July 2025

Let's Talk

Police Mutual

Borrowing

Most of us will need to borrow money at some point in our lives, whether it's for a student loan, a car, or to pay for your first home. There are lots of different ways to borrow money, so before borrowing it's a good idea to find out details of the different options available so you can make a choice about which one is best for you.

The most common forms of borrowing are personal loans, credit cards, overdrafts and mortgages. You will typically pay interest on what you borrow and possibly other charges as well. A useful way of comparing costs is to use the Annual Percentage Rate (APR). You should also look at how much you have to pay overall (the total amount payable) and whether you can afford the repayments now and if your circumstances change.

Credit Cards

Making payments with credit cards is quick, simple and convenient, so it's easy to understand why people get into credit card debt.

A credit card allows you to spend money on credit. It is a rolling credit facility. It also allows you to buy items and withdraw cash (at a cost) and some providers will allow you to transfer credit card debt from another provider.

Choosing the right credit card

Choosing a credit card can mean digesting a lot of information and numbers – it's much easier if you know what to look for.

Look at the APR

The annual percentage rate (APR) is a measure of the overall cost of credit. In general terms the higher the APR the more interest you will pay and allows you to compare the cost of one card with another. Other factors you need to consider are how you use the card – for example using the card for cash withdrawals is likely to be more costly that using the card for purchases. Lenders have to include the APR in the credit agreement and the pre-contract credit information, and in most advertising. The APR can be used to compare different credit cards, but it should only be the starting point. You also need to look at the individual interest rates for:

- **purchases**
- **cash advances**
- **balance transfers**
- **how long any introductory period lasts**

Watch out for 'Representative APR'

What you see isn't always what you get. Some card providers set your interest rate based on your credit history. This means that if you don't have a good credit rating, you might pay a higher rate of interest and so the APR might be higher than advertised. Advertising will usually quote a 'representative APR' - one that most people are offered. If you have a poor credit history or are new to credit so have a 'thin' credit file, you might be charged a higher rate. Ask the card provider for a quote before applying.

Check the fees

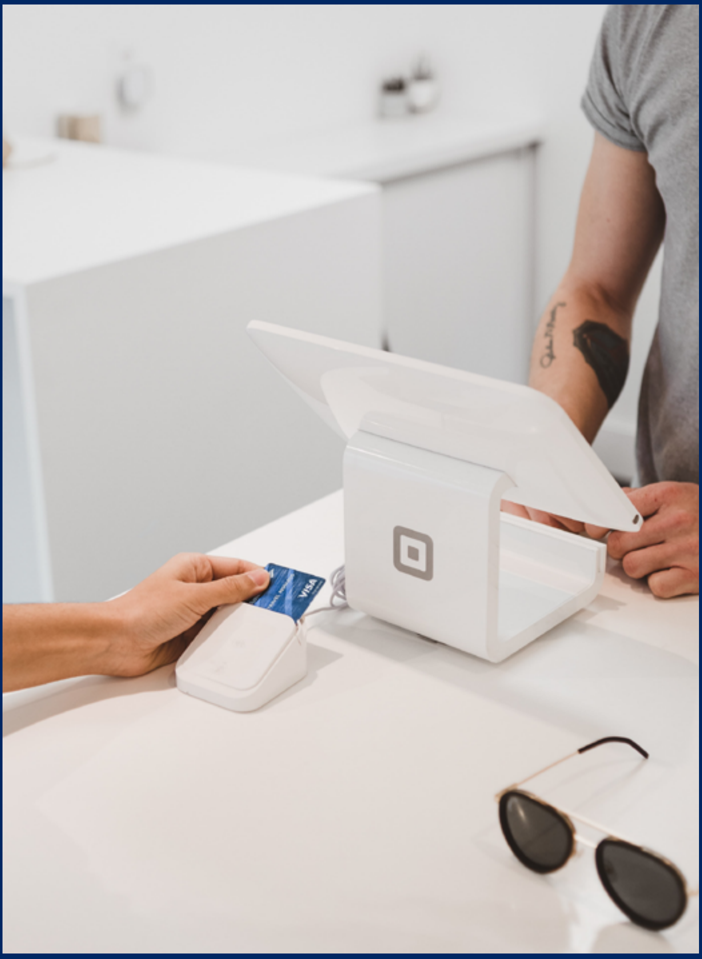
The APR doesn't include any charges which may be made for late payments, exceeding your credit limit or returned payments.

