



# REPAYING YOUR LOAN EARLY



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**REPAYING**  
YOUR LOAN  
EARLY

### What this leaflet tells you

Early repayment, or *early settlement*, is where you repay some or all of your loan before you were required to. If you settle your agreement early you will normally incur a charge to reflect the costs that the lender has or will incur as a result of you doing so.

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.

What you will have to pay in total to settle the loan is usually called the 'settlement figure'. Check with your lender what the settlement figure would be and think about whether you want to repay your loan early.

This leaflet does not cover every type of loan (see 'Loans Covered') and is meant as a general guide not a definitive statement of the law.

### Loans covered

Credit comes in many different forms and the rules that apply to them, and the rights that borrowers have, can vary.

This leaflet is about settling fixed sum loans that are regulated by the Consumer Credit Act. A fixed sum loan is a loan giving a single amount of credit, such as a personal loan, or credit for a particular purpose, for example a fridge or a car.

This leaflet does not apply to regulated 'running account' loans, such as credit cards or overdrafts.

If your agreement is not regulated (for example loans to limited companies are not regulated) and you want to settle early, you should contact your lender to ask whether you can settle the agreement early and if so, on what terms.

### Your right to repay your loan early

If you have a regulated fixed sum loan, it will say so clearly on the front of the documentation.

There are two rights that could apply to your loan, the right to settle in full and the right to settle in part.

The right to settle an agreement in full applies to all regulated fixed sum loans. If you have one of these loans then your loan documentation should refer to this.

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You might also have the right to make a partial settlement at any time. This right applies to:

- all regulated fixed sum loans entered into after 1 February 2011; and
- some regulated fixed sum loans which were entered into after 11 June 2010 but before 1 February 2011 provided that specific conditions are met.

The right to settle in part does not apply to loans that are secured on land.

Your loan documentation should state whether this right applies to you. If you want to settle in part, you should contact your lender to check that this right applies to you and how you can exercise it.

### Points to note

Even if these rights do not apply to your loan, talk to your lender to find out what arrangements it has for repaying your loan early.

Repaying some or all of your loan may result in a rebate of future interest and charges that you would have otherwise paid had you paid all of the instalments over the agreed period of the loan. This is discussed in more detail below.

If you do settle early, your lender might be entitled to charge you for costs it incurs as a result of you doing so. This is usually referred to as 'compensation' in your pre-contractual information and agreement. If your lender does charge you for these costs, your lender will tell you how these are calculated and how much you will need to pay.

If you are thinking about settling all or some of your loan, check with your lender and think carefully about what you want to do. Asking your lender for information does not commit you to settle in part or in full. However, once you have made the payment to settle the loan you cannot later change your mind.

### PARTIAL EARLY SETTLEMENT

#### What information will you already have?

When you took out your loan, you would have been given information about your rights to settle early in part. This will have been in both the pre-contract information you will have been given and the agreement documenting the loan itself. These will tell you that you have the right to make a partial settlement at any time. You may also make multiple partial settlements over the lifetime of your loan if you wish.

If you do settle in part, this will normally reduce either the amount of future repayments or the term of the agreement, or a combination of the two. It may also reduce the amount of interest or other charges (the rebate) that you would have paid in the future had you not made the payment. In some cases your lender will also be entitled to charge you for costs arising as a consequence of your repaying some of the loan early.

If your loan is interest free or without any other charges for credit, such as a 0%APR 'Buy now, pay later' loan for a sofa, you will still have the right to settle in part. While, of course, there will be no rebate of future interest or charges, settling in part will reduce the number or amount of the agreed instalments, or both.

### What should you do?

If you want to settle in part in addition to your regular contractual payments, you should contact your lender. You can contact your lender orally or in writing, but you need to give your lender 'notice' that you are settling in part or intend to.

It is important that you do this as it is your responsibility to make clear that you are settling in part. If you do not, then your lender may assume that you are simply making your regular payments ahead of time because you are, for example, going on holiday and will not be able to make the payment on the normal date.

Notice to your lender can be given either before or at the same time as you make the partial settlement. If you do not make the payment at the same time as you give your lender notice, or within 28 days of giving notice, you may have to do so again. This is because the delay may mean that your lender will have to work out the effect of your partial settlement on your future contractual payments.

### What will your lender do?

If you make a partial settlement you may be entitled to a rebate of future interest and/or charges that would have applied to that amount had you not paid it early. Your lender will also have to work out the number and amount of your remaining contractual payments as you will have reduced the amount that you owe.



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You have the right to request a statement when you settle in part, or any time after that. You can make the request either orally or in writing and the lender should give you a statement within 7 working days after receiving the request.

