Understanding overdrafts, credit cards and credit scores

Age range: 16-19

BARCLAYS | LifeSkills

Session overview

Time	Key learning outcomes	Resources
120 mins	By the end of the activity students will be able to: • Discuss current accounts and the use of credit cards. • Identify different forms of borrowing and how to apply different debt strategies to a range of financial emergencies. • Understand the difference between being in debt and in financial difficulty. • Identify what is a credit score and top tips for looking after it.	• Understanding overdrafts, credit cards and credit scores presentation slides.

This lesson plan is designed to be used in tandem with a PDF containing interactive activity slides. They are accredited with the Young Money Finance Education Mark, recognising them as recommended financial education resources.

Always start the session by agreeing ground rules with the group. For advice on this and other ways to establish a safe learning environment, download the **content guide**.

Contents

There is Money Skills content to suit a range of ages and abilities – take a look at our 5-11, 11-14, 14-16, 16-19, 19+ resources, which focus on topics such as attitudes to money, money management and risk, financial independence and fraud.

Please note that this lesson includes figures used in calculations such as student loan thresholds, NI contributions or similar. These figures were correct at the time of publication but may have changed by the time you use the resource as they are usually updated by the Government on a yearly basis.

As this lesson contains issues which can be sensitive, check its suitability for the pupils in your class and adapt activities where necessary. It's important to consider that there are pupils in the class for whom this lesson might resonate strongly, whether for themselves or their family members. So, ensure you signpost to further support at the end of the lesson.

You may want to discourage personal disclosures and specific student circumstances and agree any other ground rules to create a safe learning environment so that both staff and pupils feel comfortable to discuss the lesson content.

Remember that you can refer to the guiding principles for establishing a safe learning environment in the Appendix section of the LifeSkills content guide. This includes Best practice guidance from the PSHE Association on how to deliver the lessons safely and effectively.

Activity one

Exploring bank accounts and credit cards

1. Types of account

- Ask students if any of them have a current account of some kind. For those that have an account, ask them how they chose it. Responses may include the following:
  - The account came with a free gift or a bank account switch offer.
  - The account came with a free overdraft for a limited period.
  - The account came with a good rate of interest.
  - They've had the account for a number of years and it was set up by a parent or guardian.
  - It came top of the list of a search engine.
- Explain that there are lots of options in choosing an account and it's worth shopping around for the best bank account for their needs.

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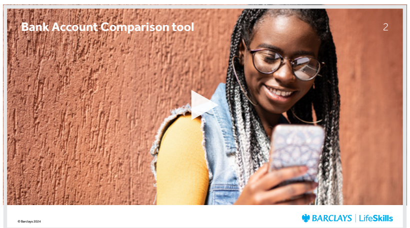
2. Choosing an account



- Explain that in choosing an account they should compare what they need with what's being offered. Examples are:
  - A free gift is only a saving if it's something that you will actually use (for example, a free railcard is a good incentive if you use the train a lot or will do in the future. It is worthless if you never travel by train).
  - Free annual travel insurance may be helpful if you travel a lot over the period of a year. If not, it may be cheaper to buy one-off insurance and look for an account with other incentives.
  - A free overdraft facility can be helpful in certain situations (e.g. budgeting on a student loan that comes in termly) provided you manage it well and make sure that you know when the free period ends. If you have a big overdraft you need to ensure you can clear it before you start being charged for it. Make sure you raise these points about overdrafts:
    - They should always be authorised by your bank, i.e. you have a given amount you are allowed to be overdrawn by. If you go over that amount you will incur additional charges and it may affect your credit rating.
    - Check that this is the best method of borrowing for your needs.
  - An instant access account is essential if you are likely to need savings quickly in an emergency, but it will pay less interest than an account for which you need to give a period of notice for withdrawals.
  - An online account is the most accessible for checking your balance on a regular basis but it won't serve well if you're living somewhere with unreliable or unsecure internet access.
- Use **slide 2** to access the **Bank account comparison tool**. Explore the terminology by hovering over the different sections. Discuss contactless payment cards and ensure that they know what the current spend limit is for contactless payment, anything over the contactless transaction limit of £100 and they'll need to use Chip & PIN.

