

Credit

What the law says

Anyone who offers credit must be licensed by the Office of Fair Trading. Most **credit agreements** for amounts of £25,000 or less (£15,000 or less between 19 May 1985 and 1 May 1998) are covered by the Consumer Credit Act 1974. These are called **regulated agreements** and 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**
- be given a copy of the agreement, which is not binding until signed by **both** you and the creditor
- 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 of less than £25,000 (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. 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. If you use a broker who is authorized by the Financial Services Authority (FSA), there is no limit to what they can charge for their services, even if they fail to arrange a loan. If the broker is authorized by the FSA, and hasn't arranged a loan within six months, the maximum they can charge you is £5 (to find out if a broker is authorized by the FSA, go to www.moneymadeclear.fsa.gov.uk, and look on the FSA Register).

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.

Equal liability

If you use your credit card, or if the seller arranged finance for you, the finance company in a regulated agreement is equally liable for the supplier's breach of contract, providing the purchase price was over £100, and under £30,000. This means that you may claim against the credit company, the supplier, or both jointly. This does not apply to hire purchase or conditional sale, where the contract is with the finance company and not the supplier. It does not

apply to purchases made with credit card cheques. Your claim with these agreements would lie solely with the credit provider. If you arrange your own credit such as a bank loan, the bank will **not** be liable for problems with the goods or services. The principle of equal liability is especially useful if the supplier has gone out of business. If your credit card company denies liability, your local Citizens Advice Bureau may be able to help, or contact Consumer Direct on 0845 404 0506.

Cancellation of a regulated credit agreement

By you:

In certain circumstances, you have the right to cancel a credit agreement if:

- you have signed the credit agreement recently; *and*
- you have talked to the seller about the deal face to face (rather than only on the telephone); *and*
- you did not sign the agreement on the seller's business premises; *and*
- the goods have been delivered and it is still possible to return them to the seller in their original state. You will not be able to cancel if the goods are perishable. If you have allowed the seller to install goods (for example, double glazing), you would be able to cancel the credit, but would still be liable to pay the cash price.

In such circumstances, it is essential that you **act quickly** and notify the creditor immediately **in writing** that you wish to cancel. When you sign an agreement, you should be given a copy containing cancellation rights and details of how you would exercise these rights. **These rights will only last a short length of time.** The cooling off period runs from the date you signed the agreement and ends five days after you received either the second copy signed by the creditor or a separate notice of your cancellation rights. If you have not been given notice of your cancellation rights, the agreement is unenforceable. Keep copies of any correspondence you send and proof of postage.

Even if the above rules do not apply, you may still have the right to **withdraw** from the deal if the creditor has **not** yet signed their part of the agreement. In these circumstances, you should telephone the creditor immediately to establish whether they have signed their agreement and, if not, inform them you wish to cancel. 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 you have signed a credit agreement and any **cooling off period** has ended, 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.

Credit refusal

You **cannot insist** on being given credit. Most creditors use **credit reference agencies** and **credit scoring** to decide whether to give credit. Creditors do not have to give reasons for refusing to give you credit, although the codes of practice they follow suggest you should be given the main reason for any refusal. 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 county 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. No details are held about magistrate or High 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 may be able to 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 0870 241 6212, Equifax on 0870 010 0583, 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.

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