The Solution Loans Guide to Instalment Loans

Instalment loans offer more breathing space than payday loans for those who need to borrow money quickly but want to be able to repay it over more than a month and to budget for it. They are generally cheaper than payday loans but the interest rates charged are still substantially higher than those offered with more traditional forms of lending like unsecured loans and overdrafts.

The Financial Conduct Authority (FCA) has curbed the amount of interest that payday lenders are allowed to charge and this is expected to lead to a dramatic fall in the number of such loans and, therefore, a growth in the number of instalment loans.

How do Instalment Loans work?

While a payday loan gives somebody the opportunity to borrow a small amount of cash with a single repayment date the following month, an instalment loan spreads those repayments over several months - typically between three and twelve.

The amounts available to borrow typically range from £100 to £2,000. As with more traditional forms of credit, instalment lenders will look at your ability to repay, credit history, income and other personal circumstances. These checks tend to be a little more stringent than those that come with payday lending.

Why should I apply for an instalment loan?

If you need to borrow a relatively small amount (up to £2,000) but won't be able to make a full repayment within 30 to 45 days, then an instalment loan could be for you. It allows you to spread the repayments over several months, giving you breathing space to clear the loan or the means of plugging a financial hole while you earn enough to repay it over a fixed period of time.

The principal of an instalment loan is similar to a traditional unsecured loan except that the timescales for repayment are much shorter and the interest rates charged much higher. While unsecured loans usually have repayment periods of between one and five years, instalment loans give you up to twelve months to repay the advance plus interest charges.

While the total amount to repay is significantly higher than an unsecured loan, an instalment loan could suit you if you only want to borrow a relatively small amount of money. And, as with other forms of lending, the greater the amount that you borrow, the lower the interest that you'll be charged.

What are the downsides?

The amount of interest you'll be charged and, therefore, the total cost of the loan will be substantially higher than with any other form of credit, except payday loans themselves. Most instalment loan companies charge APRs (annual percentage rates) of between 250% and 1,000% meaning that you could end up paying back double the amount that you initially borrowed.

You should also bear in mind that you will pay significantly higher charges if you choose to stretch your repayment period. Borrowers who apply for loans with repayment periods of a year will pay considerably more than those who take out loans for three or six months.

As with payday loans, you should be aware that applying for an instalment loan could have an adverse effect on your credit rating and make other lenders more reluctant to offer you credit. Even if you pay it back on time, some financial institutions take a negative view of this form of lending and believe that it signals a potential borrower has money problems. Many of the large mortgage companies won't consider lending to an applicant who has applied for a payday loan in the last six months and many of them class instalment loans as another form of payday lending.

Conclusion

The market for instalment loans is relatively new but there are already a number of firms offering this type of credit and so the interest charged varies considerably as do the repayment periods.

An instalment loan might suit you if you need to borrow a relatively small amount of cash quickly, don't want or haven't got access to a traditional unsecured loan from a bank or don't want the pressure of having to repay your loan amount plus interest on your next pay day.

Before you apply for an instalment loan you should consider that there are cheaper forms of short-term lending - notably a current account overdraft and low or zero interest deals on credit cards.

As with any other loan, the most sensible approach with instalment loans is to plan ahead before you apply and give yourself a realistic repayment schedule by budgeting

For the online version of this guide visit www.solution-loans.co.uk/instalment-loans/guide/

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