bank; but it can be a ‘con’ as you don’t have the choice in when you pay it back.

The bank or building society could choose to reduce your overdraft limit at any time, particularly if regular funds are not entering the account.

**Where can I get it?**

From wherever you have your current account, either a bank or building society.

**When do I pay it back?**

Overdrafts are repaid as soon as funds enter your account.
Credit cards

What’s this?
A credit card looks like a debit card and you can use it in the same way as you would a debit card – to pay for goods online or in shops, and to get cash out of a cash machine. You will typically get a statement each month, showing how you’ve used your card and the amount due to pay.

Pros
If you purchase something worth £100 or more (such as flights), legislation which governs credit cards guarantees that if you don’t receive the goods (because, for example, the company concerned goes bust) you won’t have to bear the cost. The same protection doesn’t apply to purchases made on debit cards.

It can be useful to cover emergencies.

Each card has a credit limit, giving you a certain amount that you can spend up to, but not over.

Cons
The interest rates! That’s right - there is more than one rate for your card. Balance transfers are charged at one rate, purchases are charged at another rate, and cash withdrawals are charged another (higher) rate.

If you use your card to withdraw cash, the interest will start to be applied from the time you take the money out of the cash machine.

You will have the option of paying only the minimum amount each month, although if you do this, you will find that interest
quickly mounts up and debts build fast.

A typical APR for purchases is around 15-20% and for cash withdrawals a rate of about 25-30% (although these vary and depend on your circumstances).

Where can I get one?
High street banks, building societies and specialist providers.

When do I pay it back?
Each month you will be sent a statement detailing the way in which you have used your credit card. Therefore each month you need to make a payment, ideally the full amount, although you can make a minimum payment. Unlike most loans there is no set timescale for the repayment of credit card debt.

Personal loans
What’s this?
A loan from your bank or building society, perhaps to cover some home improvements or to buy a car. Therefore loan amounts are typically higher, starting at around £1,000 and can be anything up to £20,000 depending on your circumstances.

Pros
Interest rates are typically lower because you are repaying over a longer period of time.

Repayments are a fixed amount every month so it makes it easier to budget and plan for the expense of paying the loan off.
Cons
Because you are borrowing a higher amount the repayment term could be a number of years. Therefore you must be aware that by taking out a personal loan you are prepared to still be paying it back 2, 3 or even 10 years down the line.

The interest rates are typically in the region of 6-10% per year (known as the Annual Percentage Rate or APR – see the glossary).

Where can I get one?
From banks and building societies.

When do I pay it back?
Over a period agreed with the lending bank, repayments normally take place each month.

Store cards
What’s this?
Store cards are offered from major retailers and they allow you to pay for purchases in certain stores.

Pros
They can offer you discounts on your shopping and you can receive invitations to money-off events.

Your store card will have a spending limit, so you will only be able to spend so much.

Cons
The interest rates on store cards are higher than credit cards, a typical APR is between 25 and 30%.
You can only use a store card to pay for goods in particular stores.

Store cards can sound really tempting, especially when you are in the throes of shopping. Yet if you only make the minimum payment each month, debts will soon mount up.

**Where can I get one?**
Most major retailers offer store cards.

**When do I pay it back?**
As with credit cards, each month you will be sent a statement detailing the way in which you have used your store card. Therefore each month you need to make a payment, ideally the full amount, although you can make a minimum payment.

### Home Credit, otherwise known as doorstep loans

#### What’s this?
These loans are typically for small loan amounts, up to £500. You can apply for a loan online or by phone and then one of the local agents of the home credit company will then visit you at home to discuss your application. Once approved your loan will be given to you a few days later. Each week your local agent will visit you at home to collect your loan repayments.

#### Pros
Home credit agents can offer a flexible service, they come to your home to...
collect repayments and if you are not able to meet a payment one week, most companies will not charge penalty fees.

Home credit offers a personal service as you will see the same agent each week to make your repayment.

**Cons**

APRs are typically 150-250%, so it is a very expensive way to borrow.

**Where can I get one?**

From home credit providers and details of these can be found online.

**When do I pay it back?**

Payments will be spread over an agreed period, and repayments will be made weekly.

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**Payday loans or short-term loans**

**What’s this?**

A loan typically for smaller amounts, for example £100-£500. The loan is designed to bridge the gap between now and your next payday, and the companies that offer these short-term or micro loans have greatly increased over recent years.

**Pros**

Loans are typically for short periods of time – until your next pay day.

Loans can be approved very quickly.

You can often choose exactly how much you want to borrow, down to the last pound.
Cons
Interest rates can be very high; a typical APR is over 1500%. This equates to a cost of about £25 for every £100 borrowed.

You have to have a regular income to be eligible.

Where can I get one?
You can get a payday loan from a variety of sources, from operators that have stores on the high street to internet retailers.

When do I pay it back?
In full on your next payday.

Hire Purchase (HP)

What’s this?
Hire purchase is a type of credit most commonly used to buy a car. However, unlike other types of credit, the item you have bought on HP does not technically belong to you until you have made all the repayments and this is an important fact to remember. You will typically pay a deposit and then monthly repayments.