Weigh up introductory offers

Card providers often tempt you with offers that last for a fixed period of time. The most common is to pay 0% interest on things you buy or balance transfers (debt you transfer from another card). In some cases the 0% offer might be on both purchases and balance transfers, but typically it's just on balance transfers, or the introductory periods might be different.

Check carefully what's being offered. A 0% purchase offer is a cheap way of borrowing when you need to buy something big. But make sure you can pay it off in full before your introductory period ends, as otherwise, you'll start paying interest on the outstanding balance.

You might want to consider transferring the outstanding balance to another card then, however the same offers might not be available to you, particularly if your credit rating has gone down in the meantime.



The golden rules

If you take out a credit card with an introductory interest rate then always try to clear or move the debt before the introductory rates ends.

Before applying for a new card use the eligibility calculator here to find the cards you're most likely to be accepted for.

Repay at least the monthly minimum payment or you may lose the lower rate.

Try not to withdraw cash on any type of credit card. If you do you could end up with huge costs.

Check the terms and conditions on a balance transfer offer

A balance transfer means moving your debt from one credit card to another. There are some good introductory offers around but check how long these last. You will often have to pay a fee, usually around 3% of the balance transferred, so you need to take this into account. Also, check if there's a time limit on the transfer. If you don't make at least the minimum payments throughout, the 0% offer might be withdrawn. Some 0% balance transfer cards don't charge a fee. This could be good value, even if the 0% period is shorter than on other cards, provided that you can afford to repay the debt before the introductory period ends.

Does having another card harm your credit score?

Having another card in itself can have an impact on your credit score as it gives you access to more available credit. Whether that's positive or negative depends on your circumstances. A balance transfer card is not for everyone, if you have a really poor credit score or you simply don't trust yourself not to spend on a balance transfer card then you need to think about this before applying.

Check what you'll pay each month

If you don't plan to pay your balance back in full every month, use the Money Helper credit card calculator **here** to work out how much interest you could end up paying. The figures can be scary. Unless you're on a 0% deal or have more expensive debts elsewhere, you should always aim to pay off what you owe at the end of the month. If you can't do that, pay off as much as you can to keep the interest charges down.

Store Cards

A Store cards has to be applied for in the same way as a credit card does. Store cards are issued by retailers and you can normally only use them for shopping in their own outlets. A lot of store cards will have introductory offers that sound like a good deal, but there may be a high interest rate once the introductory period is over. The interest rates for store cards can be a lot higher than credit cards, which can make this an even worse form of credit card debt. So always check which is cheaper overall.

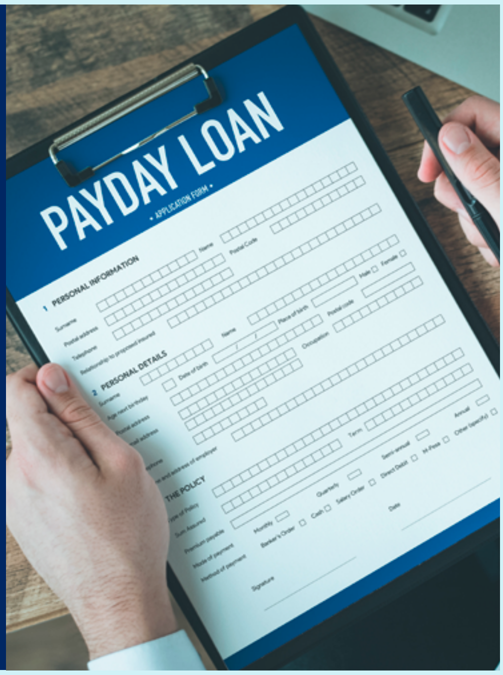
Pay Day Loans

A payday loan is short-term, unsecured loan, which were originally intended to provide you with money until your next payday, but can now run for longer, although they are not recommend to be used for long term borrowing. The amount you can borrow range from as little as £50 to over £1,000.

The interest rate of a payday loan is high, although there is now a cap on the amount of interest and default fees that can be charged.

