

# Somerset Youth and Community Service

## Money – Borrowing money



**Aims:** To enable young people to explore ways of borrowing money and the advantages and possible consequences of doing so.

### Learning Outcomes:

By the end of the session the participants will:

- have explored the advantages and disadvantages of different types of borrowing
- understand the actual cost of borrowing money.
- have identified the potential dangers of having a credit card.
- Understand what a credit rating is; the effect it has and what can change it
- know where to go for advice on managing their money.

**Group size:** 6 - 8 young people.

**Time:** 1 hour

**Venue:** Youth club

### Materials:

- Flip chart
- Scenarios
- Credit score info sheet
- Info sheet
- Loan game show
- Credit score quiz

Time	What	Who	With
5 mins	Introduce the session by explaining that young people think of borrowing money in the future and it's important that they know the best way to do this. Go through the learning outcomes listed above.	Worker	
10 mins	<b>Borrowing money</b> - If you don't want to wait until you've saved up, or don't have the time to save, you can borrow money from a number of places. As the young people to list all the forms of borrowing they can think of and note them on the flip chart. Add the ones listed on the info sheet if necessary.	All	Flip chart Info sheet
10 mins	Ask the young people to get into pairs and give each pair one or two scenarios.	All	Scenarios
10 mins	Ask each pair in turn what they think is the best form of borrowing for their scenario and why.		
10 mins	<b>The true cost of borrowing</b> - it's important that you know the true cost of this as you will have to pay back interest on top of the amount you borrowed.	All	Loan game show



Time	What	Who	With
	Get young people to have a go at the loan game show – cover the answers on the board with post it notes and get the young people to guess the total amount they would pay back with various methods of borrowing £1,000.		
10 mins	<b>Your credit score</b> – Share the information in the credit score information sheet, then go through the true or false quiz with the young people.	All	Credit score info sheet Credit score quiz
5 mins	Evaluation and finish.	All	

# Somerset Youth and Community Service

## Borrowing Info Sheet



### Personal loan

#### What is it?

A bank, building society or finance company can give you a personal loan. You normally borrow a fixed amount, repayable by set monthly instalments over an agreed period of time.

#### What's good & bad about it?

- Easy to understand as the repayment plan is agreed at the beginning.
- You may be able to pay the loan off early if you find you have some spare money.
- If you fail to make payments you will be charged a fee and it will affect your credit rating.
- It can take a while before your application is processed and you get the money.

### Credit Union loan

#### What is it?

A credit union is a self-help co-operative whose members pool their savings to provide each other with credit at a low interest rate. Most credit unions charge low rates of interest.

#### What's good & bad about it?

- You have to meet criteria to be a member and you are likely to have to complete forms etc.
- Interest rates tend to be higher than banks, but lower than pay day loans etc.

### Mortgage

#### What is it?

A mortgage is a loan from a bank or building society to buy a house or other property. They are usually for a long period (around 25 years) and you pay it back monthly. The property is security which means if you don't keep up with the repayments, the lender can take back and sell the property.

#### What's good & bad about it?

- They are generally the only way to borrow enough money to buy a house over a long period of time.
- There are lots of different types of mortgage so there should be one to suit everyone, but you need to be careful to choose the right one for you.
- If you don't keep up repayments you can lose your home and still end up owing money.

### Loan from family or friend

#### What is it?

Borrowing money from a friend or family member can often seem like a good way to afford a loan – especially if it helps to avoid paying high interest charges to the banks.

#### What's good & bad about it?

- The interest is likely to be much less than a bank or other lender would charge.
- It won't affect your credit rating (for better or worse).
- If things go wrong, such as you can't afford to pay it back or there is confusion because you didn't put the agreement in writing, you can end up falling out.
- Friends & family may refuse to lend you money if they don't agree with what you want to spend it on.

## Overdraft

### What is it?

Bank may agree that you can take more money out of your bank account than what's in there. You'll be charged interest every day on the amount you overdraw and there may be other fees as well.

### What's good & bad about it?

- It's always available and can help fill a shortfall at the end of the month.
- The fees and interest tend to be quite high, if you are using your overdraft each month this indicates you are not managing your money as well as you should.

## Credit or store card

### What is it?

You can use a credit card to spend up to your credit limit and will get a bill each month. If you pay off the total amount by the due date you will not be charged interest, but if you carry part of the bill over to the next month you will be charged. Store cards can usually only be used in the store that issued the card or its partner stores.

