



**MONEY
SMART**

An education programme from

Danske Bank

Welcome to

Money Smart

By Danske Bank

Exploring forms of Credit

What we will discuss today

- Recap on: What is credit?
- Where can you borrow money
- What is a credit rating
- Things to ask yourself before borrowing money



Before we start...

While we are talking to you about credit today, it's important to remember that credit facilities are only available to people over 18 years of age.





What is a credit?

Credit is the ability to borrow money or access goods or services with the understanding that you'll pay later, with interest.

Credit is granted based on the provider's confidence you can be trusted to pay back what you borrowed, along with any finance charges that may apply.



Money is part of our everyday life – we earn it through the work we do or grants we are entitled to, and spend it on things we need, or if we have enough, we can also spend it on things we want.

We might spend it on small everyday items – food, transport etc. – or on larger one-off items such as a TV, or a fill of oil, or a holiday which we might have to save up for.

Where can you borrow money?

For those bigger purchases, or times when you don't have money in your account, where can you borrow money?

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Where can you borrow money?

- Bank loan
- Overdraft
- Payday loan, or Buy now pay later schemes
- Loan sharks



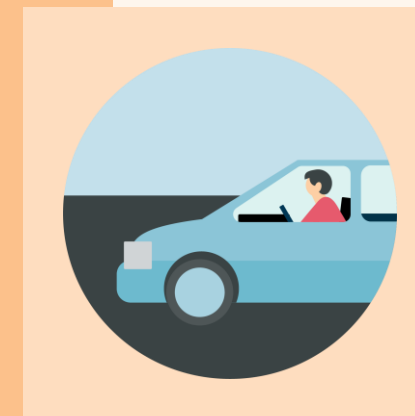
Bank loans

- A loan is a financial agreement in which the lender agrees to give the borrower an amount of money, with certain conditions:
 - The loan must be paid back over a **set period of time**
 - You will be charged interest at an **agreed rate**, (and sometimes additional administration charges)
- A bank or building society **will check that you can make the repayments**, so they'll want to know how much you earn, whether you have any other loans or debts, and may want to know what you want the money for.
- The borrower must adhere to the repayment terms stated in the agreement- especially **repayment dates** and **interest rates**.



Bank loans

If the money is to buy a large item, such as a car, the loan may be secured against it. This means that if you can't keep up your repayments, the bank or building society can take possession of the car.



Before taking out a loan, make sure you know...

- ✓ Exactly how much you will have to pay back every month.
 - ✓ How long you have to make the repayments for.
 - ✓ What interest rate you are being charged (if your loan does not have a fixed interest rate, the amount you have to repay may go up – or down – if interest rates change).
- *The interest rate and terms and conditions of a loan will vary from lender to lender.**

What is an overdraft?

You might have heard of it before, but can anyone explain what an overdraft is?



Overdrafts

- Being overdrawn is when you've drawn more money out of your current account than you had in it.
- Your bank may allow you to have an overdraft facility which means that you can be overdrawn by an agreed amount. This is known as an arranged or planned overdraft.
- Your bank will charge you interest and / or fees each month you use your overdraft.



Overdrafts

- It is possible to go overdrawn even if you haven't agreed this with the bank in advance. This is known as an unarranged or unplanned overdraft and is much more expensive than an arranged / planned overdraft.
- Some banks may give you a free overdraft facility of, say, £100. This means you will not be charged fees or interest to use the overdraft up to this amount.
- Overdrafts are repayable on demand which means that the lender can ask you to repay the amount you owe at any time.

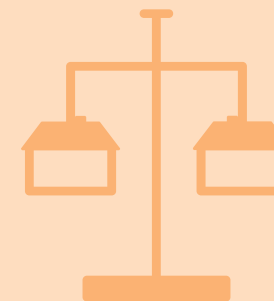
Payday loans

Has anyone heard of payday loans? Can anyone explain them to me?



Payday loans

- Payday loans offer 'quick and easy' cash – often to people who maybe can't borrow from a bank or building society.
- They can be arranged very quickly and can seem like a good solution to a short term crisis
- The extremely high interest rates on this type of loan cause debts to spiral out of control for some borrowers
- The FCA (Financial Conduct Authority) has now capped Payday loan interest rates at 0.8% per day. In addition no one will have to pay back more than twice what they borrowed.
- However, payday loans are still one of the most expensive forms of borrowing.



Payday loan example

You borrow £1,000.

The interest rate is 0.8% per day and it takes you six months to pay this back.

How much do you end up paying overall?



Payday loan example

£1,000 borrowed

0.8% interest per day: **£8**

6 months interest (around 180 days): **£1,440**

Total amount to pay back:

£1,000 (loan) + £1,440 (interest) = **£2,440**

[more than double the original loan]



Buy now pay later

Buy now pay later (BNPL) services are becoming more popular. Has anyone heard of any?





Buy now pay later

- Buy now pay later services are a form of credit where you buy the goods and pay later – usually in interest free instalments or after an interest free period of time.
- While typically used for catalogue shopping, they are becoming more and more popular in high street stores and online.
- Providers like Klarna, Clearpay and Layby offer a range of payment options.
- BNPL can be useful, in some situations like availing of a sale, but there are penalties for missing payments so it's important to keep track of:
 - how much you owe;
 - payments you've made to date;
 - due dates for payments;
 - how many BNPL agreements you have.

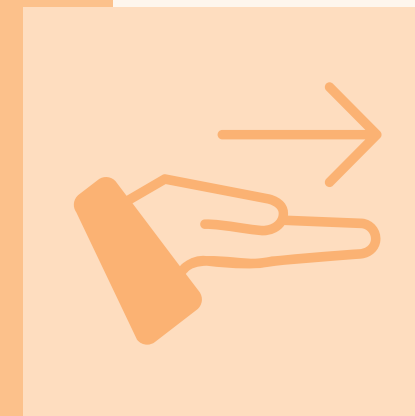
Loan sharks

What are loan sharks?



Loan sharks

- Loan sharks are unregulated, unlicensed and operate illegally.
- This means that someone borrowing from a loan shark has very little protection when it comes to repayments.
- The loan shark is free to set whatever level of repayment they want, and to inflict fines, and penalties, and perhaps threats or actual harm to borrowers who miss a payment.



What is a credit rating?



Credit rating

- A bank, building society or credit card company will use your credit rating to decide whether they can lend you money, how much they are willing to lend you and the interest rate they will charge.
- A credit report details your personal credit history, including mortgages, credit cards, overdrafts, mobile phone contracts and even some utilities such as gas and electricity.
- Having a good credit rating will make it much easier to apply for a credit card, buy a car or take out a mortgage.



Before borrowing... always ask yourself

Do I need this?

Can I afford to pay it back?

Am I getting the best credit option?

If the answer is 'No', the don't buy it!





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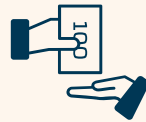
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Top Takeaways



What is credit

The ability to borrow money to pay for goods and services – granted based on your predicted or proved ability to pay it back



Different credit options

We've explored bank loans, overdrafts, payday loans, Buy now pay later services and loan sharks



Credit rating

We've chatted about what it is, and why it is important to look after to help you get good credit



Borrowing

Always ask: do you need it, can you afford it, is your credit option suitable for you? If not, **DON'T BUY IT!**