

CREATIVE tips on how to reduce the cost of your loan

The Loan Amount

- Pay the largest deposit you can manage
- This will reduce the true cost of borrowing (i.e. the amount you will have to pay back over the length of the loan)

The Length of the Borrowing Term

- Make sure you choose the shortest term you can manage
- Longer-term loans with lower monthly repayments may seem more appealing, but they are far from ideal. Your total repayment will be higher, as you are taking longer to clear the loan while the interest accrues.
- In the example below, you'd end up paying back £677 more if you go for the five-year term rather than the three-year term.

Loan term	Amount borrowed	APR	Monthly Repayment	Total Amount to Repay
3 Years	£5000	11.72%	£165.40	£6,631
5 Years	£5000	11.72%	£110.52	£7,298

It's far better to opt for a shorter loan term and pay back more each month, if you can afford to. For clarity the example above does not include fees.

The Distribution of Repayments

- If you choose to repay a loan by a balloon payment of a lump sum at the end of the term, you'll typically end up paying more in interest.
- Balloon = higher costs
- If you choose to pay a large lump sum at the front end of the term (a deposit) you'll typically end up paying less in interest.
- Weight the repayments towards the front end, rather than the back end, of the term

The Rate of Interest Charged

- This one's pretty obvious. The lower the rate, the less you'll have to pay back.

The Cost of Fees

- Fees may not feature prominently in the quote. But fees for late payment, default, or settlement charges can make a difference to the total cost of credit.