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Activity one

Exploring bank accounts and credit cards (cont'd)

- In small groups, ask students to consider the different features of the accounts and decide which one is most suitable for the fictional characters on **slides 3 – 4**. You could print the case studies or work through them on the screen.
- Explain that what we need from an account may change over time and it's worth reevaluating as circumstances change, for example student accounts and graduate accounts. Many accounts offer new customer incentives if you can pay in a regular salary once you've started working. Make sure you also discuss the importance of taking action to avoid identity theft and keeping financial and personal details safe online.

Extension

- Students could research and compare current offers and discuss their findings to agree which would be the best current account if they are going on to university or further education by looking at **Money Saving Expert**.

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3. Checking statements

- Ask how many of the students with bank accounts check their statements, and whether this is via a paper or online statement.
- Explain that most providers now offer the ability to check your balance and make transactions on apps on smart phones or tablets and this is worth using, e.g. if you're deciding to make a spontaneous purchase on your debit card and need to be sure you have funds to cover it. Students can also set up a text alert system to get a regular update on their balance of their account or a message when they are near to becoming overdrawn.
- Bank statements display all account transactions within a given period. Ask the group why it is important to read their bank statements and keep track of transactions – both money coming in and money going out.
- Explain that it's especially important to keep an eye on spending to spot possible fraudulent transactions or incorrect charges.

What information do they think is shown, or have they seen before, on a statement?

- Explain that it's worth storing (securely) electronic copies of online statements as many online systems only allow you to look back online for a six-month period and you may want to keep information for longer than that.
- Use **slide 5** to display the example bank statement. Explore the different sections and terminology by discussing the definitions that appear on **slide 6**.
- When the group are comfortable with the terminology and layout, ask them the following comprehension questions relating to the account – you may want to choose the ones that are most appropriate for your group, or add your own.

Activity one

Exploring bank accounts and credit cards (cont'd)

1. How much income was received during the month?
   Answer: £335 in wages and a cheque for £185.
2. What does the direct debit cover?
   Answer: His water bill.
3. Did he incur any charges he could have avoided this month? If so, how much?
   Answer: Yes – £1.75 because he used an ATM that charges for withdrawals. Across the UK, there are just over 38,500 free to use cash machines, and just over 10,000 cash machines that charge a fee for a withdrawal (as of September 2023)*.

   *[Statistics on access to cash, bank branches and ATMs]
4. Explain one way in which the bank statement helps Mr N E One to manage his personal finances
   Answer: He knows how much money he has left at the end of the month, and that his regular payments are going out.
5. What is the difference between a standing order and a direct debit?
   Answer: Both are methods of making regular payments – standing order amounts are controlled by you, whereas the direct debit amount is set and can be changed by the organisation being paid, once you have signed a direct debit agreement.
6. If the payment to the bank on 21st June included 12% interest, how much of his loan did he pay off?
   Answer: £44.60. Explanation: (£50/112) x 100 = £44.64.
7. When is his birthday?
   Answer: Personal information is not displayed on a statement. You should be careful who you share this type of information with, and what information is accessible on social media, as fraudsters collect this to help them steal people's identity. Think carefully how you use your personal information, for example, when selecting a PINyou should not use obvious numbers like your date of birth.

- Recap what's been covered as a top tips list. Show **slide 7** as a reminder for the students.

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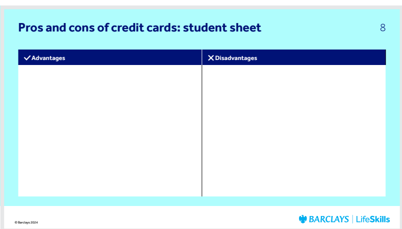
4. Understanding credit cards



- Ask the group what they know about credit cards, and discuss the advantages and disadvantages. Use **slide 8** to record their suggestions, before showing **slide 9** with the key points to summarise.

  NB interest, either on a debt or on savings, is not acceptable in some cultures or religions, and may affect students' views on which features are advantages or disadvantages.

Activity one

Exploring bank accounts and credit cards (cont'd)

- Explain that careful use of a credit card can have benefits but to use one successfully without getting into financial difficulty requires good management and a good understanding of how credit cards work.
- Allow some time for students to discuss the definitions of the terms below. Use **slide 10** to launch the **Know Your Money Terms interactive online tool** to explore the terms that were unfamiliar and any others that may be relevant. If they have access to them, you could ask students to explore the tool individually using mobile phones or tablets. You can also click to **slide 11** which has the full definitions for each term on.

