

## Credit terminology – what does it mean?

Consumer credit and consumer hire agreements are complicated legal documents. This leaflet explains some of the more common terms you may come across.

### REMEMBER

Credit and hire agreements are contracts which contain a lot of 'small print'. The small print will contain your rights and obligations under the contract. Always read the small print and ask questions if you do not understand any of the terms. Once you sign the contract, you may find it difficult to back out.

### Conditional sale agreements

The customer does not obtain legal ownership of the goods until a specific time or event has occurred. These conditions will be set out in the agreement and may relate to a specific number of payments due or specific requirements of the agreement. Once the condition has been met, the customer obtains legal ownership of the goods.

### Credit information services

This describes businesses that help people find and correct their financial records, which may be held by organisations such as credit reference agencies. These businesses must hold consumer credit licences.

### Creditor and debtor

A creditor is the person who provides the credit under a consumer credit agreement, e.g. a bank, finance company or a person who has had rights and duties under the agreement legally transferred to them.



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A debtor is an individual who receives credit under a consumer credit agreement or a person who has had rights and duties under the agreement legally transferred to them.

### **Credit reference agencies**

These agencies collect and store financial information on individuals, electoral roll details and records of county court judgments, bankruptcies and administration orders. If someone applies to a lender for credit, the lender will check with a credit reference agency for details of the person and their credit record to see if they are an acceptable risk. A person has the right to check and, if necessary, correct information held on him/her by the credit reference agency.

### **Credit sale agreement**

This is an agreement for the sale of goods where the purchase price (or part of it, where a deposit is paid) is payable in instalments. This is the most common type of credit agreement when buying goods. The customer obtains the goods and legal ownership. The creditor can only sue for the outstanding amount in the event of a default.

### **Credit token agreements**

A credit token is the official name for a credit card. The agreement will set out the terms and conditions applicable to the card, including interest rates, credit limits and repayment conditions. The credit card company retains legal ownership of the card.

### **Debt adjusting**

This is the name given to a service provided by a business which negotiates terms with a creditor or owner on behalf of a debtor or hirer to settle the debt. It also covers taking over, for a fee, the debtor's obligations to settle the debt.

### **Debt administration**

This means to carry out duties, or to exercise or enforce the rights of a creditor or owner under a credit or hire agreement. Debt administrators must hold a consumer credit licence.

## **Default**

This term is used when a debtor does not make the required payments or breaches another part of the contract. If a person is in default, the creditor is entitled to take action. A 'default notice' should be sent to the person by the creditor. If advice is required, contact Consumer Direct on 08454 04 05 06 ([www.consumerdirect.gov.uk](http://www.consumerdirect.gov.uk)) or the Citizens Advice Bureau ([www.citizensadvice.org.uk](http://www.citizensadvice.org.uk)).

## **Equal liability**

Section 75 of the Consumer Credit Act 1974 makes the provider of credit under a regulated agreement as responsible as the supplier of the goods and/or services for any breach of contract or misrepresentation by the supplier. If a person receives goods which are not of satisfactory quality or not as described, or a service is substandard, he/she can sue either the supplier, the credit grantor or both. If a person has entered into a contract because of a statement made by a supplier, which turns out to be untrue, a misrepresentation, he/she has the right to sue either the credit grantor, the supplier or both. This does not apply to hire purchase agreements.

## **Executed/unexecuted agreements**

An unexecuted agreement is one which sets out, in writing, all the terms of the prospective agreement. The agreement becomes executed when it is signed by all the relevant parties to it, provided that it meets the legal requirements that relate to the format of credit agreements.

## **Hire agreements**

These agreements involve the hire of goods. The debtor never owns the goods. If the debtor does not pay, the goods can be repossessed and they can be sued for outstanding debts.

## **Hire purchase agreements**

With these type of agreements, the customer makes regular payments but does not obtain legal ownership until the end of the agreement, when they exercise their 'option to purchase'. The customer cannot usually exercise this option to purchase until all the payments have been made. The creditor has a right to repossess the goods on default until such time as one third of the payments have been made. After this time, the creditor must obtain a court order to repossess the goods. This type of agreement is commonly associated with motor vehicles.

## **Interest and APR**

The APR (annual percentage rate) is the interest charged per year for taking the loan, expressed as a percentage. It is the best way of comparing different loans – the higher the APR, the more expensive the loan. The APR must be indicated by law and must be the most prominent of all the interest rates quoted in an advertisement. Other rates of interest, such as ‘flat rates’, may be indicated, but a customer should always look for the APR.

## **Pawn**

This means an article of value which a pawnbroker accepts as security in return for the giving of a loan. The customer ought to be given a receipt and has the option to redeem the article after paying what is owed as set out in the agreement. Pawnbrokers must hold consumer credit licences.

## **Restricted use credit**

This credit is used to finance a transaction between a debtor and a creditor, or a debtor and a supplier. This term also covers refinancing of an existing debt. The credit can only be used for a specific purpose, such as a car loan, and can be made payable to the supplier of the goods or service to ensure that the credit is spent in accordance with the agreement.

## **Secured credit**

The debtor must provide security to the creditor and the most common security is a house. If the debtor fails to pay, the creditor can repossess the property provided as security to the value of the outstanding debt. The most common secured loan is a mortgage. However, other loans may require security, so the agreement ought to be checked before being signed.

## **Time order**

If a debtor or hirer receives a notice of arrears from the creditor or owner, he/she can apply to the court for a time order. A court may then reschedule any payments due under the agreement. The debtor or hirer can only apply for a time order after he/she has given written notice to the creditor or owner and a further 14 days have passed.

## **Unrestricted use credit**

The credit can be used for any purpose. The debtor may receive a cheque or have his/her bank account credited with the amount of the loan.

## **Unsecured credit**

The debtor is not required to provide security for his/her loan, e.g. his/her house. If the debtor defaults, the creditor can only sue for the outstanding money. However, if the creditor obtains a judgement against the debtor, the creditor will be able to enforce that judgement. This may include the creditor obtaining a Charge against the debtors' property which, ultimately, might be sold in order to satisfy the outstanding debt

### ***Where can I get further help?***

This leaflet is not an authoritative interpretation of the law and is intended for guidance only. For further information, visit the Consumer Direct website ([www.consumerdirect.gov.uk](http://www.consumerdirect.gov.uk)) or telephone 08454 040506.



If you are a business, contact us by any of the following methods:

Derbyshire Trading Standards Service  
Chatsworth Hall  
Chesterfield Road  
Matlock  
Derbyshire  
DE4 3FW

(continued overleaf)

Telephone: Call Derbyshire 08 456 058 058

Fax: 01629 536197

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

We want everyone to be able to understand us. On request, we will arrange:

- Language interpreters, including for sign language
- Translation of written materials into other languages
- Materials in large print, on tape or in Braille.