You should only consider using a pay day loan if you find that you have no other option and due to the following circumstances:

- **You only need to borrow a relatively small amount of money**
- **You only need a loan for a brief period**
- **You are able to repay the full amount with interest**



Buy Now Pay Later

Buy now pay later arrangements are often offered by retailers on major purchases, this could be a new sofa or laptop.

They are credit agreements often provided by a finance house. These type of loans often allow for a period of time where no interest is charged or allow for payments to be deferred for an agreed period of time.

Klarna, Clearpay, PayPal – Pay in 3, and **Laybuy** are just a selection of Buy Now Pay Later providers. While they allow you to split the payment, you could face late fees if you miss an instalment.

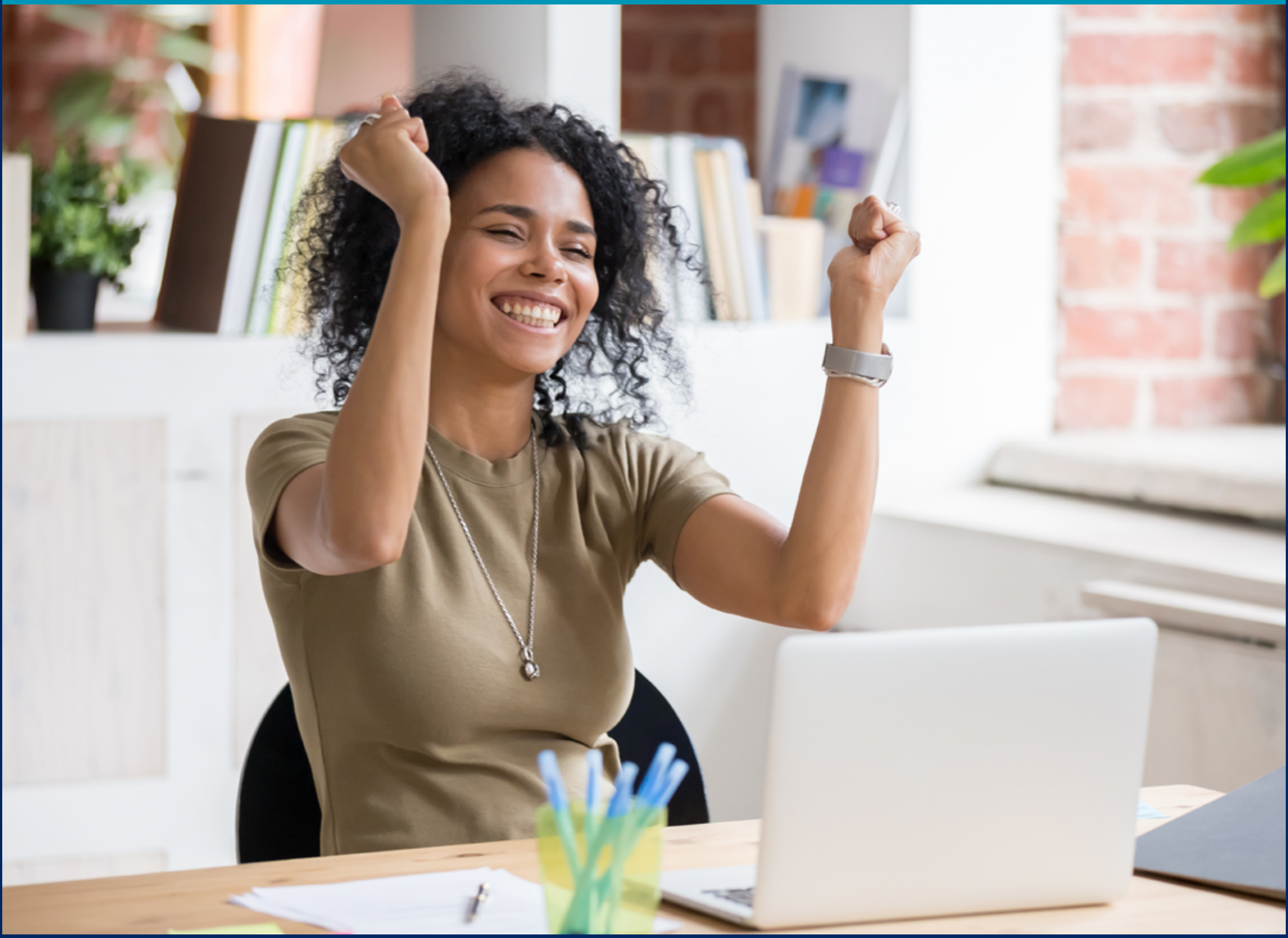
It's important to recognise that deferring payments and thinking of it as 'next month's problem' can lead to a cycle of debt, especially if your circumstances change.