### What's good & bad about it?

- Allows you to buy things in store, on-line and over the phone and provides protection.
- If you can get a 0% introductory rate they are a cheap alternative – as long as you pay them off before the 0% period ends as normal interest rates are high.
- If you don't pay in full each month, interest and charges can add up very quickly

## 'Loan shark'

### What is it?

Loan sharks are illegal moneylenders who often charge very high interest rates. They generally don't provide paperwork, such as a licence, credit agreement or record of payments and may resort to intimidation, threats or violence.

### What's good & bad about it?

- They will lend money to people who can't get a loan anywhere else, this is generally because, while that person may be desperate, they have no way to repay a loan.
- Loan sharks are unregulated and will charge massive amounts of interest and fees. They may resort to violence and intimidation if you can't pay.

## Pawnbroker

### What is it?

A pawnbroker lends money according to the value of goods left with them (pledged). The pawnbroker must keep the goods for at least six months but you can get them back at any time by paying off the loan plus interest. The period can be extended by paying the interest only and re-pledging the goods.

### What's good & bad about it?

- You can get money quickly and without having to fill in lots of forms or answer questions.
- If you lose your ticket you may not be able to get your goods back without going to court.
- If you don't pay the loan back you will lose your goods, which tend to be worth more than you borrowed

## **'Pay Day' loan**

### **What is it?**

Payday loans are short-term loans for small amounts of money. Payday loans can be easy to get but interest rates are very high.

### **What's good & bad about it?**

- They are generally easy to get and the money will be in your account quickly.
- The interest is very high. If you can't pay in full at the end of the term there will be additional fees/charges.

## **Mail order catalogues**

### **What is it?**

Mail order offers a way of buying goods by post with payments being spread over a number of weekly instalments. Mail order credit is usually interest free but goods bought in this way may be more expensive than those bought in high street shops.

### **What's good & bad about it?**

- An easy way to buy what you want
- Interest free – but compare prices as they tend to be higher than other retailers
- If you miss a payment the charges tend to be high and it will have a negative effect on your credit rating.

## **Home credit / doorstep loans**

### **What is it?**

Home credit, or doorstep loans, is where you borrow money and the lender calls at your home to collect the repayments. The loans are usually for smaller amounts and you will be charged a high rate of interest for borrowing in this way.

### **What's good & bad about it?**

- They are convenient, but you need to check they are regulated and not a loan shark.
- Tend to be for small amounts and have high rates of interest.

## **Hire purchase**

### **What is it?**

Hire purchase (HP) is different from other types of borrowing because you don't own the goods until you have paid in full. Under an HP agreement, you hire the goods and then pay an agreed amount by instalments.

### **What's good & bad about it?**

- You can buy your item while you use it (often use to buy a car).
- You do not own the item until you fully pay the agreement so you can't sell it and will be committing a criminal offence if you do.
- If you fall behind with payments the lender can take back the goods.

## **Student loan**

### **What is it?**

UK or EU full-time or part-time students can apply for a Tuition Fee Loan. The loan is paid directly to your university or college. You have to pay it back. Your repayments are linked to your income.

### **What's good & bad about it?**

- There is lots of support for students to apply for their tuition fee loans
- You don't pay anything back until you earn over £21,000 a year and only pay 9% any your income over that amount so they are very affordable.

# Somerset Youth and Community Service

## Borrowing Scenarios

### Scenario 1

You had a party last night and it got a bit out of hand! You need £150 to pay a plasterer to make repairs before your parents get home the day after tomorrow or you'll get kicked out. You have £50 in the bank which you need to pay for your transport to work and your mobile phone contract and you don't get any more money for another two weeks.



**How are you going to get the money to pay for the repairs?**

### Scenario 2



Your car is getting old and unreliable, you need it to get to work and there is no practical way of getting there by public transport. You need to buy a better car and the one you have chosen is £5,500. You don't have this much money saved and your current car won't last long enough for you to keep saving.

**What is the best way for you to pay for your new car?**

### Scenario 3

You've decided it's time you left home and you want to buy your own flat. You've found a great place but it costs £80,000!



**What options are you going to look at to buy your new home?**

## Scenario 4

You take a careful look at your finances and realise that:

- you owe £350 on your credit card which just seems to carry over from month to month
- before pay day every month your overdraft is around £110
- you have a loan with a year left and £400 left to pay
- You owe your Nan £160 which she lent you to go on holiday.



You've just had a pay rise and you want to get your finances under control and get rid of all your debt.