  Terms: Credit card, APR, Interest, Credit score, Default, Liability, Lender.

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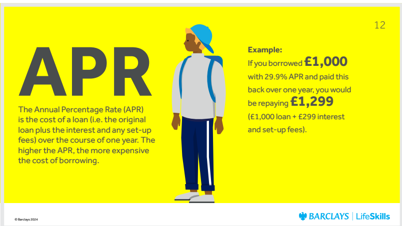
5. APR and interest



- Show **slide 12** and talk through the APR example to show how the amount you owe increases with the interest added when you only pay the minimum amount of your balance each month. Remind students that while credit cards can be useful for providing a period of interest-free credit, they are an expensive method of borrowing unless you pay back the full balance every month. Options like an overdraft or a bank loan are less expensive for longer-term borrowing.
- To summarise, explain to students that credit cards offer one form of borrowing. Borrowing or buying on credit can sometimes be useful; without it many people wouldn't be able to go to university, buy a house or purchase other high cost items as saving for it would take too long. The point to remember is that you will need to pay it back, usually with interest and you are likely to end up paying back more than you borrowed.

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6. Choosing the best deal

- Explain that, as with buying any goods or services, it pays to shop around for the best deal to suit your needs. Discuss the importance of understanding interest rates and deadlines for payment to ensure you don't get into debt.
- Show **slide 13** and ask students in groups or pairs to read and discuss the offers for credit cards. They should identify the differences between them and then make a decision about which of them is the best card for Amir. **Slide 14** can be used to record their responses, either on screen or printed as a work sheet.
- Ask each group in turn which card they would recommend. Ask them what factors influenced their decision. Display **slide 15** to share the answers with students. Explain that this exercise has given them some practice in exploring the terminology that is used to persuade you to sign up for a card and comparing deals.

Extension

- Students could research different ways of borrowing. Some sources of information include:

  Money Helper.

  Citizens Advice.

Activity two

Borrowing for your future

1. Forms of borrowing

- Explain to students that most of us need to borrow money at some time in our lives, e.g. when buying a house, studying at college or buying something big like a car. Discuss the concept that some people don't consider being in debt as a bad thing, provided you understand the risks and manage the repayments sensibly.
- Ask for examples of ways someone could borrow money e.g. using an overdraft, a credit card, taking out a bank loan, payday loan, buying goods in instalments (also called hire purchase), taking out a mortgage, from a family member or friend. Gather their ideas on **slide 16** on the board and explain that you will return to them later in the lesson.

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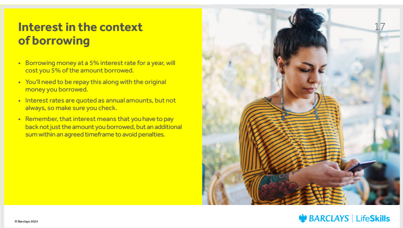
2. Interest on borrowing



- Show **slide 17** and recap with students what 'interest' means in the context of borrowing. If you borrow money at a 5% interest rate for a year, it will cost you 5% of the amount borrowed to do so. This will need to be repaid along with the original money you borrowed. Interest rates are usually quoted annually, but not always, so make sure you check. Therefore, 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. The interest is expressed as a percentage of the total amount you borrow.

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3. Dealing with debt

- Ask the group to come up with a defintion of the difference between being in debt and being in financial difficulty.
- If needed, use the explanation below:
  - Being in debt can mean having borrowed money in a controlled and managed way, and are able to pay it off.
  - Being in financial difficulty is a crisis situation with debts you cannot repay.
- Discuss how and why someone might get into financial difficulty and explain that sometimes it is a result of an unexpected event, e.g. you take out a loan or mortgage which you are able to repay, but then you become unemployed and suddenly don't have enough money to make the repayments (called 'defaulting'). Any sort of debt can become unmanageable so it is important to have a sensible strategy for coping so the debt doesn't escalate.
- Allow a few minutes for groups to suggest some immediate actions that someone could take if their circumstances change and they find themselves less likely to be able to make the repayments. Examples could be to sell some things you don't need, increase your hours at work to increase income, develop a budget to help reduce your spending.
- Explain that if you get into difficulty with money then the most important first step is to talk to someone about it. Display **slide 18** and talk through the options that someone might consider if they find themselves in financial difficulties. Ask students to highlight the actions they think are most appropriate, and those that are not. Encourage them to think whether some of the options might depend on the details of the situation e.g. actions might differ if the difficulty relates to mortgage repayments rather than debt with a doorstep lender.
- Print **slides 19 – 22** which feature a series of scenarios about financial difficulties. Allocate one of the slides to small groups and ask them to consider which of the options on **slide 23** they would recommend for each scenario. Use the guidance notes below to add explanation of terms and additional detail if needed. Alternatively, focus on a selection of the scenarios and present them along with the supporting information and work through as a whole group.

