



Understanding overdrafts, credit cards and credit scores

Age range: 16-19

 **BARCLAYS** | LifeSkills



Bank Account Comparison tool

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Ashraf: student sheet

- Age 21. Working full-time in a tech job, walking distance from home.
- Likes to buy the latest tech products, which he doesn't always have the money upfront for.
- Thinks about the future a lot as he wants to complete a computer animation course and needs to save to pay for it.
- Doesn't tend to spend a lot on going out with friends or transport.
- Would like a convenient way of keeping track of his money.



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Natalia and Liam: student sheet

- Age 25. Working full time and have a 5 year old daughter.
- Natalia works over time at weekends so they have extra money but they like to spend on their daughter, so find it hard to save.
- Liam isn't great at keeping track of his money and has had trouble paying off a credit card and overdraft in the past.



Reading a bank statement

Here are some terms that you will find on a bank statement. The following slide provides definitions.

Statement period		Account Name	Account Number	Sort code	
1 June to 30 June		Mr N E One	68564539	00-00-00	
Date	Payment Type	Details	Paid Out	Paid In	Balance
1 June		BALANCE BROUGHT FORWARD			£148.85
5 June	ATM	ATM Hackney	£20.00		£128.85
8 June	DR	Charge	£1.75		£127.10
11 June	POS	Super supermarket	£87.00		£40.10
12 June	DD	Severn Trent Water	£18.00		£22.10
17 June	CR	Wages		£335.00	£357.10
21 June	SO	Anybank loan payment	£50.00		£261.90
24 June	CHQ	000478		£185.00	£446.90

Reading a bank statement: definitions

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Account number: Your unique reference that identifies each customer.

ATM Automated Teller Machine: a cashpoint.

Balance: a running total of how much you've got in your account and how much you have at the end of the period of this statement appears at the end.

Balance brought forward:
How much you had at the start of this period of time.

CHQ Cheque.


CR Credit: money went into your account.

Dates: shows when the money left or entered your account. This might be different to when you paid for something, as there can be a delay between the transaction and the money leaving/entering your account.

DD Direct Debit: a form of regular payment based on an agreement that someone (usually a company) will withdraw money from your bank account.

DR Debit: money left your account.

Paid in/paid out: The value of each transaction.
You may instead see: • 'debits' instead of 'paid out' • 'credits' instead of 'paid in'.

POS Point of sale: money left your account, generally a purchase from a retailer. Contactless payments are likely to be reflected with this code and with the symbol .

SO Standing Order: a payment you can set up either to pay another person or organisation as a one off or on a regular basis. You can set up, amend or cancel the payment as and when you like.

Sort code: a six-digit code that identifies your bank and the branch

Statement period:
the time period covered by the statement.

Top tips for current accounts

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- Shop around for best deal to meet your current needs.
- Check that any 'freebies' add value.
- Change your account type if you needs change.
- Check any 'fee free' overdraft offers for students.
- Set up text alerts or notifications on your app to keep track of your balance.



Your bank account statement contains very important personal information. In the wrong hands this could lead to identity theft or someone accessing your account so it is really important to:

- Make sure your details are correct. If you're moving home, tell your bank.
- Keep bank details somewhere safe. Don't leave them lying around.
- Check your statement regularly to account for all of your transactions and notice any unusual activity. Make sure you understand all acronyms and terms.
- Shred paper statements rather than throwing them out, or opt for online paperless banking.

Pros and cons of credit cards: student sheet

✓ Advantages	✗ Disadvantages

Pros and cons of credit cards

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✓ Advantages	✗ Disadvantages
<ul style="list-style-type: none">✓ Can give you up to 51 days of free credit which can help with budgeting.✓ There are some good 'points' and 'cashback' offers to take advantage of.✓ Interest-free 'balance transfer' offers over a period of time can be helpful provided you pay the right amount off each month to ensure the debt is clear by the end of the interest-free period.	<ul style="list-style-type: none">✗ Very high interest rates if you don't pay off the balance in full each month.✗ You need to have a regular income to be approved at application.✗ It's easy to get 'carried away' by having ready access to money that you may not be able to afford to repay.

Know your money terms

Key terms to start your journey.

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Click the terms below or click on this image to access the full 'Know your money terms' online tool.