Spreading the cost may be appealing short-term, but only if you have the means to make the repayments when they're due.

Falling into the Buy Now Pay Later trap without a realistic repayment plan may result in financial strain and potential long-term consequences.

Loans

A personal loan is usually a fixed amount, borrowed over an agreed period of time which is repaid in instalments, usually on a monthly basis. This can be one of the cheaper forms of borrowing but there might be both a minimum amount you can borrow and length of time you have to pay back the loan so it might not suit everyone's requirements.



Overdrafts

An overdraft is a type of credit that's linked to a bank account. It allows you to spend more money than is in your account, up to an agreed limit. It's important to remember that overdrafts are a type of borrowing and should only be used short term, as they are repayable 'on demand'.

If you go overdrawn without the permission of the bank, or go over your credit limit, the provider may make additional charges.

Student Loans

Most people who have been to university in recent years will have had a student loan. There are currently 2 types, one to cover tuition fees and a maintenance loan to pay for living costs. Both will start to be repaid after graduation or leaving the course once you have started earning over a certain amount.

For more information on student loans click here for the Government website.

Your credit score

Your credit score is based upon information held in your credit report, also known as your credit file. Your credit score will help a lender see how reliable you are at managing your finances and is likely to influence their decision if you are looking for any type of borrowing. Your personal credit score is built on your credit history. If you are managing your finances well this will make a positive impact on your credit profile and score.

To check your credit score, use one of the various companies available online including, Experian, Equifax or TransUnion. For more details on the impact of your credit profile click here to read our guide.

Is your lender legal?

If someone is lending you money, they must be registered with the Financial Conduct Authority (FCA).

Financial Services Register lists firms and individuals that have authorisation to offer loans and credit. Make sure you do your research before borrowing money.

Loan Sharks

A report published by the Centre for Social Justice estimated 1.08 million people could be borrowing from an illegal money lender – more commonly known as a loan shark. This figure has more than trebled since 2010.

Loan sharks exploit the most vulnerable individuals in our society, offering deceptive promises of quick and easy cash. However, once someone accepts their offer, they are often subjected to excessive repayment demands and quickly become trapped in a relentless cycle of debt.

A loan shark is an individual or group that lends money illegally, without authorisation from the Financial Conduct Authority (FCA). Operating without the appropriate FCA permissions is a criminal offence. Importantly, borrowing from an illegal lender is not a crime. The lender is breaking the law, not the borrower.