Activity two

Borrowing for your future (cont'd)

Debt scenario	Additional information
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.	When you sign up for a mobile phone contract you agree to a contract length, usually 12, 18 or 24 months. The amount you pay will depend on the 'package' you sign up. If you don't pay your contract, your account will go into arrears. The company could cut off your phone so you can't use it, and then cancel the contract. If you don't clear the debt the company could involve a third party debt collection agency or take you to court.
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.	A long term loan where the debt is secured on the property. Most mortgages are repaid over a 25-year period, although this can be longer or shorter in some cases. The loan is repaid in monthly instalments, sometimes at a fixed amount each month or one that varies in line with the Bank of England base interest rate. Some mortgages allow you to repay more quickly than the agreed term if you can afford to, others charge an early repayment fee. You could be taken to court if you don't pay your mortgage and you could lose your home.
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?	Personal loans are offered by banks, building societies and other lenders like credit unions for individuals to buy things like a car, furniture, decorating a house, etc. The loan is not secured against any asset you own like your home or car but if you default on the payments the lender will pursue you for the repayments and interest and fees will be added to the amount you owe. Personal loans from a bank can range from £1,000 to £25,000, over periods from 12 months to 7 years. Interest rates vary depending on an individual's credit history. The loan repayments will be fixed every month. There are no penalties for early repayment.
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?	Loans are available for university tuition fees and living costs at a relatively low interest rate. You don't start paying off the loan until you have graduated and your annual income reaches the repayment threshold. You repay 9% of income over this threshold. The repayments are deducted from your pay. For the latest thresholds and interest rates, visit **gov.uk**. You can't negotiate lower payments or to suspend payments.

Activity two

Borrowing for your future (cont'd)

Debt scenario	Additional information
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.	An overdraft is a facility on your current account that allows you to spend more money than you have in the account. Any money you pay in goes first to paying off the borrowing. You can ask the bank for an overdraft for a fixed time period at an agreed rate of interest, known as an arranged overdraft. If you go overdrawn without asking the bank in advance, they might refuse to pay your direct debits, payments in shops etc, charge you 'unauthorised overdraft' fees and interest on the money that you owe them.
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.	Payday loans are relatively small, short-term loan intended to cover an individual's expenses until they are next paid. On the repayment date, the lender takes the amount you have borrowed plus the interest charged directly from your bank account. Interest rates vary but they are typically an expensive way to borrow money, sometimes up to 1500% APR. Interest on loans that are 'rolled over' to the next month soon mounts up. Payday loans often appear to provide a 'quick fix' in an emergency but they can often make your situation worse if you can't repay the loan on the due date.
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 Pete keeps coming around and putting pressure on me to pay up.	This sounds like a 'home credit' agreement, sometimes called 'doorstep lending'. These loans are often for small sums – between £50 and £500 – over short periods, with repayments collected weekly or fortnightly at your home. They are typically an expensive way to borrow money. Or, the loan may be from an illegal loan shark. They can seem friendly at first but can harass or threaten you if you miss payments. They are not authorised lenders, will often refuse to tell you the interest is being charged, and may increase the debt by adding charges at any time. They should be reported to the police.
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.	Borrowing from friends and family member can be very tempting, especially if you need money in an emergency or if they are willing to lend the money interest free. The stakes are high however as it could harm your relationship if you don't repay. It's only a good option if both parties are certain this won't happen.