Interest

Credit

Credit score

Debt

Know your money terms

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Interest

One of two things: either the money a bank adds to your savings, or the amount you need to pay back on top of money you have borrowed, over time.

Credit

Borrowing money from an organisation to help pay for an item or service. You may be able to pay the money back in instalments over a set period of time, but will likely have to pay back with interest.

Credit score

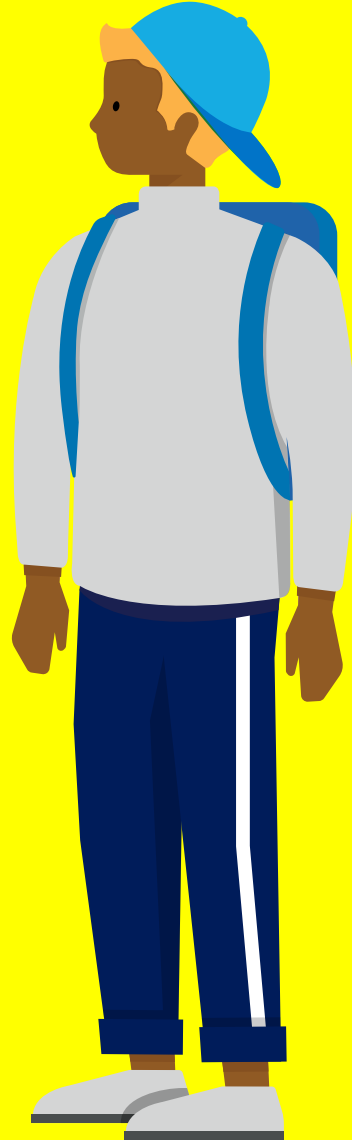
A record of your money habits that looks at your past behaviour, taking into consideration unpaid bills, debts, and credit you have applied for. A rating/score is given to indicate to a bank or lender the likelihood of you being able to repay a loan or money borrowed. Lenders use this information when deciding whether to lend you money.

Debt

Money that is owed to another person or organisation.

APR

The Annual Percentage Rate (APR) is the cost of a loan (i.e. the original loan plus the interest and any set-up fees) over the course of one year. The higher the APR, the more expensive the cost of borrowing.



Example:

If you borrowed **£1,000** with 29.9% APR and paid this back over one year, you would be repaying **£1,299** (£1,000 loan + £299 interest and set-up fees).

Which credit card?

Amir has a regular income and a good credit rating. He’s decided to apply for a credit card because he travels abroad a lot for his job. As there is a short delay in reclaiming his travel expenses from his employer, a credit card would be a good way to get free credit for a short period. He has every intention of paying off the full balance each month by direct debit. He has no current credit card balances outstanding.

	Card A	Card B	Card C	Card D
Reward	Points (1 per £1 spent) redeemable at shops and restaurants	Free gift (choice of tablet computer or mobile phone)	Charity donation (20p in every pound spent)	Airline loyalty points
APR on balances not paid off each month	18.9%	17.9%	18.7%	17.8%
Additional services	0% on balance transfers from other cards for 20 months	None	0% on balance transfers from other cards for 24 months	No fees on transactions overseas

Which credit card: student sheet

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Which card would you advise?

What factors did you consider in recommending this card for Amir?

Remember: any rewards offered need to have value for the user, e.g. airline loyalty points are not helpful if you never travel abroad.

Which credit card?

What factors should you consider in recommending this card for Amir?

- He has no card balances so the 0% offers are irrelevant.
- The APR isn't relevant as he intends to pay off the full balance by direct debit each month.
- The points on card A might be useful if he likes to eat out.
- The free gift on card B might be tempting but is of low value compared to rewards earned over the lifetime of the card.
- Card C is a good option if Amir is looking for an ethical product.
- Card D is right for someone who travels abroad a lot as it will save on transaction fees and build up loyalty points for future use.

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Methods of borrowing: student sheet

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Interest in the context of borrowing

- Borrowing money at a 5% interest rate for a year, will cost you 5% of the amount borrowed.
- You'll need to be repay this along with the original money you borrowed.
- Interest rates are quoted as annual amounts, but not always, so make sure you check.
- Remember, that interest means that you have to pay back not just the amount you borrowed, but an additional sum within an agreed timeframe to avoid penalties.

