

LONG TERM SECURED PERSONAL LOANS

If you wish to fit a new kitchen or conservatory costing £10 000 you may choose a secured personal loan. A bank or building society will lend you the money and you repay it plus interest in monthly instalments, but because it is a large amount the loan will be secured by a mortgage on your property which along with any other mortgages cannot exceed 90% of the valuation of the property and you will have to have adequate insurance on the property.

The banks and building societies publish tables showing the amount you have to repay according to the length of time you choose to repay it.

Below is an extract from a table used by a building society when the A.P.R. was 11.9%.

Amount of loan	Repayment Term			
	10 years	15 years	20 years	25 years
£10000 without insurance	£139.68	£115.80	£105.54	£100.48
£10000 with insurance	£153.90	£127.59	£116.28	£110.71

From this table you can calculate your payments.

If you choose the higher premium the insurance covers your payments if you are sick or unemployed for a few months. It is worth considering this because of the length of time you will be paying this back.

If you only want to take out a loan for 10 years without insurance it will cost £139.68 per month.

$$\text{Total repayment} = £139.68 \times 12 \times 10 = £16761.60$$

$$\text{Interest paid} = £16761.60 - £10000 = £6761.60$$

If you want to take out a loan for 15 years with insurance it will cost £127.59 per month.

$$\text{Total repayment} = £127.59 \times 12 \times 15 = £22966.20.$$

$$\text{Interest and Insurance paid} = £22966.20 - £10000 = £12966.20.$$

Notice as the length of the loan increases the interest paid also increases; but the monthly premium decreases.

You need to decide how much you can afford to pay each month to work out the length of time you need to borrow the money for.

Exercise

Work out the total amount paid i) with insurance ii) without insurance

if you take the loan out for

a) 10 years b) 15 years c) 20 years d) 25 years

