

Debt Ridden Brits Reside In Overdrafts

A growing number of Britons are constantly in the red, falling into their overdraft at least once every month, according to new research from a price comparison website.

July 24, 2007 (FPRC) -- Figures from moneysupermarket.com have revealed that ten per cent of working consumers are permanently overdrawn. Some 2.1 million borrowers rely on the overdraft limit of their current accounts to meet day-to-day costs, while ten million Britons have slipped into the red at least once over the course of the past year.

According to the switching service, the average Brit will fall into their authorised overdraft on the 20th of the month, some 27 days after being paid. Higher repayments on home loans were cited by the organisation as the potential reason why so many borrowers go overdrawn.

It's no surprise so many people are permanently in the red - with interest rates having risen five times in the past year consumers are no doubt feeling the squeeze, said head of current accounts Kevin Mountford.

He added that those consumers who repeatedly use the overdraft facility on their bank accounts should be mindful of Effective Annual Rates (EAR), which can often prove more expensive than credit cards or low cost loans. People often dipping into their overdraft need to watch the EAR as some can be punitive, Mr Mountford commented.

This is not the only thing borrowers need to bear in mind, he warned, suggesting that making ends meet using an overdraft puts consumers in a murky place. Teetering on the edge of an authorised overdraft limit could jeopardise borrowers' abilities to meet other financial commitments, including secured loans and mortgages, and could lead to penalty fees.

Unauthorised rates are often much higher and there are sharp penalty fees for breaching your agreement, Mr Mountford explained, adding that the current Office of Fair Trading (OFT) investigation into bank charges highlights the problems faced by consumers. The OFT is already investigating current accounts, to ensure consumers benefit from a much fairer and transparent proposition, the expert commented.

Research conducted by online switching service MoneyExpert at the start of the year revealed that the average AER charged on an unauthorised overdraft stands at 25.4 per cent, although the price comparison site said that by negotiating with their bank consumers can lower this rate to 12.6 per cent.

The message has to be if you are going to use your overdraft make sure your authorised limit is big enough and if it isn't tell your bank before you go over the limit, advised the company's chief executive Sean Gardner.

Meanwhile, recent statistics from the British Bankers' Association found that Britons are turning away from credit cards and overdrafts and are instead using secured loans for their borrowing needs.

Some £5.1 billion was lent out in home loans over June, while lending via personal loans and overdrafts rose by an underlying £0.1 billion and credit card borrowing fell by £0.1 billion.

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