

Borrower Information Guide



The
Finance Industry
Standards Association



A Professional Approach to Lending

The members of the Finance Industry Standards Association want you to receive a professional service of the highest standard and have published this booklet to help you. Please read it carefully.

Since being formed in 1988 the Association has, through its members, worked to promote and enforce standards in the finance industry. Its members support fairness and openness in the market place. They want you to receive accurate and detailed information to enable you to make informed decisions and borrow with confidence.

The Association publishes Codes of Practice and monitors compliance with them. These codes impose standards which exceed those required by law. The FISA logo is a sign that the trader agrees to follow the Association's Codes of Practice. A copy of the Codes is available on request.

James E. Harper
FISA General Secretary

Many of us use credit to balance our income and expenditure from year to year. These credit or loan facilities take many forms. They include credit cards, store cards, hire purchase, bank loans, mortgages, etc. Whilst some of the loan facilities are products of the latter part of the 20th century, the basic principle of balancing income and expenditure is still just as important as it always has been.

FISA *Members help people meet the financial challenges of everyday life.*

Despite the efforts of the finance industry to use plain English on loan agreements and other documents you may still not be familiar with some of the language used. It is important that you familiarise yourself with the terminology. Be aware of your rights and responsibilities when obtaining credit. If you have any doubt as to the meaning of any contract or clause you should always get independent advice.

This booklet is designed specifically to give information to those applying to a credit broker for a secured loan or mortgage and will answer many of the most frequently asked questions. However it is not possible to cover everything in a single booklet. If you have any questions regarding a proposed or existing loan agreement

you should always get further advice. The Association has taken every effort to be accurate, but interpretation of existing legislation in this booklet is for guidance purposes only.

If you do not understand any term or condition contained in any loan document you should get independent advice.

Borrowing money is a serious matter and should not be undertaken without proper consideration. It might be difficult, particularly in these days of “instant” credit, store cards, and credit cards, but you should always think carefully before you borrow. Ask yourself “Can I really afford this item – or this loan?”

Included in this booklet are the details of a number of advisory bodies together with a short description of the type of advice they each provide (see page 27).

This booklet also tells you how your data will be used (see Data Protection on pages 19 to 26).

***Please read this booklet carefully.
It is designed to help you.
Keep it safe for future reference.***

What is a Secured Loan?

In simple terms a “secured” loan gives security to the lender, not to you, the borrower. It is any loan which requires the borrower to provide the lender with some form of security other than just a promise to pay. The “security” might be any number of things including: the deposit of goods; the retention of ownership of goods (as in a hire purchase agreement); or the provision of a mortgage over property. As this booklet concerns itself mainly with loans provided through credit brokers the “security” will inevitably be a mortgage over property and in most instances that property will be the borrower’s home.

If you agree to a mortgage or secured loan on your home, you should remember that, although the property remains in your possession, it can be repossessed by the lender if the loan and the interest are not paid according to the agreed terms. The lender will then sell the property in order to recover the money you borrowed plus additional costs incurred in recovering the money – this is the same with all lending companies. **It does not matter what type of lender is involved** – high street bank, building society or finance company. If you borrow money using a mortgage as security you are agreeing that the lender can claim the mortgaged property if you fail to keep to the agreement.

***YOUR HOME IS AT RISK IF
YOU DO NOT KEEP UP
REPAYMENTS ON A
MORTGAGE OR OTHER
LOAN SECURED ON IT.***

What if I already have a Mortgage on my home?

It is possible to have more than one mortgage on your home. Many banks, building societies and lending companies will lend if there is sufficient “free equity” in the property. This is the difference between what the property is worth and what you owe on any existing mortgages.

Some people think that if they pay their first mortgage they can miss payments on any second or subsequent mortgage. **THIS IS WRONG.** The second mortgage company has similar rights to the first mortgage company. The second mortgage company can claim the mortgaged property if the terms of its agreement are not kept.

It is also worth remembering that if you own or are buying your home and you borrow money with an unsecured loan, without providing a mortgage as security, the lender may still be able, in the event of default, to seek recovery of the money through the Courts via a Charging Order on your home.

All FISA lending companies deal sympathetically with consumers in arrears and will only seek possession as a last resort after exploring all other possible options.

Is there any benefit obtained by having a secured loan compared to an unsecured loan?