**What is the best way for you to get everything paid off?**

## Scenario 5

You've just moved into your new flat and you need a cooker. You don't have the spare money after all the moving costs but you can afford weekly or monthly payments without any trouble. You need to get the cooker as soon as possible because you're fed up of eating cold food and take-aways!



**How are you going to buy your new cooker?**

## Scenario 6



You've been offered a place at university. You've worked over the holidays and your family have given you some money. This is enough to pay for your rent and other living expenses but the tuition fees are £8,500 a year and you can't afford this. The only way you can get your dream job is if you get your degree.

**How are you going to pay for your dream?**

# Somerset Youth and Community Service

## Scenarios – suggested answers



<p><b>Scenario 1</b></p>	<p>You need the money quickly, but only for a short period of time so you could consider:</p> <ul style="list-style-type: none"> <li>• <b>Overdraft</b> - if you have one arranged</li> <li>• <b>Credit card</b> - if you have one and the plasterer will accept it</li> <li>• <b>Pay day loan</b></li> <li>• <b>Pawnbroker</b> - if you have something valuable to borrow against</li> <li>• <b>Friend or family member</b> – if you're sure they won't tell your parents!</li> </ul>
<p><b>Scenario 2</b></p>	<p>You need to make sure you have the best value and know what you will pay back so you could consider:</p> <ul style="list-style-type: none"> <li>• <b>Hire purchase</b> - go for the shortest period you can afford</li> <li>• <b>Personal loan</b> – shop around for the best rate</li> <li>• <b>Credit Union loan</b> – you'll need to be eligible to join and they may only offer loans to people who've been members for a while</li> <li>• <b>Friend or family member</b></li> </ul>
<p><b>Scenario 3</b></p>	<p>You need a large sum of money for a long time so your options are quite limited:</p> <ul style="list-style-type: none"> <li>• <b>Mortgage</b> – make sure you get independent advice to get the right type of mortgage for you and the best deal.</li> <li>• <b>Friend or family member</b> – if you know someone rich enough! Make sure you get a legally drawn up agreement to avoid potential problems later.</li> </ul>
<p><b>Scenario 4</b></p>	<p>You need to consolidate all the debt into one loan to make sure you get the best interest rate, but if you do this you need to be sure you can be disciplined enough not to get any new debts. You could consider:</p> <ul style="list-style-type: none"> <li>• <b>Personal loan</b></li> <li>• <b>Credit Union loan</b></li> <li>• <b>Friend or family member</b></li> </ul>
<p><b>Scenario 5</b></p>	<p>As this is quite a small amount of money it may not be worth taking out a personal loan and this may take too long. You will need a reasonable length of time to pay so overdraft or pay day loan would be a bad idea. You could consider:</p> <ul style="list-style-type: none"> <li>• <b>Mail order catalogue</b> – check the price isn't too much higher than in local stores or on line etc.</li> <li>• <b>Credit or store card</b> – if they have special deal like 0% for long enough for you to pay it in full</li> </ul>
<p><b>Scenario 6</b></p>	<p>The best approach here is to apply for a student loan. This isn't means tested and you only pay it back once you earn over £21,000 per year.</p>

# The loan Game Show!

If you borrowed **£1000** for **1 year**, how much would you pay back?

<b>Personal loan from the bank</b> 14.9% APR	<b>£1,077.24</b>
<b>Pay day loan</b> 2 x £500 loans at 1737% APR	<b>£17,370.00</b>
<b>Credit card</b> 18.9% APR	<b>£1,093</b>
<b>Loan shark</b> Unregulated	<b>£128,000+</b> <small>There is a case of someone paying this much back on a £500 loan before she went to the police</small>
<b>Pawnbroker</b> Monthly interest of 8.99%. You would need something worth much more than £1,000 as security.	<b>£2,078.80</b>

# Somerset Youth and Community Service

# Credit score info sheet



The main factor that will affect whether you can get a loan, credit card, mortgage etc, and also how much interest you will pay, is your credit score.

When you apply for credit, responsible lenders want to make sure you can comfortably afford to manage any new borrowing. To do this, they usually calculate a credit score, weighing up all the relevant information at their disposal. This helps them to assess the chances that you will be able to repay what you owe.

People with a high score are usually seen as lower risk, and are therefore more likely to be granted credit - and possibly at better rates. As part of this process companies will look at your credit report which contains information about your personal credit history – things like:

- how much you've borrowed
- if you missed any payments
- whether you paid money back early, late or on time
- your current and previous addresses
- any previous names you've had
- any other people you are financially linked to

Companies can only check your credit report with your permission, but this is often in the small print.

