



# Repaying your loan early

[www.fla.org.uk](http://www.fla.org.uk)



## Company Name and Contact Details

This leaflet is published by the FLA on behalf of its members. If you would like to discuss your loan repayment further, please contact the company whose details are on the panel above.

## 1. What this leaflet tells you

If you want to repay your loan earlier than planned, you will almost certainly have to pay a charge. This charge reflects your lender's costs.

What you will have to pay is usually called the 'settlement figure'.

This leaflet tells you how lenders work out how much you will have to pay, the rules they have to follow and where to get further advice.

Check with your lender what the settlement figure would be and think about whether you want to repay your loan early.

## 2. Loans covered by this leaflet

This leaflet covers fixed-sum loans (where you are given a single amount of credit or where you are given credit to make one purchase on a particular occasion) taken out on or after 31 May 2005. It also covers some loans taken out before 31 May 2005. These are fixed-sum loans:

- up to 10 years long, which are settled on or after 31 May 2007; and
- of 10 years or longer which are settled on or after 31 May 2010.

For other loans, see our leaflet 'Repaying your loan early – rule of 78', which you can get from us (see back cover).

### 3. Your right to repay your loan early

If you have an agreement that is regulated by (comes under the terms of) the Consumer Credit Act 1974, you can repay your loan early at any time. If your agreement is regulated, it will say so clearly on the front. If you are a limited company, for example, the Consumer Credit Act does not apply and your agreement will not be regulated.

If you have a regulated agreement for a fixed-sum loan, please read on – if you do not, this leaflet is not for you and you should contact your lender to ask if you can repay your loan early and, if so, on what terms.

### 4. Information

If you took out your loan on or after 31 May 2005, your lender should have given you details about early settlement:

- in an information sheet given before you took out your loan; and
- in your credit agreement.

This will have given you three examples of early settlement figures:

- tailored to your loan; or
- based on example amounts of either £100 or £1000;

at three stages – a quarter, a half and three-quarters through your loan. Your lender may choose to work out the examples on the dates the instalment is due after each of those stages.

### **A typical example of information on settling early**

Your right to settle early.

You have a right to end this agreement at any time by making a single payment worked out under regulations which limit the amount of interest that we can claim. The amount you would have to pay if, for example, you wanted to settle when one-quarter of the loan has passed would be £---. If half of the loan has passed, the amount would be £--- , and if three-quarters of the loan have passed, the amount would be £--- .

These amounts are only examples as they do not take account of any changes which might happen under the agreement.

## **5. How do I arrange to repay my loan early?**

If you want to repay your loan early, contact your lender. They will let you know how much you will have to pay. Some lenders may tell you the settlement figure immediately over the phone once they are satisfied of your identity. Others may ask you to put your request in writing. Some will accept requests either in writing or by phone.

## 6. Settlement quotations

As well as the right to repay your loan at any time, the Consumer Credit Act also gives you the right to your settlement figure in writing (a written 'settlement quotation'). You must write to your lender asking for this. By law, they must send it to you within seven working days of receiving your request. A working day is Monday to Friday, not including bank holidays.

## 7. What will the settlement quotation tell me?

When you receive your settlement quotation, it should tell you:

- the amount you owe on your account;
- the total amount you will have to pay to settle your loan early (the 'settlement figure');
- the date you should pay the settlement figure by (the 'settlement date') – we explain this in paragraph 8; and
- if this applies, the reduction in the total amount of interest you would have paid if the loan had run its full course (the 'rebate') – we explain this in paragraph 10.

## 8. What is the 'settlement date'?

This is the last date you can repay your loan early for the settlement figure given by your lender. Your lender must follow rules laid down by the law for agreeing settlement dates. You can pay at any time up to that date, which will be clearly stated.

However, you should always allow enough time for the payment to reach your lender, particularly if you are sending it through the post. If you pay earlier than the settlement date, the lender does not have to adjust your settlement figure.

When you ask in writing for a settlement quotation, the lender will count forward 28 days to give you time to settle the loan. Or, you can ask for a settlement quotation at a later date (such as your next regular payment date).