This will depend on the terms of the loan. Many lending companies will only lend if security is provided. Very often the interest rate will be lower on a secured loan than on a comparable unsecured loan. A secured loan may offer more flexible repayment periods. In many instances secured loans can be repaid over a longer period with a lower monthly repayment. It is important that you read any loan agreement carefully. Pay particular attention to the rate of interest required, the term of the loan, the repayments required and the total amount payable.

Long term loans are not designed and should not be used as bridging loans or to meet other short term needs.

(see page 9 for information on paying a loan off early).

How should loans be compared?

There are a number of factors you need to consider when comparing one loan with another. These may include; speed or availability, repayment periods and the monthly repayment. An important factor to consider when comparing loans is the APR (the **Annual Percentage Rate** of charge).

The APR reflects the true cost of the loan.

The APR includes all the interest together with any other charges. This makes it easier for you to compare the true cost of borrowing.

If your credit broker charges a fee of any kind, or if you have to pay for a service (search fees, valuation, etc.) as a condition of the loan these costs must be included and reflected within the APR.

APR

If you want to compare the cost of different loans the APR figure is the one to use.

APR Variable

The APR may be described as “variable”. This generally means that the interest rate may go up or down during the lifetime of the loan. **It does not mean that the rate will automatically go up and down with Bank of England base rates – or any other base lending rate** unless the loan agreement specifically states it is linked to a base rate.

Many loan contracts permit the rate to be varied when the lender, for valid reasons, thinks it is appropriate or prudent to do so, regardless of base rate movements. If the interest rate does increase, this would normally require you to increase your monthly payments. Failure to do so may cause the loan balance to increase.

Always read the loan agreement. This will tell you if the APR is variable and if the interest rate is linked to any other rate or factor.

If you have a tight budget, or do not want your loan payments to alter, you may wish to consider a “Fixed” rate loan. Many companies are happy to fix the interest rate for a certain period of time – although not many companies will fix the rate for the whole period, particularly where the loan or mortgage is over a long term. Ask your broker or lender for details of both fixed rate and variable rate loan products, **check the period over which the interest rate is fixed.**

REMEMBER –

The loan agreement will tell you if the interest rate is variable.

To help you further, the examples below and the table overleaf show what a loan would cost over varying periods at different APRs. Use this to calculate what difference an increase (or reduction) in interest rates might make to your payments. The figures in the table are rounded to the nearest penny. Actual payments may vary slightly.

EXAMPLE 1

*Assume a loan of £8,000 over 120 months at 14% APR, this would give a monthly payment of £120.27.
If the interest is 15% APR the monthly payment would be £124.49.*

EXAMPLE 2

*Assume a loan of £1,000 over 180 months at 14% APR, this would give a monthly payment of £12.77.
If the interest is 15% APR the monthly payment would be £13.36.*

For further examples see the table overleaf.

Monthly Repayment table per £1000 borrowed

| APR | Term of loan in months | | | | |
|-----|------------------------|-------|-------|-------|-------|
| | 60 | 120 | 180 | 240 | 300 |
| 25 | 27.92 | 21.03 | 19.45 | 18.99 | 18.84 |
| 24 | 27.45 | 20.47 | 18.84 | 18.34 | 18.17 |
| 23 | 26.99 | 19.91 | 18.22 | 17.68 | 17.50 |
| 22 | 26.52 | 19.36 | 17.60 | 17.03 | 16.83 |
| 21 | 26.06 | 18.81 | 16.99 | 16.37 | 16.15 |
| 20 | 25.60 | 18.26 | 16.37 | 15.72 | 15.47 |
| 19 | 25.13 | 17.71 | 15.76 | 15.07 | 14.79 |
| 18 | 24.67 | 17.17 | 15.15 | 14.41 | 14.11 |
| 17 | 24.21 | 16.63 | 14.55 | 13.77 | 13.43 |
| 16 | 23.76 | 16.09 | 13.95 | 13.12 | 12.76 |
| 15 | 23.30 | 15.56 | 13.36 | 12.48 | 12.08 |
| 14 | 22.84 | 15.03 | 12.77 | 11.84 | 11.41 |
| 13 | 22.39 | 14.51 | 12.19 | 11.21 | 10.74 |
| 12 | 21.94 | 13.99 | 11.61 | 10.59 | 10.08 |
| 11 | 21.48 | 13.48 | 11.04 | 9.97 | 9.43 |
| 10 | 21.04 | 12.98 | 10.48 | 9.37 | 8.78 |

The above table is only a guide. The actual amount of any increase will also depend on other factors, the balance, arrears, etc. If the balance has reduced since the loan was obtained the actual increase would be less, e.g. If we take the previous example – an £8,000 loan which has run for 48 months with no arrears – a 1% increase would result in a new monthly payment of £123.08, not £124.49 as shown.