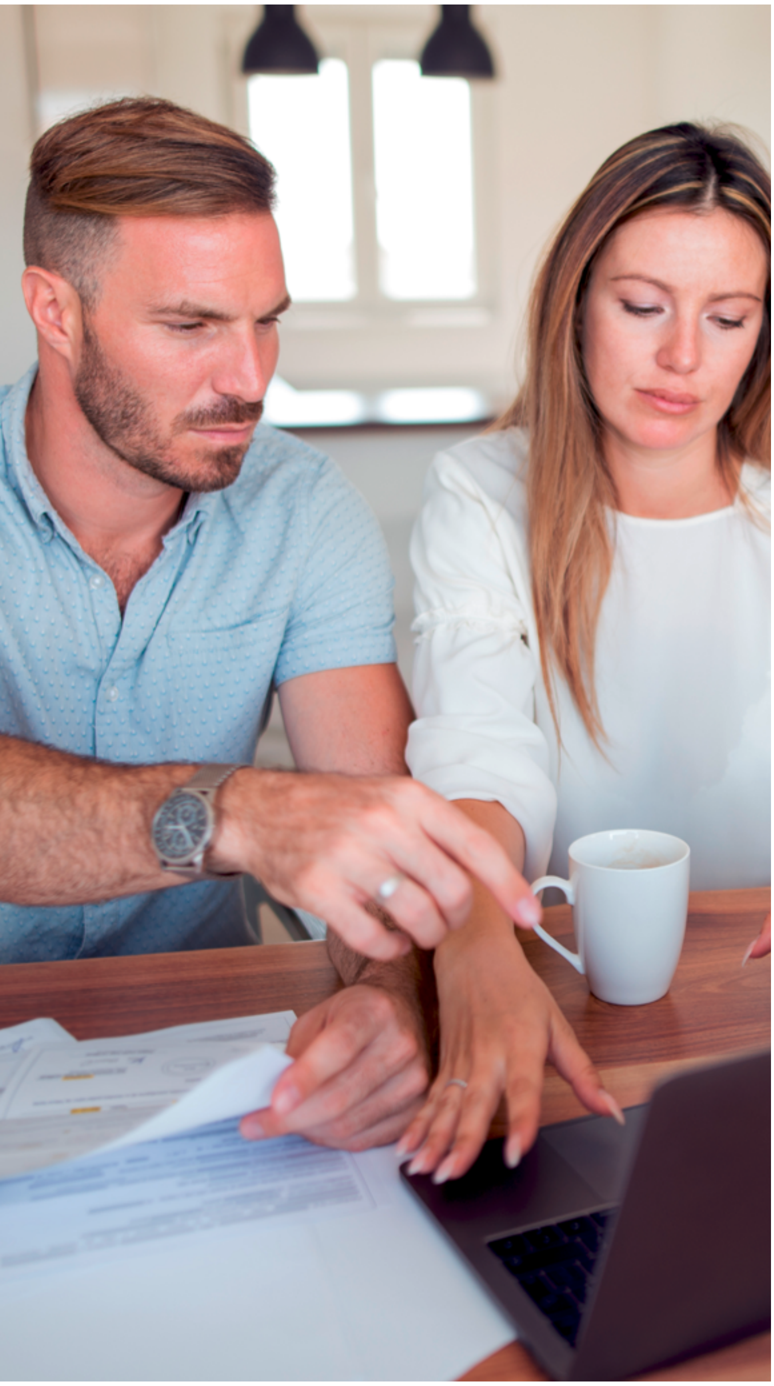
Illegal money lending is a hidden and severely underreported crime that causes immense fear, stress, and long-term psychological harm to its victims. Borrowers may face threats, intimidation, violence, and financial devastation, often with no clear path to escape.

Those most at risk include individuals with poor credit histories who are unable to access credit through traditional, regulated financial institutions. A single unexpected expense can push someone to turn to an illegal lender, mistakenly viewing it as their only option.

The true danger of loan sharks lies not just in the high-interest rates and unaffordable repayments, but in the emotional and psychological toll inflicted on victims and their families.
The sense of entrapment and helplessness can be overwhelming.

The problem is evolving. Cyber loan sharks are increasingly targeting people online, using social media and digital platforms to advertise misleading loan offers. These online predators use manipulation, false promises, and harassment to lure victims into debt, exploiting their desperation and fear.

If you are considering borrowing from a loan shark, think again. What may appear to be of help in a time of need is, in reality, could be a dangerous trap with devastating consequences.



Impact of not making repayments on your borrowings

If you are late making repayments, it will usually have a negative effect on your credit rating. Your credit profile makes a record of every payment you make, and if you have missed a payment this information is noted on your profile. This could have an impact on any future applications for credit.

If you have a low score rating and want to apply for a mortgage, loan or credit card in the future, you might have to pay a higher interest rate on what you borrow, or you may even be declined. This can be one of the knock on effects of badly managed borrowing.

Worrying about money can be extremely stressful and may lead to mental health conditions. Police Mutual are here to help. We want to break down the stigma surrounding debt and get people talking about money.

We've teamed up with **PayPlan***, one of the UK's leading free debt advice providers, who offer free and confidential advice to anyone in serious financial difficulties.

They're able to advise you on a range of debt solutions suited to your individual circumstances, helping to protect you and your family with a sustainable way to manage your debt.

Get free and confidential help to combat your debt, call **PayPlan*** on **0800 197 8433**.

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For more information about the products and services available from Police Mutual:

Call us 0151 242 7640
Visit policemutual.co.uk