Pros
Although other forms of credit (like a personal loan) may have a lower APR, if you are unable to access these, HP can be a useful tool to buy an item like a car, which might be essential to your lifestyle, for example, getting to work.
Cons
Your HP agreement is not with a specific retailer, it is with a finance company, and the finance company will “own” the item (i.e. a car) until you have made all your repayments.

There are typically fees to be paid on top of the interest.

Typical APRs are around 30%.

Where can I get one?
As HP is normally used to purchase a car, HP deals are offered through major car showrooms and outlets.

When do I pay it back?
You will repay over a period agreed with the lender – normally in monthly instalments.

Pawnbroking

What’s this?
Pawnbrokers are found on the high street. The process for getting credit works like this: as a customer you present the pawnbroker with something you own, such as a piece of jewellery. The pawnbroker values it, and you agree the amount you want to borrow. Each month you will make repayments to repay the loan, plus the interest. Once you have repaid in full you can get your piece of jewellery back.

Pros
It’s a quick process.

You can borrow relatively small sums of money.
Cons
If you don’t pay back the amount of money you have borrowed plus the interest, the item will effectively be owned by the pawnbroker after a certain period (normally 6 months).

Where can I find one?
Pawnbrokers can be found online and on the high street, often noticed by their symbol of three spheres suspended from a bar which hangs outside their stores.

When do I pay it back?
You will repay in monthly instalments, over a period agreed with the pawnbroker.

Credit that you might not think is credit.

What’s this?
A mobile phone contract is a type of credit agreement that many people often don’t regard as a type of credit, yet it is. As with other credit agreements non-payment can have serious consequences. A mobile phone contract is an unsecured credit deal, but if you don’t keep up with your payments, you will find that debts can easily accrue and this will be shown on your credit file.
Other types of credit agreements that we often forget are subscriptions to TV packages and agreements with utility companies, such as gas, electricity and water. Not managing other forms of credit well can make it harder to get these seemingly quite basic items.

Sources of help

If you are struggling with debt as a student, the most important thing is to ask for help as soon as possible. Generally speaking, the sooner you try to sort things out, the easier it will be. And for students, there are several sources of help and advice available.

Advice and support
Your local students’ union will usually have an advice centre with trained advisers who can help you if you have debt problems or even if you just want advice in managing your money and planning for the future. They will have expert knowledge of student financial support and will be very used to dealing with students who need such help. Your university or college advice centre can also provide similar help. Contact your students’ union or student services department to ask for details of the advice centre.

Credit Action and its sister charity, the Consumer Credit Counselling Service (CCCS) are experts in debt and credit, and offer a range of online help and support, including a Student Moneymanual and telephone debt advice.

Visit their websites at www.creditaction.org.uk and www.cccs.co.uk, or call CCCS on 0800 138 1111.
National Debtline is another telephone advice service, run by the Money Advice Trust. You can read online information at www.nationaldebtline.co.uk or call 0808 808 4000.

For more general debt and money advice, there is also a network of Citizen’s Advice Bureaux around the country. You can search for your local bureau here: www.citizensadvice.org.uk

Further information on specific types of credit

Student loans
Different agencies deal with student loans in different parts of the UK:

Student Finance England www.direct.gov.uk/studentfinance

Student Awards Agency for Scotland www.saas.gov.uk

Student Finance Wales www.studentfinancewales.co.uk

Student Finance Northern Ireland www.studentfinanceni.co.uk

There is also a general website for information about repaying student loans: www.studentloanrepayments.co.uk

Professional and Career Development Loans
Official information on PCDLs is available here: www.direct.gov.uk/pcdl
Glossary

**Account balance** The exact amount of money in an account.

**Annual percentage rate (APR)** The actual yearly cost of a loan, including interest and charges. Usually the lower the rate, the better.

**Bank statement** A document sent to customers by the bank listing the transactions (money in and out) on an account – usually sent monthly.

**Credit card** A card used to borrow money or to pay for purchases. The card allows the cardholder credit which they can repay monthly.

**Credit history** A record of credit someone has had in the past.

**Credit limit** The maximum amount allowed to be used on a credit card.

**Credit rating** An assessment of someone’s ability to pay debts based on their history and current assets.

**Credit reference agency** An organisation that collects information on people’s credit history, and reports to prospective lenders.

**Creditor** A person or business money is owed to.

**Current account** A bank account which allows a customer to deposit money and withdraw money, by cash, cheque, standing order or direct debit.

**Debit card** A card issued by a bank. Used in a similar way to credit cards, but the amount is taken from the bank account immediately.

**Hire purchase** A form of credit involving a down payment followed by regular monthly payments. Until the payments are finished, the goods belong to the credit
company, and the user is hiring them from that company.

**Interest** Money that you earn on money you keep in a bank account, or money you pay for borrowing money.

**Interest rate** The amount of interest paid or charged (given as a percentage).

**Minimum payment** The smallest amount you can pay towards money you owe on a credit card. It is stated on your monthly statement.

**Overdraft** An arrangement with a bank which allows customers to withdraw more funds from a current account than they have in the account. It is a form of lending.

**Store card** A store card works like a credit card, but can only be used in the store or chain of store, that issued it.
The NUS/Credit Action guide is produced in association with NASMA.