



**For loans taken out after 11 June 2010**  
REPAYING ALL OR PART OF YOUR LOAN EARLY



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**Who is this leaflet for?**

This leaflet will help you if you took out a loan on or after 11 June 2010 and you want to repay all or part of the loan before the contracted settlement date. It applies also to hire-purchase, conditional sale and other forms of credit agreement.

This leaflet covers the changes brought about in 2010 by the EU Consumer Credit Directive and tells you how lenders work out how much you will have to pay, the rules they have to follow, and where you can get further advice.

Paying all or part of your loan early will usually result in a rebate to you of interest costs, as your loan will be for a shorter period or for a reduced amount.

Check with your lender what the settlement figure(s) would be and think about whether you want to repay all or part of your loan early.

**Loans covered by this leaflet**

This leaflet covers fixed-sum loan agreements (where you are given a single amount of credit or where you are given credit to make a purchase on a particular occasion) made on or after 11 June 2010. It only applies where notice that you want to make partial early repayment or full settlement of the loan was given on or after 1 February 2011.

If you took out your loan before 11 June 2010, different rules apply to early settlement. Please see our leaflet **Repaying Your Loan Early**, which applies if your loan was taken out on or after 31 May 2005 and before 11 June 2010

The right of full early settlement applies to unsecured loans and to loans which are secured over your home or other land. However, the right of partial early repayment does not apply to loans which are secured over your home or other land. If you do want to make a partial early repayment of a secured loan, you should contact your lender with your request.

**Your right to repay your loan early**

If you have an agreement that is regulated by (comes under the terms of) the Consumer Credit Act 1974 (as amended) (“the Consumer Credit Act”), you have the right to repay all or part of your loan early at any time. If your agreement is regulated, it will say so clearly on the front. The Consumer Credit Act applies to loans made to individuals, sole traders or certain partnerships. If you are a limited company, for example, the Consumer Credit Act does not apply and your agreement will not be regulated.

If you have a regulated agreement for a fixed-sum loan, please read on – if you do not, this leaflet is not for you. If your agreement is

regulated but is not for a fixed-sum loan, you may still have a right to make early repayment. You should contact your lender to ask if you can repay your loan early and, if so, on what terms.

This leaflet has two sections – one for those wanting to make a partial early repayment, and the other for those wanting to make full early settlement.

## SECTION ONE: **PARTIAL EARLY REPAYMENT**

### **Information**

When you took out your loan, you would have been given information about your right to repay part of your loan early. This will have been included in both the pre-contractual information given to you and in your loan agreement. You are entitled to make a partial early repayment at any time, and on more than one occasion.

If you do make a partial early repayment, this will reduce your future repayments or the term of the loan or a combination of the two. Because of this, the total amount of interest you pay will usually be reduced. In certain cases, the lender may make a small additional charge by way of compensation for the extra costs which it will have incurred.

Even if your loan was interest free and without any other charge for credit, you will still have the right to make partial early repayment.

There will not, of course, be any rebate of interest in such cases but the number and/or amounts of your future regular repayments will be reduced.

### **What do you need to do?**

If you want to pay off some of your loan, over and above the regular contractual payments, the first step is to contact your lender. Your loan agreement may include details of the address you should write to or the telephone number you should use. You should let your lender know, either orally or in writing, that you intend to make a partial early repayment. This is your 'notice' to your lender.

It is important that you make it clear to your lender that you are making a partial early repayment and not simply making a regular payment under your loan agreement on an earlier date.

You can provide notice to your lender either before or at the same time that you make the partial early repayment. However, if payment is not made at the same time, you will need to pay either within 28 days of giving your notice or on or before any later date which you gave in your notice. If you pay later than either of these deadlines, you will have to give notice again and, because of the delay, the amount or number of your future regular payments may be different from those of which your lender may previously have informed you.

### **What your lender will do?**

Once you have given notice to your lender and made the partial early repayment, the lender will calculate the rebate of interest and the number and amount of your future regular loan repayments. You have a right to request a statement when you make your partial early repayment or at any time after that. You may make this request orally or in writing and the lender must then give you a statement within seven working days after receiving this request, telling you:

- details of any reduction in the total amount of interest and charges you would have paid if the partial early repayment were not made (the "rebate");
- any change to the number and amount of future regular instalments;
- any change to the duration of your agreement;
- the total amount remaining to be paid; and
- if any compensation is due to your lender.