What happens if I want to pay my loan off early?

As already stated on page 5 you should not use long term loans as bridging loans or for short term needs. If, after having taken a loan, your circumstances change and you wish to repay your loan early you will have to ask the lending company for a “redemption” or “settlement” statement – this will detail how much you have to pay to redeem the loan. The lending company will permit you to repay the loan early. You will not (unless the loan has only a few months to run) be required to pay all of the interest due over the remaining term of the agreement. The lending company may require you to pay part of the interest you would have paid had the loan run its full term.

The method of calculating the amount of money required on early redemption will be stated in the loan agreement.

The method of calculating the amount payable on early redemption varies between lending companies and even between different loan agreements issued by the same lending company. For example, some loan agreements will state that if the borrower wishes to pay the loan off early a number of months interest will be added to the balance at the time of redemption. This is very common particularly on loans or mortgages for larger amounts. It is also very common, for companies offering special offers to new borrowers, to include a requirement that in the event of early redemption a charge of a number of months interest will be added to the outstanding balance on the mortgage.

The Consumer Credit Act (which governs loans up to £25,000) prescribes a calculation which determines the maximum amount of money to be paid in the event of early redemption.

On loans or mortgages of up to £25,000 it is more common for the redemption calculation to be more complex. The wording used on many agreements will say something like “**in the event of early redemption a rebate will be given in accordance with Rule of 78**” (sometimes the “**Rule of 78**” is referred to as “**the sum of the digits**” or “**Regulations made under the Consumer Credit Act 1974**”).

The word “rebate” can cause confusion. You should remember the rule calculates a rebate on the total charges you would have paid over the full lifetime of the loan. **It will produce a figure greater than the capital element of the loan balance.**

The mathematical formula, prescribed in law, assumes that during the life of a loan the debt decreases from the opening balance to the amount of the last payment. It also assumes that the amount of interest applicable to any particular month is proportionate to the balance outstanding in that month. This creates the effect that a larger amount of interest is attributed to the early months of the agreement than to the later months.

Using a 12 month loan period as an example, the rule divides the total interest payable into equal units. It then assumes that the amount of interest for month 1 is 12 units, the amount for month 2 is 11 units and so on, the amount of interest for the last month would be 1 unit. The rebate calculation is known as **Rule of 78**, because when applying this principle to a loan of 12 months duration the digits add up to 78, i.e.: $12+11+10+9+8+7+6+5+4+3+2+1=78$.

In recognition of the lender incurring costs when granting a loan the Consumer Credit Act permits the date used to work out the amount due to be deferred beyond the actual date of repayment. The deferral period is 2 months on loans of up to 5 years duration and 1 month on loans of more than 5 years.

If a 12 month loan is settled early at month 6 the settlement date would be deferred by two months to month 8. The amount of interest attributable to the remaining period would be $4+3+2+1=10$. This would result in a rebate of $\frac{10}{78}$ of the total interest charged. This requires that a total of $\frac{68}{78}$ of the interest will be payable on the loan. This principle is applied to loans of longer and shorter time periods, the figures varying depending on the number of installments involved.

Although the Rule of 78 calculation delivers a rebate of charges it can, particularly when redemption takes place very early in the life of the loan, produce a redemption figure greater than the original loan amount (see table opposite).

The Rebate Formula

$$\frac{M(M+1)}{N(N+1)} \times K$$

M = payments not yet due.
N = total number of payments.
K = total charge for credit.

As you can see the Rule of 78 calculation is quite complex. There are a number of factors which will affect it including the APR, the original repayment period of the loan and any arrears.

The example and chart below will help to explain the effect of the Rule of 78 calculation.

