



**MONEY  
SMART**

An education programme from

Danske Bank

Welcome to

# Money Smart

By Danske Bank

# Credit, and how it works

## What we will discuss today

- What is credit?
- How we pay for things
- The difference between Debit and Credit cards
- What are interest rates and APR on a card?
- Exploring the differences of paying by Debit or Credit cards



# 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.

# What ways can we pay?

Can we list some of the different ways you can pay for goods and services?

# What ways can we pay?

# A

- Cash
- Cheque
- Debit Card
- Credit Card
- Store cards
- Pre-paid Credit Cards
- Device payments (phone/watch)
- Gift vouchers
- Buy now pay later schemes
- Direct transfer (online, mobile phone)
- Standing order
- Direct Debits



# Budgeting and saving

In an ideal world you will track your spending, budget for all expenditures and save up money for items you really need.

In reality we don't always have all the money we need at the right time, due to unexpected expenditures or larger outgoings than incomings, and require credit.



## When might you need credit?

Can anyone give me some examples of times when you might need to pay for something in advance, and not have all the money up front?

# When might you need credit?

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- Buying a house
- Buying a car
- If something breaks unexpectedly
- Paying for a holiday
- Furniture



# When might you need credit?

A large, stylized orange letter 'A' is positioned on the left side of the slide, partially overlapping the orange header bar.

Ideally we would always earn more than we spend or successfully budget and save in advance, but there might be times where this is not the case.

For example :

- you've no spare money in your bank account and you aren't getting paid for another week,
- you have to pay for something now, such as a concert ticket (want) or a train ticket for an interview (need), because it will be sold out, or more expensive, if you don't.



# Bank cards

Bank cards are a very popular and important form of payment, especially if you're shopping online.

## Why use a bank card?

- ✓ More convenient than cash
- ✓ Can be used to shop online
- ✓ Can be replaced if lost or stolen
- ✓ Can tap for contactless payments up to £100
- ✓ You can link your card up to your phone or smartwatch and use that to pay online and in stores too



# Debit v Credit cards

What do you think are the main differences between a Debit and Credit card?



# Debit v Credit cards

## Debit:

With a debt card you are using your own money from your own bank account.

## Credit:

With a credit card, you are borrowing money from a bank or building society or other lender.



# Credit cards and interest

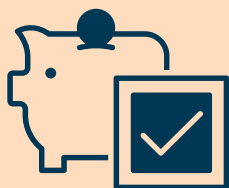


## How do credit cards work?

- **Monthly statement** – approximately 30 days to pay (the number of days differs by lender).
- **Minimum Repayment** – there is a minimum repayment that must be paid each month. This figure is advised on your statement.
- If you pay the **minimum repayment** and **don't pay off the balance in full** every month, you will be charged **interest**.
- Interest rates on credit cards can be quite high so it is important to understand the **APR**.

# APR – what is that?





# APR

APR stands for Annual Percentage Rate.

- APR aims to give people a more accurate idea of how much interest they are being charged when they borrow money.
- It also allows people to compare the total cost of borrowing money for different types of loan and lengths of time.

# Activity

You want a new laptop and really fancy a MacBook Pro. It's £899.

Let's go through the options of paying on a Debit or Credit card.



# Let's discuss: Option one

You have enough money in your bank account so you use your debit card to pay for your new MacBook.



# Let's discuss: Option one

You have enough money in your own account to pay for the MacBook – so if you use your account to buy it, you won't be charged interest and it'll cost you **£899 overall**.

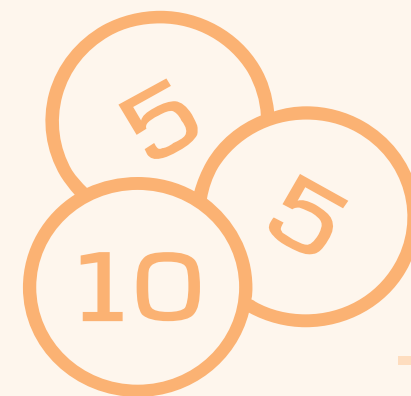


## Let's discuss: Option two

You use your credit card to pay for your new MacBook Pro.

You have a part-time job and can afford to pay it off at £80 per month.

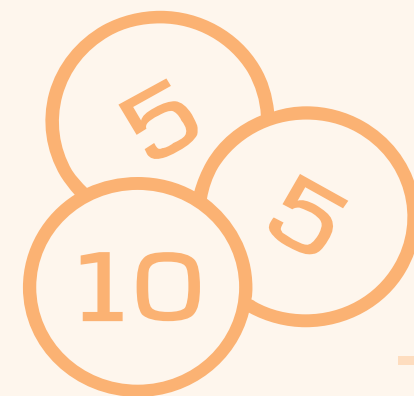
The APR on your credit card is 19%.



## Let's discuss: Option two

With interest and APR on your Credit card, the laptop will cost you about **£988 overall**.

That's an additional £89 in interest charges, and it will take you around one year to pay it off.



# Let's discuss: Option three

You use your Credit card to pay for your new MacBook Pro.

You plan to pay your Credit card balance off in monthly instalments but can only afford to pay the minimum monthly repayment.

The APR on your credit card is 19%.



# Let's discuss: Option three

A typical minimum repayment is the greater of 3% of the outstanding balance or £5.

In this instance, the minimum repayment will start off at around **£28 per month** and will reduce over time as you make each repayment.

Your MacBook Pro costs you approx. **£1,617 overall**. That's an additional £718 in interest charges, and will take you around 11 years 7 months to pay it off.

You will repay almost **double the amount** you borrowed!



# Discussions

The above scenarios assume you do not borrow any further amounts on your credit card. The calculations are a guide only and will depend on a number of factors including when repayments are made and your lender's interest rates and repayment requirements.



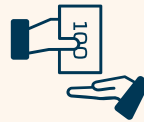


# Top Takeaways



## 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



## When might you need it

We've explored times when you might use credit to help pay for certain things



## Difference in Debit and Credit cards

Debit cards use your own money from your own account, Credit cards use borrowed money



## How interest and APR work

What interest and APR are, and how they impact and increase your payments for things you buy on credit