This statement should tell you:

- If there is a reduction in the total amount of interest and charges that you would have paid (the rebate);
- Any change to the number and amount of future contractual (regular) instalments;
- Any change to the duration of your agreement;
- The total remaining to be paid; and
- The compensation, if any, that is due to your lender.

Remember, your lender will not be able to tell you this until after you have made the partial settlement. This is because the calculation depends on the exact amount and timing of the amount you have chosen to pay back early.

### What happens after making payment to settle in part?

That depends on what effect your partial settlement has had on the amount that you have left to pay. Unless your lender tells you otherwise you will need to make your regular contractual payments on the dates set out in your agreement.

Your lender will tell you if the payment you made has reduced the amount of each of the remaining contractual repayments or the number of repayments that you have left to make, or both.

Remember, if you have outstanding arrears when you make a partial settlement then the payment will go first to repaying those arrears.

### Will I be charged for settling in part?

If you took out your loan after 11 June 2010 and are giving notice of your intention to settle after 3 February 2011, your lender might be entitled to charge you for costs incurred as a result of your settling in part but only if the interest rate is fixed. If your agreement has a variable rate at the time

you make the payment then your lender will not be entitled to apply charges.

Your lender will not be entitled to apply charges unless the partial settlement, or combination of partial settlements, exceeds a value of £8,000 within a 12 month period.

If your lender is entitled to apply charges then this must be fair and objectively justified, and reflective of the costs actually incurred as a result of the payment. The level of charges also cannot be more than:

- the remaining interest before the rebate; or
- 1% of the amount repaid early if the agreement has more than a year left to run; or
- 0.5% of the amount repaid early if the agreement has a year or less to run.

### FULL EARLY SETTLEMENT

#### What information will you already have?

When you took out your loan you will have been given information about your right to settle your loan

early and how you can do this. How this will have been set out and what information you will have been will depend on when you took out your loan as regulatory requirements have changed over time.

If you took out your loan after 3 February 2011, you will have received pre-contract and loan information that would both have set out you right to settle your loan in full or in part at any time. The information would also have given details of your lender's right to apply charges and how these will be calculated.

If you took out your loan after 31 May 2005 but before 3 February 2011, you will have been told in pre-contract and loan information that you had a right to settle in full at any time. You will also have been given examples of how much you might have to pay to settle the loan at various stages (1/4, 1/2, 3/4). These examples will have been based on the details of your loan, or in some circumstances they may have been based on illustrative amounts of £1000 or £100.

If you took out your loan before 31 May 2005, you will have received information about your right to



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settle the loan early in your loan documents though you may not have received any pre-contractual information.

### What should you do?

If you want to settle your loan in full you should contact your lender first. You can do this orally or in writing and your loan documentation may have a number or address that you can use for making contact. As with settling in part, this is giving 'notice' to your lender. You can also request a settlement quotation. If your loan is secured on land, you cannot give notice orally and you must give written notice that you intend to repay your loan early and in full.

You can repay in full at the same time as you give notice but it will usually be better to ask your lender to give you a quotation setting out the amount that you will need to pay. Your lender will be able to calculate exactly what you need to pay to settle the loan in full and it is worth speaking to your lender so you don't pay too much or too little.

### What will your lender do?

If you ask your lender to provide an early settlement quotation, your lender must send you a statement which will tell you:

- the amount that you owe;

- the total amount that you will have to repay (the settlement figure);
- the date by which you will need to pay that amount (the settlement date);
- the reduction (if any) in the total amount of interest and charges that you would have paid if the loan had run its full course; and
- where appropriate, the compensation (if any) which is due to your lender

If you pay the settlement figure by the settlement date, your lender will credit this to your account in full settlement.

Remember:

- If you ask for a settlement quotation this does not commit you to make the payment. You can change your mind and continue making your regular loan payment instalments.
- If you do not pay by the settlement date you will need to ask for a new settlement figure as the amount needed to repay may well have changed.
- If you do not ask for a settlement quotation before paying or you do not pay until after the settlement date then you may pay the wrong amount.

- If you have overpaid then your lender will refund this.
- If you have underpaid then you have not settled the loan.

Your lender may well contact you to explain this but it is your responsibility to keep up repayments on your loan and you are still liable to pay the balance. If you do not, you may incur additional charges.

### How is the amount I need to pay calculated?

If any rebate is due, your lender will apply a mathematical formula which is set out in legislation.

When you took out your loan the total amount that you had to repay consisted of the amount that you borrowed plus the cost of borrowing, such as interest and charges. When you repay by instalments, often in monthly instalments, each instalment will consist partly of the amount you originally borrowed and partly of the interest and charges.