Examples of Early Settlements per £1000 borrowed at 14% APR

| Original Term (<i>months</i>) | | 60 | 120 | 180 | 240 | 300 |
|----------------------------------------------|-----|--------|--------|---------|---------|---------|
| Monthly Payment | | 22.84 | 15.03 | 12.77 | 11.84 | 11.41 |
| Month in which redemption takes place | 20 | 786.46 | 970.12 | 1041.96 | 1082.61 | 1110.03 |
| | 40 | 445.03 | 867.65 | 1024.92 | 1112.63 | 1171.09 |
| | 60 | | 720.91 | 975.99 | 1117.17 | 1210.68 |
| | 80 | | 529.89 | 895.17 | 1096.24 | 1228.81 |
| | 100 | | 294.60 | 782.46 | 1049.84 | 1225.47 |
| | 120 | | | 637.87 | 977.97 | 1200.66 |
| | 140 | | | 461.39 | 880.63 | 1154.38 |
| | 160 | | | 253.02 | 757.81 | 1086.64 |
| | 180 | | | | 609.53 | 997.44 |
| | 200 | | | | 435.77 | 886.77 |
| | 220 | | | | 236.54 | 754.63 |
| | 240 | | | | | 601.02 |
| | 260 | | | | | 425.95 |
| | 280 | | | | | 229.41 |

Example: If you borrowed £1000 over 180 months at 14% APR and wanted to pay it off at month 120 the amount required to pay off the loan would be £637.87. If you wanted to redeem the loan at month 40 the redemption figure would be £1,024.92.

FISA lenders often give a larger rebate than the law provides – this reduces the amount payable on early settlement.

It should be remembered that the balance of the loan will affect the redemption figure. A loan balance will increase, or not decrease as it should, if you do not make the payments on time or if you miss payments. It will also increase if the lender makes a charge for correspondence informing you of things like missed payments, unpaid direct debits, or returned cheques. The lender is likely to charge fees for supplying items like a deed of postponement, or a transfer of security. The lender will provide you with a tariff of these charges. Charging fees of this nature is common amongst banks, building societies and finance companies.

If you have authorised it, the loan balance may also include items like the premium cost of any insurance and any credit broker's fee. These will all attract interest and influence any redemption calculation.

What is a Credit Broker?

A credit broker is a firm or person who introduces the consumer (you) to a lending company for the purpose of obtaining credit.

***If you are
looking for
standards –
look for the
FISA logo.***

Those who wish to trade as a credit broker must be licensed to do so. The licence is issued by the Office of Fair Trading. You should be wary of traders who suggest that the licence endorses their services or products. It does not. FISA brokers will not suggest that it does.

If you want to check the details or validity of a licence you can do so by contacting the Consumer Credit Licensing Bureau at the Office of Fair Trading.

As you are reading this booklet it is probable you are applying for a loan via a credit broker – if you are, ask if he is properly licensed. It is also worth asking him if he is a member of this Association.

Many Credit Brokers are FISA registered

This identifies them as being a signatory to the Association's Codes of Practice. In doing so they volunteer to observe higher standards than those required by the law. The Association, in common with other trade bodies, monitors the conduct of its members in order to ensure that high standards are achieved and maintained. This helps you to be more properly advised.

FISA
registered

Whilst this Association requires its members to act at all times in accord with its Codes of Practice it does not endorse any individual loan product.

All FISA registered Brokers are licensed in accordance with the requirements of the Consumer Credit Act 1974.

What does the Credit Broker do?

The task of the credit broker is to obtain the loan you require on terms acceptable to you.

The broker must explain what different documents are used and what they mean. He must make all reasonable efforts to ensure that you fully understand the nature and terms of the agreement and your obligations under it. He will provide copies of all relevant documentation. If anybody (*including the broker or his agent*) completes a form on your behalf you must **check it carefully** to ensure that the information provided is truthful and accurate. Do not rely on the other person "getting it right". Remember, if you sign a document **you will be held responsible for its accuracy**.

Advice given by the Broker must be suitable and appropriate to your needs and circumstances and must reflect accurately the products supplied and advertised.

Remember your broker may only provide a limited range of products and may be unable to provide comprehensive information on products not within his product range.

The Broker may provide you with information or application documents through the post or by a personal visit to your home. If he visits your home he must obtain your permission first (for loans up to £25,000 he must obtain your written invitation to visit before arriving to discuss the loan). If a home visit is requested, the broker or his agent must not use high pressure selling techniques or engage in aggressive sales techniques or overstay his welcome.

The FISA codes prohibit the use of high pressure selling techniques or selling practices unacceptable to FISA.

