

Best to avoid need for short-term loans

Borrowing: Fast cash always comes at a price

BY GORDON WILSON

In today's austere times with many people scrambling to make ends meet, opportunists try to fulfil a need for immediate money.

The explosion of firms offering short-term loans are examples of a quick-cash culture.

These shops – or centres as they are sometimes termed, possibly to give them a more elite feel – have become a common fixture of our high streets.

Unfortunately, in the vast majority of cases, they are anything but elite in terms of addressing the short-term financial fix their customers desire.

What would you be willing to pay in interest to a friend for a loan of a small amount of money over a day, a week, a month?

It certainly would not be the rates that some of these companies charge, which in the worst cases can go into four figures in annual percentage terms.

I have seen APRs of more than 4,000%; what this means is a loan of £500 could mushroom to £20,000-plus in a year if you didn't pay any of it off. Of course, any arrangement fees would be on top of this.

As someone involved in financial planning for many years, you would expect me to be strongly against such solutions to



REPAYMENT RISK: A loan of £500 could mushroom to £20,000-plus in a year



Gordon Wilson: questions

address cash flow in difficult times. Unequivocally, I am. I think they are an amazing rip-off. I cannot, however, close my eyes to the demand that fuels the growth though.

There are two key issues here. If in the position to need such a service, what should you look out for, and how can you try to ensure you avoid the need?

If in need, ask key questions. How much do I really

need a short-term financial solution? Can it wait? Can the outlay be avoided? If it is to pay utility or credit bills, speak to your service provider or creditor and explain your situation. They will often be reasonable and accommodating.

Is there any other way that I can finance the need? Do you have savings? This last point may seem bewildering but as crazy as it seems I still come across many clever people who have both savings and credit-card debt. In financial terms, it is a no-brainer – credit-card interest dwarfs that earned on savings – pay the debt off first and foremost.

If the need is unavoidable, then ask simple questions of your provider (and there is a vast choice). How much

does this cost both in real and percentage terms? Is there an arrangement fee? How long will it be before I receive the money? When do I have to repay and what are the penalties day by day if I fail to do so?

The second part – avoiding the need – is about disciplined management of your incomings and outgoings. Consider tomorrow instead of living for today. Keep records of all your transactions. Negotiate with any retailer or service provider about the best deal. Renegotiate when you can. Plan for the unexpected. Life throws many things at us and we have to be financially ready for them.

■ Gordon Wilson is managing director of Carbon Financial Partners