## 9. What if I cannot pay by the settlement date?

Your lender will have prepared your settlement quotation on the understanding that you will be able to repay the total amount you owe by the settlement date. However, if you find that you cannot pay by then, you must go back to your lender and ask them to work out the settlement quotation again for a later date. The amount you will have to pay is likely to be different. You must continue to pay your normal monthly instalments until you have paid your loan in full.

## 10. How will my lender work out my settlement quotation?

If any rebate is due, your lender will apply a mathematical formula which is set out in the rules governing repaying loans early (the Consumer Credit (Early Settlement) Regulations 2004).

The lender will apply the formula as at the settlement date and is allowed to add interest for 30 days or one calendar month after that (but only if the original length of the loan was more than one year).

Using the formula reduces the total amount of interest you would have paid if the loan had run its full course – the ‘rebate’.

The amount of your rebate will be clearly shown on your settlement quotation, and will be taken off the total amount you would have paid if your loan had run for its full course.

Some people mistakenly assume that in a loan with a fixed interest charge the interest will be spread evenly over the instalments. However, this is not the case – see the example on page 9.

### Example

If you borrow £200 to repay in two monthly instalments of £100, you will pay the first month's interest on £200, but for the second month you will pay interest on only £100. So you pay two-thirds of the total interest in the first month and only one-third in the second month. The same principle will apply however much you borrow and however long the loan agreement. The calculation takes into account:

- the total number of repayments you have made;
- the number left to pay at the settlement date; and
- the amount of interest charged month by month.

However, making sure that the calculation is strictly accurate means that in practice the calculation is not a matter of simple arithmetic. This is one reason why credit-agreement forms will now have to give examples of settlement figures (see paragraph 4).

## 11. What if I have been in arrears?

If you have been in arrears (behind with your payments) at any time during your loan period, this will affect your settlement quotation. However you will still be able to settle your loan early and be entitled to a rebate of interest you have not yet had to pay. Your lender may add extra interest to your account for the time that you were in arrears, so you may have to pay more interest. The rate of interest charged will not be any more than the rate set out in your loan agreement.

## 12. When can I settle my loan?

You can settle your loan at any time. However, for some loans, particularly those that were intended to be for a number of years, the amount you have repaid in the first few months may not have been enough to cover your lender's costs of arranging your loan, as well as the interest for those months. For this reason, the amount you have to pay to settle your loan very early may be more than the amount you originally borrowed. So you should think very carefully before deciding whether to settle your loan.

### **13. I have a loan to buy a car. Do I have to pay it off if I want to sell the car?**

This will depend on the terms and conditions of your loan agreement, and you should always contact your lender for more information.

Even if you have a loan or credit sale agreement that means you own the goods (for example, a car) from the beginning of the loan, there may still be a condition in the agreement that means you have to pay off your loan if you want to sell the goods.

If you have a hire-purchase or conditional-sale agreement, the goods do not belong to you. You cannot sell them until you pay off your loan in full. Your lender will usually allow you to do both at the same time (that is, sell the goods and pay off your loan).

### **14. Where to go for advice**

#### **Citizens advice bureau**

([www.citizensadvice.co.uk](http://www.citizensadvice.co.uk))

For advice that is free, confidential and independent, you can go to your local citizens advice bureau. Look them up in your local phone book or go to the Citizens Advice website.

#### **Trading standards**

([www.tradingstandards.gov.uk](http://www.tradingstandards.gov.uk))

Your local trading standards department might also be able to help you. Find their details in your phone book or go to the trading standards website and type in your postcode.

## About the FLA

We are the biggest UK representative organisation for the UK consumer credit and asset finance sectors. Our members include banks, subsidiaries of banks and building societies, the finance sections of leading retailers and manufacturing companies, and a range of independent firms. They provide a wide range of facilities, including finance leasing, operating leasing, hire purchase, conditional sale, personal contract purchase plans, personal lease plans, secured and unsecured personal loans, credit cards and store-card facilities.

If you would like a copy of this leaflet in large print, in Braille, in another language or on audio tape, please contact us at the address below.

### **Finance & Leasing Association**

Imperial House  
15-19 Kingsway  
London  
WC2B 6UN

[info@fla.org.uk](mailto:info@fla.org.uk)  
[www.fla.org.uk](http://www.fla.org.uk)