A credit broker must not tell you to misstate your income or provide incorrect or false information on the application form. He must not invite you to sign any blank form or one which has not been completed properly **in ink**.

If you have any doubts about how a credit broker has acted you must take independent advice. It would also help if you informed the lending company or FISA of your concerns.

**FISA Brokers
must conduct
all business
in an honest
and ethical
manner.**

How is the Credit Broker paid?

Credit brokers like any business, have expenses to meet. In addition to all the normal expenses like rent, rates, salaries, advertising, a credit broker incurs processing costs. A broker has to process each application to verify the information supplied. This could include valuation costs, mortgage and other credit reference costs. Like other businesses, the broker must cover all his costs in the sale of his products and services. **It is the individual loan product which, ordinarily, will determine the way in which the broker is to be paid.**

The list opposite explains the most common forms of payment.

Common methods of Broker Remuneration

1 COMMISSION IS PAID BY THE LENDING COMPANY

This is very common. Many lending companies pay the broker a commission for introducing the customer to them. The commission is usually a percentage of the loan amount and may include an element of commission in respect of any insurance product sold with the loan. In many circumstances the percentage will be linked to the APR applied to the loan. If your broker is FISA Registered you can assume this is how he will be paid for arranging your loan. The broker may also receive additional periodic commission in respect of business introduced to any individual lending company during any calendar period. The amount of commission may vary but ordinarily would relate to the total or continuing amount of business introduced to the lender.

He will tell you if he is to be paid in any other way.

2 A FEE PAID BY THE BORROWER

Although this is a common form of payment it is probably more common on loans over £25,000. The broker fee is negotiable between you and the broker. In many instances the lender will restrict the upper amount of any fee. The lender may also permit you to add the broker's fee to the loan amount. Remember the cost of any broker fee should be included within the APR.

The broker should tell you the amount of his fee, in writing, before you enter into any agreement.

3 A FEE PAID BY THE BORROWER AND A COMMISSION FROM THE LENDING COMPANY

A number of lending companies will pay the broker a commission knowing the broker is also to receive payment from the borrower. Although it is not always the case the lender may restrict the upper amount of any fee payable by the borrower. Ordinarily the fee will be disclosed on the loan agreement.

If a broker advertises "no fees" and then charges you a fee he is breaking the law.

FISA lending companies do not permit any type of application fee to be charged on their loan products.

If the loan is not with a FISA lending company a fee may be payable when you apply for the loan. If you are required to pay an application fee ask the broker to provide an invoice listing where and how the money is to be spent. Ask the broker to confirm (in writing) the APR and that the fees are included within the APR.

Always check the APR of the product offered.

If you don't take up a loan within six months the maximum fee the Broker can charge is £5.

If a fee has already been paid of more than £5 and the loan was for £25,000 or less the broker must refund the difference. If the loan was for more than £25,000 the broker still has to refund his fees (less £5) but he does not have to refund any money which was not part of his fee. For example if the application required a valuation this would have to be paid for. If you are applying for a loan or mortgage of more than £25,000 obtain a detailed invoice of all fees and charges **before** you part with any money.

REMEMBER. The cost of the credit, which includes all interest, broker fees and all other non optional costs, must be calculated within the APR.

Use the APR to compare the cost of loans.

Can I change my mind and cancel the loan?

The right to cancel varies considerably, not only between the different types of loan but also where the contract was signed. Always check the loan agreement – if the agreement does not say that you have a right to cancel then you cannot do so. For example, with some types of unsecured credit you cannot cancel if the agreement was signed in the trader's shop, office or other business premises.

If you are applying for a secured loan or mortgage of up to £25,000 the law requires you to be given copies of the loan agreement (and all relevant documents) in order that you can read the documents carefully and consider the loan properly. You will have seven clear days to study the documents. During this time neither the lender

or broker is allowed to initiate contact (they can respond to any questions or queries raised by you). This period, known as the “consideration period”, gives you an opportunity to take independent advice. You will not be given a “signable” copy of the agreement until the expiry of the consideration period. Once the signable documents have been received you have a further seven days to consider the loan before either the lender or broker can initiate contact. If you do not sign the agreement the loan will not be granted.

If the agreement is signed the loan conditions are enforceable.

