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Loan rates jump 3.4% in just 18 months

The cost of an unsecured personal loan continues to increase with loan rates up in some cases by 3.4% in just 18 months.

Smaller loans have seen the biggest increases with the average rate on a £1K loan today standing at 19.8%, while the average rate on a £5K loan has jumped to 12.0%.

Loan Amount	Jan-09	Jan-08	Jun-07	Increase since June 07
£1K	19.8%	18.1%	17.2%	2.5%
£5K	12.0%	10.2%	8.6%	3.4%
£10K	9.4%	8.2%	7.4%	2.1%
£15K	9.5%	8.1%	7.3%	2.2%
£25K	9.5%	8.1%	7.3%	2.2%
Source: Moneyfacts.co.uk 22.1.09				

A £5K loan over three years at 8.6% would have cost £663.70 in interest. Today on the same loan you would pay £925.97 in interest, up by £262.27.

The more you borrow the bigger effect an increase in rate has. On a £25K loan over five years at a rate of 7.3% you would have paid £4,748.93 in interest. Today you would have to pay £6,217.56 in interest, an increase of £1,468.63.

Michelle Slade, analyst at **Moneyfacts.co.uk**, comments:

“Rising unemployment and a declining economic outlook have meant the risk of customers defaulting on unsecured lending has increased. As a result, borrowers are paying a significantly increased rate than they were 18 months ago.

“Base rate may be at a historically low level, but anyone needing a personal loan has seen no benefit.

“With stricter lending criteria, it is now much harder to be accepted for a loan and if you are, you will be paying a premium for the benefit.

“Just a few years ago the battle between lenders was fierce and rates as low as 5.4% were available. Now the lowest rate is 7.8% and you have to be a homeowner to get this deal.

“With 80% of loan providers offering typical pricing, it is likely that many customers will be paying a much higher rate than those advertised.

“The only good news for borrowers is that many big named providers have stopped selling expensive single premium PPI with the loans. As most people didn’t or couldn’t claim on the policies, these were seen at times to be just good money spinners.

“As PPI used to subsidise lower loan rates, let’s hope that as more providers follow suit, we don’t see loan rates increasing further to cover lost revenue streams.”

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Note to Editors:

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