The lender will not be able to confirm these details until he has received the partial early repayment, as the calculation will change depending upon the exact amount of the repayment and the date on which it is made.

### **What happens after making a partial early repayment?**

Unless your lender advises you otherwise, you will need to continue to make your regular contractual loan repayments on the due date as set out in your loan agreement. Your lender will let you know if the amount of these repayments is to be reduced, or if there is any other change to your repayment schedule.

### **Will the lender make a charge for partial early repayment?**

Your lender is allowed to make a charge to compensate for costs incurred as a result of partial early repayment. However, the lender:

- must be able to justify that this is a fair charge in relation to costs incurred;
- can only claim costs from you if your agreement has a fixed interest rate;
- can only claim compensation if it has incurred a cost as a result of the partial early repayment being made at a time during which the interest rate is fixed;
- can only claim compensation if the partial early repayment exceeds £8,000 in one payment, or in more than one early repayment over a 12 month period.

If the lender is entitled to compensation under the conditions above, the level of compensation cannot be more than the remaining interest before the rebate nor more than 1% of the amount repaid early, or 0.5% if the agreement has a year or less to run.

## SECTION TWO: **FULL EARLY SETTLEMENT**

### **Information**

Full early settlement of loans has always been allowed under the Consumer Credit Act 1974 (as amended). However, if you took out your loan on or after 11 June 2010, there are important changes to your rights and the process of settling your loan in full which have been brought about by the EU Consumer Credit Directive.

Information about your right to make full early settlement on your loan will have been included in both the pre-contractual information given to you, and in your credit agreement. This will include information about any right the lender may have to claim compensation for costs incurred as a result of you settling your agreement early, and how this compensation will be worked out.

### **What do you need to do?**

If you want to pay off your loan early, the first step is to contact your lender. You should let your lender know, either orally or

in writing, that you intend to settle your loan early. Your loan agreement may include details of the address you should write to or the telephone number you should use. This is your “notice” to your lender.

However, if your loan is secured over your home or other land, then you will need to give your notice to the lender in writing. You can provide notice of your intended full early settlement either before or at the same time that you make the payment to settle the loan.

Although not a legal requirement, it will usually be best for you and the lender if you first ask the lender to give you a settlement quotation setting out the amount you should pay by way of full settlement and by what date. This will help avoid uncertainty and the lender will be able to factor in the amount of any rebate of interest calculated by reference to the date by which you intend to make payment. You have a right to make an oral or written request to your lender for an early settlement quotation and your lender must give you a statement with these details within seven working days after receiving your request.

### **What your lender will do**

If you make a request to your lender for an early settlement quotation (see the section above), the lender must send you a statement which tells you:

- the amount you owe on your account;
- the total amount you will have to pay to settle your loan early (the ‘settlement figure’);
- the date by which you should pay the settlement figure (the ‘settlement date’);
- if this applies, the reduction in the total amount of interest and charges you would have paid if the loan had run its full course (the ‘rebate’); and
- if any compensation is due to your lender

If you make payment of the settlement figure by or on the settlement date, the lender will credit this to your account in full settlement.

If you do not ask for a settlement quotation, or if you do not make payment until after the settlement date, this could result in you paying the wrong amount. If you have overpaid, your lender will refund the excess to you. If, however, you have not paid enough, then you will not have achieved a full early settlement. In that situation, your lender will, in practice, most likely contact you to make arrangements for you to pay the balance.

### **How is my full settlement figure worked out?**

If any rebate is due, your lender will apply a mathematical formula which is set out in the regulations which govern repaying loans early (the Consumer Credit (Early Settlement) Regulations 2004) (“the Early Settlement Regulations”). The lender will apply the formula as at the settlement date and is allowed to add interest for 30 days or one calendar month after that (but only if the original length of the loan was more than one year).