This **consideration period** protection is only available on loans of £25,000 or less. If the loan is for more than £25,000 this protection is not provided. It might seem odd that you have a statutory protection for loans below £25,000 and not for larger loans or mortgages. The law supposes that this protection, as provided within the Consumer Credit Act 1974, is not needed for loans larger than £25,000 as it is more likely that borrowers will take legal advice before agreeing to borrow a large loan or mortgage.

In addition to providing a consideration period for loans up to £25,000 FISA lending companies will, ordinarily, provide a 7 day cancellation period for loans over £25,000.

What if your partner wants the loan and you do not?

Sometimes a person may want a loan when their partner does not. One person may pressurise another to take a loan. This pressure, which does not have to involve violence, is called “undue influence”. Lending companies do not want to lend when this happens. **Tell the lending company and the loan will not go ahead.**

What happens if I fall behind with the payments?

Do not take out a loan unless you know you can keep up the monthly payments. If circumstances change which may cause late or non payment the lending company **must** be informed.

The lending company may be able to help with a number of options if the account is not too far behind, or better still, no payment has yet been missed. The lending company may, if you fail to make payments on time, notify a credit information bureau of the late or non payment and this may injure your credit status. If payments have been missed the lender will write informing you that the account is in arrears. The lender may charge a fee for this type of letter and these fees may be added to the loan balance. This will attract interest (sometimes called "default interest").

The sooner you talk to your lender the easier it will be to help you.

Do not ignore missed or late payments. Take action – inform the lending company of the problem as soon as possible.

If a lending company has to instruct solicitors to take action against you to recover their money they will, ordinarily, add these costs to the loan. This is the same for most banks, building societies and finance companies.

If any mortgage holder repossesses your property and the sale of the property does not cover the debt(s) you will still be liable to pay any outstanding amount.

Remember....

YOUR HOME IS AT RISK IF YOU DO NOT KEEP UP REPAYMENTS ON A MORTGAGE OR OTHER LOAN SECURED ON IT.

Data Protection



In simple terms the Data Protection Act requires companies and individuals who process and retain information about their customers to tell the customer how the information will be used and to what purposes it will be put. The Act does not restrict itself only to information kept on a computer; it is relevant to any ordered filing system. If you have applied to a FISA company the information below describes how your data will be processed. If your information is to be processed differently the trader will tell you.

Credit Brokers

If you have applied to a credit broker they will use the information you have provided to:

- ❖ process the application you have made;
- ❖ make, or cause a search to be made, at a credit reference agency (see the note on the following page) – this search will be shown in any other searches which are made in connection with applications made by yourself and other members of your household. The disclosure of multiple searches may adversely affect your credit profile and may make credit harder for you to obtain;
- ❖ information held about you by a credit reference agency may already be linked to records relating to another person, for example your spouse, and for the purpose of your loan application you will be treated as financially linked. Your loan application will be assessed with reference to all linked records;
- ❖ if you have confirmed you are linked financially with another person, you are declaring that you are entitled to (a) disclose information about that person and/or anyone else referred to by you and (b) that you authorise the broker and any lender involved in the application to search, link and/or record information at credit reference agencies about you and/or anyone else referred to by you.

The broker may also use the information:

- ❖ to offer you other products which they make available;
- ❖ to pass your details on to a lender or lenders they feel may be willing to lend you money;
- ❖ to pass on your details to another broker, if your broker is not able to arrange finance for you;
- ❖ to write to you in the future with a view to offering you products they feel may be of interest to you;
- ❖ to pass your details to another broker in the future with a view to them offering you products they feel may be of interest to you;
- ❖ to permit access to your information by the FISA or other regulatory bodies to ensure that the broker is processing information correctly and complying with regulatory requirements.

The broker may keep the information for several years. You can ask for the information not to be used to offer you other products.

Any other broker or lender to whom the information is passed during processing your application may use it in the same way.

Every company or person who processes or keeps data has a duty to keep that information up to date and accurate.

NOTE - CREDIT REFERENCE AGENCIES

The names and addresses of the main credit reference agencies are shown on page 24. Brokers and lenders may use one or more of these agencies. Information about which credit reference agency was used should be made freely available.

Lending Companies



Use of information when application is being processed.

Lenders to whom the application is passed will make wider use of the information than a broker. If you have received any lender documents, they should include a statement telling you what they will do with the information, or telling you where to look to find out what use they will make of it. This statement will usually be near any signature box, or clearly placed on the front page. If the information is not by the signature box there may be an “information padlock” sign (like the one above) drawing your attention to where the information is.

