

### SCENARIO A

This is the dilemma that faces Ray, a cleaner, who wants to buy a suit for £150 to go to his nephew's wedding. Ray and his wife live in north London and between them have three cleaning jobs in office blocks. They earn the minimum wage but get no sick pay or holiday pay: this means that while they are working they can cover all their needs and even save a little bit but when one of them is ill their income drops and they use up all their savings. As a result, they have not been on holiday, except to stay with friends, for over 10 years.

To get the money to buy the suit, Ray would normally go to the local licensed moneylender who has helped him out before. The moneylender will lend Ray the money but expects to be repaid by instalments of £8 a week for 55 weeks. Although Ray is confident that he will be able to make most of the weekly payments on time, Ray's nephew explains the high APR that Ray will pay on this loan.

Ray's neighbour says he should buy the suit from a catalogue. Ray has done this before and he sees the suit that he wants but it costs £10.50 a week for 20 weeks and realises that he is still paying £70 more for a suit similar to the one he's seen in a local shop. Also, Ray is not so sure that he can make the higher weekly payments.

Ray's nephew tells him to get a bank loan but Ray doesn't have a bank account. He goes to the bank and learns that he can open an account but the bank will not lend him so small a loan as £150. Instead it will offer him £500 at 9% APR – and so he will be paying less interest on £500 than he would have done on a £150 loan from the moneylender.

This looks like a good idea until a friend warns Ray to read the Terms & Conditions (the 'small print'), where he sees what charges he will have to pay if he misses a payment. For every missed payment, the bank will charge Ray £30 and send him at least one letter for which they will charge him £10.

Ray quickly realises that if he cannot pay on two or three occasions – as happened in the past when he borrowed from the moneylender – he might end up paying the bank more than he would pay the moneylender. The bank's loan advisor explains that the bank might waive the charge if Ray defaults on just one payment but Ray thinks it is likely he will default more than once and doesn't want to take the risk.