The formula works out how much of the amount you borrowed is left to repay and how much of the remaining interest and charges occur in the future and which you will no longer have to pay if you settle your loan by the settlement date. If your lender applies interest to your account on a monthly basis, rather than calculating

it in advance, or you are close to the end of your loan you may not be entitled to a rebate.

If your loan was for more than a year originally your lender may also add further interest for 30 days or one calendar month after the settlement date.

### Will I be charged for repaying in full?

Your lender might be entitled to apply charges for costs it incurs as a result of your early repayment but only if the interest rate is fixed and if you entered into your loan after 11 June 2010 and are giving notice of your intention to settle after 3 February 2011. If your loan has a variable rate at the time you make the repayment then your lender will not be entitled to apply these charges.

Your lender will also not be entitled to apply additional charges unless the repayment exceeds a value of £8,000.

If your lender is entitled to apply charges then these must be fair and objectively justified, and reflective of the costs actually incurred as a result of the repayment. The level of charges applied also cannot be more than:

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- the remaining interest before the rebate; or
- 1% of the amount repaid early if the agreement has more than a year left to run; or
- 0.5% of the amount repaid early if the agreement has a year or less to run.

### FREQUENTLY ASKED QUESTIONS

#### Can I settle early if I have been in arrears (behind on your payments)?

Yes. You have the right to settle early in full, and potentially in part, at any time. Being behind with your loan payments does not normally affect this.

If you have been behind with your payments during the lifetime of your loan then this may affect your settlement quotation and may affect a rebate if you are entitled to one. If you are still in arrears, then these arrears will have to be paid as part of the settlement in full.

If you have arrears and you wish to settle in part then the payment you make will go first to paying the arrears and what is left will be an early partial repayment.

#### Do I receive a rebate on any default interest or charges for late payment?

No. Where the rebate applies it is only to interest and charges that you would have had to pay in the future if you continued with your loan rather than settling.

Late payment charges or default interest are applied only when you don't keep to the terms of the agreement, and for as long as this is the case. They are not applied in the future so there is no rebate. You will need to pay these as part of the settlement figure.

#### What happens if I request a settlement quotation and change my mind or can't pay?

You have the right to settle early at any time and to request information from your lender before doing so, but doing either does not mean that you are committed to settling early.

If you can't afford to settle early or you change your mind then you would need to continue making the regular payments that you agreed to when you took out the loan, as normal.

You can always ask your lender for new settlement information at a later date. You will need to do this as the amount needed to

settle early, or the effect of doing so, will have changed in the intervening time.

### How do I know if the rebate is correct?

Your lender will use a mathematical formula that is set out in legislation. This calculates rebates in a specific way to ensure that the calculation of any rebate due is consistent.

The calculation can be quite complex and most companies use computer programs to do it. In the first instance you should speak to your lender, but if you are still uncertain that the rebate is correct, some local authority trading standards services may be able to help.

### I have just taken out a loan and want to settle before the first payment. Can I do this?

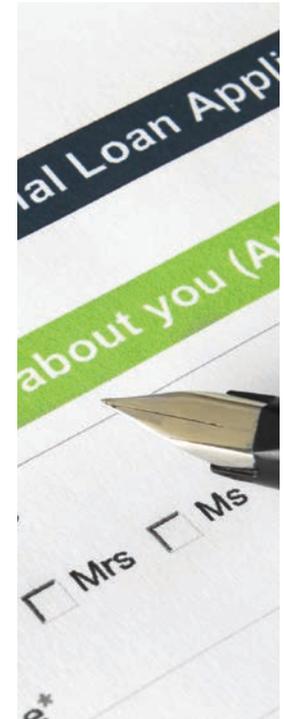
Yes. You can settle the loan early at any time by telling your lender and paying back the money that you owe. You will repay more than you borrowed however due to the application of interest even if you are repaying your loan before the first instalment.

If you have very recently taken out your loan you may have a short period of time (14 days) in which to withdraw from the loan. Your loan documents will clearly show if you have a right to withdraw and what the implications of doing so are.

### What happens if I have a regular payment due before the settlement date?

When your lender works out the settlement figure it does so using the settlement date as the date you are assumed to make the payment. The settlement date is usually at least 28 days after you give notice. If you have an instalment due before that date your lender will normally assume that you will have paid this when calculating the settlement figure. You will likely be required to pay that as well as the settlement figure.

If you are in any doubt, contact your lender to avoid under or over payment. Until you have made the early repayment, you still need to keep to the terms of the loan including paying any instalments as they fall due.



## About 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.



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