Activity two

Borrowing for your future (cont'd)

- For each scenario, J should be a recommended action. It could be argued that E, I and K could also apply to all of the scenarios, so encourage debate but make sure students understand it's important to seek advice from an impartial and trustworthy source, even if it is someone they know. Ask if anyone selected action L, and discuss the consequences of inaction in the context of one or two of the scenarios.
- Use **slide 24** to discuss what to think about before you borrow and summarise by highlighting the most important things about seeking help and advice.
  - Don't delay.
  - Contact your lender.
  - Get free, independent debt advice.
- For more information on where to seek free, independent debt advice, visit:

  National Debtline

  Citizens Advice

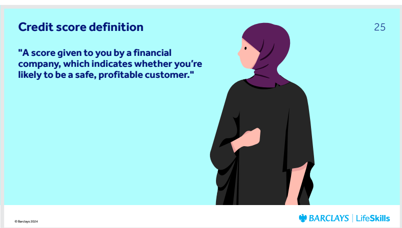
  Step Change Debt Charity

  Money Helper

Activity three

Credit scores

1. What is a credit score?

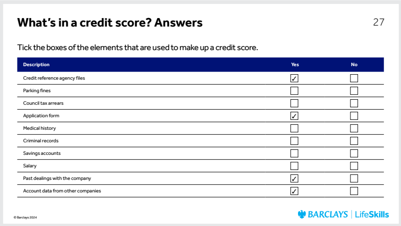


- Ask students if they can remember the defintion of a credit score from the earlier activity: if you didn't explore this, show **slide 25** to give a simple definition.
- Watch out for common misconceptions about credit scores:
  - People don't have a single credit score: different financial companies will score a person differently depending on the product a person is applying for.
  - Credit scores aren't about whether you're a risk: financial companies want to make sure that you will be a profitable customer, which means that they want to make sure you are likely to repay a credit card debt, for example, but they may also want to see whether you'll pay some interest rather than paying off the whole amount every month.
- Explain that whenever you apply for a financial product (e.g. a loan, credit card, mortgage or mobile phone contract), the company will do a credit check. This involves looking at your past behaviour so the company can predict how you might behave in the future.

Activity three

Credit scores (cont'd)

2. What goes into a credit score?



- Explain to students that companies use several pieces of information to create someone's credit score. Display **slide 26** and ask students, in their groups, to see if they can work out which information is used in a credit score.
- Use **slide 27** to show the answers. Ask students if they were surprised about which information is used and which isn't.
- Show **slide 28** to demonstrate the decision making process credit agencies will go through to determine good credit.

3. Ways to check a credit score

- Ask students whether they have heard of a credit reference agency before. Show **slide 29**. There are three commonly used credit agencies in the UK: Equifax, Experian and TransUnion. These companies put together information from four main sources:
  - Electoral roll information: this information is publicly available. It contains details of residents and addresses.
  - Court records: if you have county court judgments (CCJs) or bankruptcies in your records, these will show that you have a history of debt problems.
  - Search, address and linked data: this information contains records of other companies that have searched your file when you've applied for credit, addresses you're linked to or people with whom you have a financial association.
  - Fraud data: this is where companies can find out if you have committed fraud (or someone has stolen your identity and committed fraud).
- Explain to students that the information held by these companies is available for them to check – and it's a good idea to check it from time to time, because mistakes can happen. Incorrect information on your credit file can lead to applications being wrongly rejected and, if you are rejected too many times, it can lower your credit score.

4. Recognising a good credit score

- Display **slide 30** and ask students to work in their groups to allocate a poor/good/excellent rating against each of the scenarios (a couple of them have been filled in already). Run through the correct answers on **slide 31**, then ask them to spot the problems on Zainab's credit file. They should see that she isn't on the electoral roll (which can be easily fixed) and that there are 5 credit searches on her record for the last six months. Ask students how this could have happened, if this is her first credit application. Discuss that there could have been fraudulent activity (e.g. someone trying to get credit using Zainab's identity) or it could simply be a mistake. Zainab should contact the credit reference agency to get this mistake fixed.

Extension

- Use **slide 32** to explain how to check your credit score and discuss the tips for improving your credit score, or keeping it healthy. You can print a copy for students as a takeaway from the session.
- You could also ask your students to look at the Barclays article called **Take care of your credit score**, which has further information on credit scores.

Summary

- Ask students to discuss in pairs or small groups some key things that they have learnt from the session, e.g. is there anything that surprised them or anything that they now know which they didn't know at the start of the lesson?
- To close the lesson ask students who are comfortable to share any key takeaways.