***This guide tells you all the likely uses;
some lenders may only do some of the things we explain.***

Almost all lending companies will check the information supplied on loan or mortgage applications with data held by credit reference agencies. Every time a search is made it is recorded by the agency and disclosed to other organisations on any later searches. Lenders will use the information obtained in the credit reference search to help them assess the application and they may use the result of any search in a credit scoring system.

A credit scoring system is a system by which points are given for various factors like your age, your job or even for information obtained from a credit reference agency, such as how you have repaid previous or existing credit. Lenders use different methods of scoring depending upon their interpretation of the importance of different factors and the level of risk they are willing to accept.

***You should be told if a lender is going to use a
credit scoring system.***

The lender may check your details with the credit reference agency or with other agencies (see pages 24 and 25) to satisfy itself that all the details on the application

are true, and that the application has really been made by you. If it suspects information is false or inaccurate it may report it to a fraud prevention agency. Please ensure the information you give is true as lending companies will check with fraud prevention agencies and if you give false or inaccurate information, and the lender suspects fraud, it will record this.

NOTE - OTHER AGENCIES SEARCHED

As well as the credit reference agencies, there are agencies dealing specially with the checking of application details to identify possible fraud. This is a protection for honest applicants, although it can sometimes cause delays. Details of these other agencies, and a brief outline of their purpose, are given on page 25 of this guide.

***Nobody has a right to receive a loan.
Loans are always granted at the discretion of the
lending company.***

What if my loan application is not accepted?

Sometimes a lender may not wish to lend. This may be for a number of reasons. The lender may think you cannot afford the loan. If it is a secured loan, your property may not be of sufficient value.

A lender does not have to tell you exactly why you have been refused a loan but you can ask them for the name and address of any credit reference agency used and they will supply this information free of charge.

If you are refused credit because of a computerised credit scoring system you can ask the lender for an explanation of how their credit scoring works (this applies only if the decision has been made on the basis of a computerised system alone). The lender may charge a small fee for providing this information. You also have the right to require a personal, non automated, review of the decision.

Use of information once a loan has been made

All lending companies keep information about their customers in their own records. This will include all the initial information given by you, and extra information about how your account has been run and any other dealings between you and the lender.

Lenders will record the conduct of any loan throughout its duration, including how punctually the payments are made and other information, with one or more of the credit reference agencies. This enables them, and others, to make decisions about credit and credit-related services for you and members of your household including decisions on motor and household credit, life and other insurance proposals and insurance claims.

Information may also be provided to the other agencies mentioned on page 25. These will help lenders and other subscribers to those agencies to trace debtors, recover debt, prevent fraud and to check your identity to prevent money laundering. In particular, any difference between the information given by you or your broker and any later information discovered by the lender is likely to be noted.

Lenders may also use your information for statistical analysis about credit, insurance and fraud. This may be done by them or by third parties contracted to do the work by them. If they use a contractor, they are obliged to ensure that your data is properly secure. Many lenders will also need to give information about you and your account to their bankers, other providers, insurers and re-insurers of funding for their lending or any other product they have offered to you.

If your broker or lender intends to use your information for any purposes not included above, it will explain this in its documents.

Brokers and lenders are under a legal duty to keep all the information they hold accurate and up to date.

Credit Reference Agencies

The main credit reference agencies are:

Callcredit Plc,

Consumer Services Team,
PO Box 491,
Leeds, LS1 5XX

Equifax Plc,

Credit File Advice Service,
PO Box 3001,
Glasgow, G81 2DT

Experian Limited,

Consumer Help Service,
PO Box 8000,
Nottingham, NG1 5GX

All the FISA lending companies use one or more of these agencies.

The agencies do not keep “blacklists” nor do they give any opinion about whether or not credit should be granted. They do have a duty to keep information up to date and accurate.

Credit reference agencies keep a wide range of information. This includes information from the electoral roll (sometimes known as the voters roll) and records of most county court judgements and bankruptcies. They also retain information relating to previous and existing credit and a record of searches made against the file. The lenders share information through the agencies providing a history of how punctually payments are being made or have been made. Loan information is usually held on file for 6 years. Details of the voters roll may be held for much longer. Information about credit searches is kept for up to two years.

