

## Understanding borrowing

Print and cut up into sets, enough for one set per pair. You may want one uncut copy for yourself.



### Title: APR (Annual Percentage Rate)



**Definition:** This is a way of showing you how much interest you will pay if you decide to borrow money. You can use it to compare different borrowing options.

**Clue:** If you are borrowing, then the lower this is the better.

### Title: AER (Annual Equivalent Rate)



**Definition:** Whenever you see an advert for a savings account which shows an interest rate, you will see this. You can use it to compare accounts. It shows what the interest rate would be if your interest was paid and compounded once each year.

**Clue:** If you're saving, then the higher it is the better.

### Title: Personal loan



**Definition:** A bank, building society, finance company or credit union can give these to you. Anyone can apply for them.

You borrow a fixed amount and you repay it (usually) in set monthly instalments over an agreed period.

You are charged interest on this.

You can use these for bigger purchases.

**Clue:** There are different types of these depending on where you get it from.

### Title: Student loan



**Definition:** This is authorised by the Government.

You can borrow different amounts depending on where you live, what you want to do and your personal circumstances.

There are two parts to this loan.

- A loan for tuition fees which is paid directly to the college of university you will attend.
- A loan for maintenance and living costs which is paid directly into your bank account and which you need to manage.

Both loans have to be paid back but you don't have to pay the loan back until your income has reached a certain amount.

**Clue:** You can only get one of these if you are going to be or are a student.

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### Title: Hire purchase



**Definition:** You may do this if you want to make a big purchase like a car. You pay money back on a regular basis.

This is a way to borrow if you want to pay over a period for a bigger or smaller purchase.

If you do not pay, then the goods could be taken from you. Until you have paid for the goods, you cannot alter them or sell them to anyone else.

**Clue:** You may have heard it when you bought a TV or a car.

### Title: Credit card



**Definition:** There are a lot of these available from different financial organisations.

You can borrow up to a certain amount by spending on this.

If you do not pay off what you spend each month, you pay interest.

Using this can sometimes offer financial protection.

**Clue:** It is a plastic card that allows you to purchase goods and services and pay for them later.

### Title: Store card



**Definition:** You can only use it in a particular shop.

If you spend on it, then you are borrowing money and you must pay it back in the same way as a credit card.

Interest charges are often much higher than credit cards.

**Clue:** It does what is says on the card!

### Title: Mortgage



**Definition:** This is when you borrow a large amount of money, usually over a very long period of time, to buy a property or a piece of land.

If you don't make your repayments, you may lose the property or land.

**Clue:** Some people prefer to rent rather than have one of these.

## Understanding Borrowing

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### Title: Overdraft



**Definition:** This allows you to borrow money from the bank, usually through a current account, by arranging to take money or make a payment from the account which exceeds the money in the account. There are two kinds: an arranged one which you can set up in advance for a specific amount, and an unarranged one, where the bank agrees to lend you money to cover payments you want to make, but for which you don't have enough money.

Sometimes it is free and sometimes you must pay interest if you use it.

**Clue:** Feels a bit chilly!

### Title: Pay day loan



**Definition:** A short-term loan for small amounts of money. They are available from high street shops and internet sites.

This way of borrowing can be a risk as they are easy to get but interest rates are very high.

**Clue:** They are often advertised on TV.

### Title: Loan fee fraud



**Definition:** When you are asked to pay an upfront fee for a loan you will never receive. You may be put under pressure to pay the fee quickly and/or asked to pay in an unusual method (e.g. Western Union, iTunes vouchers).

**Clue:** It does what it says on the tin.

### Title: Interest rate reduction scam



**Definition:** When you search online for borrowing, you might be contacted by someone who may say that you can get a lower interest rate if you borrow via them as they have 'special relationships' with the borrowing issuers. You will be asked to pay an upfront fee before they do this.

You will never receive the borrowing.

**Clue:** The last word rhymes with ham.

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### Title: Loan shark



**Definition:** If you borrow from this type of person or business, you will pay very high rates of interest.

You may not get anything in writing about what you have borrowed and how you will pay it back.

This is not legal and could be dangerous if you do not pay the money back.

**Clue:** Think of a dangerous animal.

### Title: Doorstep lender or home credit



**Definition:** You borrow money and the lender calls at your home to collect the repayments.

You borrow smaller amounts.

You will be charged a high rate of interest for borrowing in this way.

It is legal, but you need to do your research. Ask to see their lender's authorisation. If they don't have one, you should avoid borrowing from them.

**Clue:** The clue is in 'home'.

### Title: Mail order catalogue



**Definition:** This is a way of buying goods by post, with payments being spread over several weekly instalments.

You can do this on your own or via a friend, relative or agent.

This is mostly interest-free, but sometimes interest may be charged for more expensive items that are being paid for over a longer period.

**Clue:** Another name for post that comes through the letter box.

### Title: Interest free loans



**Definition:** You borrow a fixed amount and you repay it (usually) in set monthly instalments over an agreed period. If repayments are not made as agreed, you might end up paying charges.

You are charged no interest. You only pay back the value of the item you purchased over a set period.

**Clue:** You often see this product advertised in retail stores where you may want to make a large purchase.

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### Title: Credit score



**Definition:** This is created from your credit history. It is based on your circumstances such as your debt repayment history, the length of your credit history, etc.

Lenders (organisations you can borrow from) use this to work out if people will pay back what they have borrowed in the time agreed.

**Clue:** Think of a football match. What has a player done when he/she puts the ball in the back of the net?

### Title: Debt adviser



**Definition:** The name given to someone who can help you if you are having problems repaying money you have borrowed.

**Clue:** There are different organisations that have them e.g. Citizens Advice Bureaus or debt charities.

### Title: Credit history



**Definition:** This information makes up your credit score.

This is a record of all your borrowing (debts) and sometimes other financial transactions. Lenders can get this information about how good you are at repaying debts. This helps them decide if they will lend to you.

**Clue:** Something in the past.