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Getting help with financial difficulty: student sheet

Action	Yes	No
Talk to a trusted friend or family member		
Contact the lender and explain your financial situation		
Don't borrow any more money		
Borrow from a friend or family member to help you make repayments		
Apply for a credit card to help you make the repayments		
Seek free, independent debt advice		
Try to forget about it		
Arrange a repayment extension		

Dealing with debt – scenarios

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Scenario 1



I recently bought a new phone on a 24 month contract. At the time I thought it was a good idea but now I can't pay the monthly bill. They've cut off the phone and because I still haven't got the money to pay they will cancel the contract.

Scenario 2



I've been paying my mortgage for years, no problem, but then I got made redundant. I'm looking for another job but in the meantime I've no income so I can't make the monthly repayments.

Dealing with debt – scenarios

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Scenario 3



I took out a 12 month loan with my bank for a new laptop but I can't manage the repayments anymore. Do I contact the bank or the store?


Scenario 4



I got a pay rise at work last month. I was looking forward to the extra cash but it turns out I'll have to start paying my student loan back so I won't be any better off. Do you think I could start the repayments next year instead?


Dealing with debt – scenarios

Scenario 5



I opened a current account with an £800 overdraft when I was working. Now I'm out of work and I've exceeded by overdraft. I am being charged very high fees which I cannot pay.

Scenario 6



I needed £100 to tide me over until I got paid so I got a payday loan. I was sure I'd be able to pay it back but then my car broke down and it cost a lot to get it fixed. So I had to roll the loan over to the next month and I've been charged loads of interest so I've even less chance of paying it back now.

Dealing with debt – scenarios

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Scenario 7



I borrowed £200 from a man who came to my house and offered me a loan. I only had to pay back £5 a week, but then I missed a payment and now I owe him an extra £2 interest. I can't afford the payments and he keeps coming around and putting pressure on me to pay up.

Scenario 8



My brother lent me £20 when I really needed it. I've paid £10 back but I'm really struggling to find the rest. I'm avoiding him so he can't ask for it back.

Dealing with debt – possible actions: student sheet

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	Action	Yes	No
A	Talk to the credit card provider		
B	Phone the store card company and explain the situation		
C	Contact the shop and explain your situation		
D	Contact your phone provider and tell them your difficulty		
E	Tell the bank you're having difficulties		
F	Don't spend any more money on the card		
G	Tell the police		
H	Contact the payday lender		
I	Tell someone and seek help		
J	Get free, independent debt advice		
K	Search the internet		
L	Try to forget about it		
M	Arrange a repayment extension		
N	Apply for credit card		

Things to think about before borrowing

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Do you really need a loan?	If the loan is for a purchase, is it essential or could you wait and save for it?
Check the interest rate (APR)	Make sure you know exactly how much the loan will cost.
How much do you need to borrow?	Always complete a budget to check what you have in surplus income once the borrowing has been factored in, so you know you can afford to repay.
How long will it take to pay off?	Be sure you know what period of time you have the loan for and when you need to pay instalments.
Shop around for a reputable source	Make sure you get the best deal. Consider other available sources that could avoid a loan, for example Credit Unions provide a good way to save and borrow.
What are the repayments?	Will your income be regular enough to meet the repayments at the right time?

Credit score definition

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"A score given to you by a financial company, which indicates whether you're likely to be a safe, profitable customer."



What's in a credit score?

Tick the boxes of the elements that are used to make up a credit score.

Description	Yes	No
Credit reference agency files		
Parking fines		
Council tax arrears		
Application form		
Medical history		
Criminal records		
Savings accounts		
Salary		
Past dealings with the company		
Account data from other companies		

What's in a credit score? Answers

Tick the boxes of the elements that are used to make up a credit score.

Description	Yes	No
Credit reference agency files	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Parking fines	<input type="checkbox"/>	<input type="checkbox"/>
Council tax arrears	<input type="checkbox"/>	<input type="checkbox"/>
Application form	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Medical history	<input type="checkbox"/>	<input type="checkbox"/>
Criminal records	<input type="checkbox"/>	<input type="checkbox"/>
Savings accounts	<input type="checkbox"/>	<input type="checkbox"/>
Salary	<input type="checkbox"/>	<input type="checkbox"/>
Past dealings with the company	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Account data from other companies	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Credit check

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Credit history

- Information on application form.
- Credit reference agency files.
- Account data from other companies.
- Past dealings with company.