Other Agencies

CIFAS

Reports from CIFAS relating to fraud and fraud avoidance are also available to its members (most lenders) – these contain information indicating that fraud, or attempted fraud, has been notified by a lender. The information might not directly relate to you, it might relate to someone who has tried to impersonate you. Data available to members of CIFAS, may also be used to help make decisions on motor, household, credit, life and other insurance proposals for you and members of your household.

CIFAS information is intended to warn lenders and act as a protection for innocent customers.

CML Repossession Register

The Council of Mortgage Lenders, Repossession Register is available to its members through the main credit reference agencies. If you have had a property repossessed or have given it up voluntarily this will show on the register.

GAIN

A file may also show a “gone away” marker indicating that a member of the “Gone Away Information Network” has reported that they cannot trace a customer who is in arrears with payments. Alternatively, the marker may indicate a new address which the “gone away” has been traced to.

HUNTER

Files in this register contain detailed information on applications made and loans given. It is aimed at tracing fraudsters who use different combinations of information to obtain credit dishonestly. It checks and counter checks information given on application forms.

If your broker or lender uses any of the above agencies they will be able to confirm their contact addresses.

All Agencies, Brokers and Lenders

You are able to see what information any of the above hold about you. You can ask them for a copy at anytime. They must also tell you where the information was obtained. You will need to write and they may charge a small fee (£10 maximum). The firm will have to reply within 40 days from receipt of their fee.

If you wish to see the information contained on a credit reference agency file you can do so by writing to the relevant agency. The agency must respond within 7 working days. There is a small fee of £2 required. If your credit reference file contains information about other people with whom you have no financial connection or if it contains information which is incorrect you can ask for the entry to be corrected, removed, or have a note put on the file explaining why you think the information is wrong. The agency will not remove correct information.

The Data Protection Commissioner provides a useful leaflet which explains how to request changes to your credit reference file. The easy to read leaflet includes examples of letters and details of various actions you may take to amend a file.

***You can obtain a copy of the free leaflet by writing to:
No Credit Leaflet, P.O. Box 99, Nelson, BB9 8GS.
Information is also available at www.dataprotection.gov.uk***

Where to go for advice

If you have a problem with an existing loan or mortgage you should inform the lending company of the problem. In most instances they will help. The matter may be easily resolved.

If you are considering a loan and do not understand or are unsure of the meaning of any contract term ask the lending company to explain it. The name and address of the lender will be on the loan documentation. Ask for the explanation to be given in writing.

If your problem is unresolved, or if you are still unsure of the meaning of any loan contract, one or more of the following may be able to help:

Citizens Advice Bureau

See local telephone directory for address and telephone number. Will give general advice – the service is provided free of charge.

Money Advice Centres

Only available in limited areas – see local telephone directory for address and telephone number. Will give general advice – the service is provided free of charge.

Solicitors

See local telephone directory for address and telephone numbers. Advice is not free – although some solicitors offer a free initial consultation.

Trading Standards Departments

See local telephone directory for address and telephone number. May be able to advise on aspects of credit law and other consumer issues – the service is provided free of charge.

The Office of Fair Trading

Provides information booklets and leaflets on various subjects including credit. Does not offer individual advice.

OFT, P.O. Box 366, Hayes, UB3 1XB

Telephone: 0870 60 60 321

Fax: 0870 60 70 321

e-mail: oft@echristian.co.uk

web site: www.oft.gov.uk

*The Association believes this guide is true
and accurate at the time of printing.*

*If there is any difference between the
statements in this guide and in any
Credit Agreement, Legal Charge,
Mortgage or Standard Security document,
the Credit Agreement, Legal Charge,
Mortgage or Standard Security document
will apply.*

*If you have any doubt seek legal advice
before signing any loan document.*

The FISA Lending Companies

Cedar Holdings Ltd.

Endeavour Personal Finance Ltd.

First National Bank plc.

FirstPlus Financial Group plc.

Future Mortgages Ltd.

H.F.C. Bank plc.

igroup loans limited

London Mortgage Company

Paragon Personal Finance Ltd.

Sterling Credit Ltd.

Swift Advances plc.



The companies listed above are FISA lending companies. This list is correct at the time of printing. If you wish to confirm if any other lender is a FISA lender or if you wish to confirm if any broker is FISA Registered you may do so by contacting the FISA office.

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