# Credit Score Quiz

1.	You have one score which every lender uses.	<b>True</b>	<b>False</b>
2.	To work out your score lenders look at things like the information in your application and your credit report.	<b>True</b>	<b>False</b>
3.	If you miss two or more payments on your credit card you will not be able to get credit again for a year.	<b>True</b>	<b>False</b>
4.	Anyone can look at your credit report if they pay the fee.	<b>True</b>	<b>False</b>
5.	It's a good idea to check your own credit report from time to time.	<b>True</b>	<b>False</b>
6.	If your credit score is really bad you are put on a 'credit blacklist'.	<b>True</b>	<b>False</b>
7.	If you've never borrowed money you can find it difficult to get a loan	<b>True</b>	<b>False</b>
8.	If the person who lived in your house before you had a really bad credit score it can affect your ability to get a loan or credit card.	<b>True</b>	<b>False</b>
9.	Your partner has a lot of loans and credit card debt but this won't affect you because you're not married.	<b>True</b>	<b>False</b>
10.	A bad credit score may mean your power company will only let you have a pre-pay meter for your electricity.	<b>True</b>	<b>False</b>

# Somerset Youth and Community Service

## Credit score quiz – answers & info



<b>1.</b>	<b>You have one score which every lender uses.</b>	<b>True</b>	<b>False</b>
-----------	--	-------------	--------------

Each lender will have different factors that they consider most important. They will also look at things differently depending on what type of credit you are applying for so a mortgage lender will look for different things than a credit card company.

<b>2.</b>	<b>To work out your score lenders look at things like the information in your application and your credit report.</b>	<b>True</b>	<b>False</b>
-----------	---	-------------	--------------

They may also take into account information they have about you if you have been a customer of theirs before.

<b>3.</b>	<b>If you miss two or more payments on your credit card you will not be able to get credit again for a year.</b>	<b>True</b>	<b>False</b>
-----------	--	-------------	--------------

Missed payments will have a negative effect on your credit score but you may still be able to get credit in future although it may mean you are charged a higher interest rate.

<b>4.</b>	<b>Anyone can look at your credit report if they pay the fee.</b>	<b>True</b>	<b>False</b>
-----------	---	-------------	--------------

You can see your own credit report if you pay an admin fee, but you will have to prove that you are who you say you are. The only other people who can see your report are companies you give permission to.

<b>5.</b>	<b>It's a good idea to check your own credit report from time to time.</b>	<b>True</b>	<b>False</b>
-----------	--	-------------	--------------

If you check your own report – you may spot things that you can do to improve your score. Also, if you are the victim of identity theft you may see early signs on your credit report.

<b>6.</b>	<b>If your credit score is really bad you are put on a 'credit blacklist'.</b>	<b>True</b>	<b>False</b>
-----------	--	-------------	--------------

There is no such thing as a credit blacklist because each lender uses different factors so each decision is made individually. If your credit history is very bad you may struggle to find anyone who will lend to you, but this isn't because you are on a central list.

<b>7.</b>	<b>If you've never borrowed money you can find it difficult to get a loan</b>	<b>True</b>	<b>False</b>
-----------	---	-------------	--------------

In this case you don't have any credit history so companies find it difficult to work out whether or not you are likely to pay back what you owe. Some companies prefer not to lend to people with little or no credit history. They also take into account whether you are registered to vote or have a phone.

<b>8.</b>	<b>Taking out pay day loans can mean you struggle to get a mortgage later.</b>	<b>True</b>	<b>False</b>
-----------	--	-------------	--------------

Mortgage lenders often think that using pay day loans mean you are not good at managing your money.



9.	<b>Your partner has a lot of loans and credit card debt but this won't affect you because you're not married.</b>	<b>True</b>	<b>False</b>
----	---	-------------	--------------

If you have any joint finances such as energy bills, mortgage, loans or bank accounts your credit reports will be linked. If your partner has a poor credit history keep your finances completely separate and it shouldn't affect your ability to get finance. If you split up make sure you write to credit reference companies to ask them to unlink you.

10.	<b>A bad credit score may mean your power company will only let you have a pre-pay meter for your electricity.</b>	<b>True</b>	<b>False</b>
-----	--	-------------	--------------

Energy companies now share information about missed payments with credit reference companies and also use information from them to work out your credit score. If your score with them is too low they may ask you to pay a deposit or only let you have a pre-pay meter.