Using the formula reduces the total amount of interest and charges you would have paid if the loan had run its full course – the ‘rebate’. The amount of your rebate will be clearly shown on your settlement quotation, and will be taken off the total amount you would have paid if your loan had run for its full course.

With a fixed interest loan, where the charges are added to the amount of credit and the total repaid by regular instalments (typically monthly), each instalment consists partly of part capital and partly of interest. The proportion of interest and capital changes with each instalment and the interest component gradually reduces over the repayment period.

If full early settlement is made very close to the end of the term of the loan then the calculation may result in no rebate being applicable.

### **Will the lender make a charge for early settlement?**

Your lender is allowed to make a charge to compensate for costs incurred as a result of early settlement if the agreement is not secured over your home or other land. However, the lender:

- must be able to justify that this is a fair charge in relation to costs incurred;
- can only claim costs from you if your agreement has a fixed interest rate;
- can only claim compensation if it has incurred a cost as a result of the early settlement being made at a time when the interest rate is fixed;
- can only claim compensation if the early settlement amount exceeds £8,000 in one go, or exceeds £8,000 in multiple early repayments over a 12 month period.

If the lender is entitled to compensation under the conditions above, the level of compensation cannot be more than the remaining interest before rebate nor than 1% of the amount repaid early, or 0.5% if the agreement has a year or less to run.

### **Other information that may be helpful – partial early repayment and full early settlement**

### **What if I have been in arrears during the course of the loan?**

If you have been in arrears (behind with your payments) at any time during your loan period, this will affect your settlement quotation. You will still be entitled to a rebate of interest in respect of the instalments which were scheduled to be paid after the date of early settlement. However, you will have to pay the arrears in full and your lender may add extra interest to your account for the time that you were in arrears. The rate of interest charged will not be more than the rate set out in your loan agreement.

### **When can I settle or make partial early repayment of my loan?**

As explained earlier in this leaflet, you can make full settlement or partial early repayment of your loan at any time during the course of the loan period.

**Full settlement:** in some loans, particularly those that were intended to be for a number of years, the amount you have repaid in the first few months may not have been enough to cover your lender's costs in arranging your loan, as well as the interest for those months. For this reason, the amount you have to pay to settle your loan very early may be more than the amount you originally borrowed. So you should think very carefully before deciding whether to settle your loan.

### **What if I cannot pay by the settlement date?**

Your lender will have prepared your settlement or partial early repayment quotation on the understanding that you will be able to repay the total amount you owe or the amount you have stipulated by the settlement date.

However, if you find that you cannot pay by then but want a quotation for a later date, you should go back to your lender and ask for a fresh quotation. The amount you will then have to pay is likely to be different because any rebate of interest is likely to be less and further regular loan repayments may become due in the meantime.

You must continue to pay your normal regular contractual instalments until you have made full early settlement unless told otherwise by your lender.

You should always allow enough time for your payment to reach your lender, particularly if you are sending it through the post. If you pay earlier than the settlement date, the lender will not have to adjust your settlement figure.

### **Motor Finance – can I make partial early repayment or full early settlement on my car loan?**

Yes. Motor finance loans are regulated under the Consumer Credit Act and your lender will allow you to pay off all or part of your loan early. The guidance above will apply.

If you want to sell the car, always speak to your lender.

Even if you have a loan or credit sale agreement that means you own the goods (for example, a car) from the beginning of the loan, there may still be a condition in the agreement that you have to pay off your loan if you want to sell the goods.

If you have a hire-purchase or conditional sale agreement, the goods do not belong to you. You cannot sell them until you pay off your agreement in full. Your lender will usually allow you to do both at the same time (that is, sell the goods and immediately pay off your agreement).



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**Where to go for advice**

**Citizens advice bureau**

**[www.citizensadvice.co.uk](http://www.citizensadvice.co.uk)**

For advice that is free, confidential and independent, you can go to your local citizens advice bureau. Look them up in your local phone book or go to the Citizens Advice website.

**Trading standards**

**[www.tradingstandards.gov.uk](http://www.tradingstandards.gov.uk)**

Your local trading standards department might also be able to help you. Find their details in your phone book or go to the trading standards website and type in your postcode.



## **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.



## **Finance & Leasing Association**

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## **Member contact information**