## Module 7 - Common credit terminology

Credit-related insurance

Credit sale contracts often require consumers to insure the property or goods against theft, loss or damage. This is not required by law, but traders often insist on it. If a client has contents insurance that covers the goods and the trader still insists on separate insurance this may be considered unreasonable or oppressive.

*Credit-related insurance is covered in Section 9 of the Responsible Lending Code*

Consumer Credit Insurance

(Also known as Consumer Protection Insurance and by other names) is insurance that is provided (usually compulsorily) to the client to ensure the loan is repaid if the client dies, falls ill or is made redundant. Often the client may not need it and the benefits may be very limited, but the creditor can refuse to sell the goods/provide the credit if the consumer does not take out this insurance.

*Consumer credit insurance is covered in Section 9 of the Responsible Lending Code*

Credit fees

These are fees charged by the creditor. These are not allowed to be ‘unreasonable’. They might include:

* establishment fees – processing, documentation etc.
* prepayment fees – incurred if the debtor pays off all or part of the debt early
* default fees – a fee for failing to make payments according to the agreed schedule.

*Fees are covered in Section 10 of the Responsible Lending Code*

Disclosure statement

Under the Credit Contract and Consumer Finance Act (2003) creditors are required to provide a disclosure statement to people taking out any form of credit contract. This statement should be in a clear and easy-to-understand form. In the case of a credit sale the disclosure statement must contain details including:

* full name and address of creditor
* initial unpaid balance
* total price of the goods
* method of charging interest
* total interest charges
* credit fees or charges
* information about payments – how many, how much, when first and last payments are due
* charges for early repayment or for default etc.

Guarantor

A person who promises to be responsible for the debt of another person. This will normally be a friend or family member. By doing so the guarantor is agreeing to repay the loan if the client fails to do so for any reason. Many clients ask relatives to be guarantors and neither the client nor the guarantor understands the risk that the guarantor is taking on. People who are not considered an acceptable credit risk will often be required to have a guarantor.

Teenagers without a credit rating who want credit can usually only obtain it if a relative is willing to be a guarantor. Most vehicles bought by young adults are purchased with the assistance of a guarantor.

It is a reasonable condition to impose, as long as both parties understand what is happening – that the guarantor is assuming liability for the loan if the client defaults. You should make very sure that clients are aware of this if they are asked to be a guarantor for another person.

*Guarantors (Inquiries into and assessment of substantial hardship – guarantors) is covered in Section 6 of the Responsible Lending Code.*

Insurance

Frequently clients are required as a condition of the contract to keep fully insured the goods they have bought. This always applies to vehicles bought on credit. If the client reduces the insurance cover (perhaps from full comprehensive cover to third party, fire and theft cover only) the client is in breach of the contract.

*Insurance is covered in Section 9 of the Responsible Lending Code.*

Interest charges

Interest mounts up over time and is determined by applying a rate (expressed as a percentage) to the unpaid balance. The interest rate and the total amount of interest to be paid must be included in the Disclosure Statement.

*Interest charges are briefly covered in Section 10 and Section 16 (Appendix) of the Responsible Lending Code*

Chattels

Property owned by the client that may also be offered as security for a loan. Some clients may be persuaded to offer chattels that are many times the value of the loan, as security for the amount borrowed. If the client defaults on the loan the creditor can seize the chattels and sell them to recover their money.

Loans in which chattels are used as security have become more and more common. Since new legislation was put in place all security must be specifically listed in the contract restrictions on what can be taken as security (no essential items can be listed).