Will this person be a good customer?

Yes

Have £2000 credit.

No

Application rejected.

Credit reference agencies

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- Experian, Equifax and TransUnion are the most commonly used companies in the UK.
- They put together information about your credit history:
 - Electoral roll information.
 - Court records.
 - Search, address and linked data.
 - Fraud data.



Why can't I get credit?

Zainab is 18 and has applied for her first credit card, but she has received a rejection. She doesn't know why her application has been rejected; she has always been very careful with her money and doesn't think there should be anything bad on her credit file. She orders her credit file and checks through it.

Credit agreements	
Good	You have 2 active accounts and 1 settled account on file at your current address. Credit grantors prefer that you have at least one or two accounts as part of your credit profile at your current address. Active accounts are preferred to settled accounts
	You have no active accounts and 2 settled accounts on file at your previous address(es). Settled accounts at your previous address can improve your chances of getting credit if you have a limited credit profile
	Your oldest account is 5 or more years old. Credit grantors prefer to see accounts opened at least 3 years
	You have no derogatory items in your payment history
	All payments on your accounts are up to date
	Credit reference agencies are receiving periodic updates from your credit grantor(s) that reflect you have made payments on time in the past
Excellent	You have no defaults
Electoral roll	
	You are not presently shown as registered on the electoral roll. Credit grantors generally prefer at least 3 or 4 years of confirmed residency as this indicates stability
Searches	
	You have had 5 search(es) for credit in the last six months. Credit grantors view more than one or two searches within six months unfavourably
Court information	
	You have no information in your credit report that indicates a Court Judgment or other public record information such as a bankruptcy in your name. Credit grantors view this favourably

Why can't I get credit? - answers

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Good	You have no active accounts and 2 settled accounts on file at your previous address(es). Settled accounts at your previous address can improve your chances of getting credit if you have a limited credit profile
Excellent	Your oldest account is 5 or more years old. Credit grantors prefer to see accounts opened at least 3 years
Excellent	You have no derogatory items in your payment history
Excellent	All payments on your accounts are up to date
Excellent	Credit reference agencies are receiving periodic updates from your credit grantor(s) that reflect you have made payments on time in the past
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Electoral roll	
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Searches	
Poor	You have had 5 search(es) for credit in the last six months. Credit grantors view more than one or two searches within six months unfavourably
Court information	
Excellent	You have no information in your credit report that indicates a Court Judgment or other public record information such as a bankruptcy in your name. Credit grantors view this favourably

Summary: Checking your credit score and keeping a good score 32

It's important to check your credit score from time to time, to make sure no mistakes have appeared on your record. How can I improve my credit score?

If your score isn't looking good, or if you want to make sure it stays healthy, follow these top tips.

- Make sure you're on the electoral roll: as soon as you're 16 years old, you can register to vote if you're a British citizen or an Irish, EU or qualifying Commonwealth citizen. See aboutmyvote.co.uk for more information and to register.
- Avoid applying for lots of credit, including insurance and mobile phone contracts, in a short time.
- If you're getting quotes for a loan, try asking the lender to do a 'quotation search' rather than a 'credit search'. Each credit search is listed on your file, so too many can harm your score, but a quotation search (or 'soft search') won't be recorded.
- Have a good history: if you miss payments on a credit card or go over your limits, this will be recorded and it will affect whether you can get credit in the future. Always make at least the minimum repayment, or pay it off each month if you can.
- If you're struggling to make repayments, contact the lender to get help rather than missing payments.
- If you don't have a credit card at all, you'll have no history. So it's a good idea to have a credit card and use it carefully.
- Sharing a mortgage, loan or bank account with someone who has a bad credit score can affect your finances so be careful when applying for a joint product.
- The longer you stay at one address, the better – even better if you're a home-owner rather than a renter. Keeping the same employer and bank account, and using a landline telephone number rather than a mobile, will all show that you're more likely to be a reliable customer.
- If you're rejected for credit, check your credit file immediately in case there's a problem or mistake on it. If you keep getting rejected, this will also be recorded on your file, even if the rejections are caused by a mistake.
- Cancel any credit cards you no longer use: having too much credit can lower your score, even if you don't use it.