



● **MODULE 12:**
AVOIDING DEBT

If you do not already know, this module will help you to:

1. Set up a bank account;
2. Name places where credit or loans are available;
3. Know the risks of taking out loans, specifically with payday loans, weekly payment shops, loan sharks and store cards;
4. Identify ways you could avoid debt;
5. Understand how APR rates effect loan repayment;
6. Know what to do if you get into debt;
7. Weigh up the pros and cons of saving to buy an item vs. buying it at a weekly payment shop;
8. Understand the importance of addressing rent arrears/other missed payments and how this can impact on your future.

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First off, let's see what you already know...

1. If you are worried about debt, which of the following is good advice?
 - a. Find a local support agency or call a national helpline straight away
 - b. Wait until you next get paid and see how you get on
 - c. Visit a local Payday lender
 - d. Call the Department for Work and Pensions/your local Job Centre
 - e. Seek support from your Personal advisor
2. If you pay £5.60 per week for 156 weeks for a TV, how much will the TV have cost you in total?
 - a. £992.20
 - b. £873.60
 - c. £800
3. There are a number of options for borrowing money if you find yourself struggling, which of the following should you avoid?
 - a. Bank loan
 - b. Payday lender
 - c. Family or close friend
4. If the APR on a loan was 15%, how much interest would you pay on a loan of £100 over one year?
 - a. £1.50
 - b. £15
 - c. £150
5. What impact could debt have on you in the future?
 - a. Being blacklisted from getting any other credit
 - b. If you are evicted from one property for rent arrears, other councils or housing associations are not likely to give you another property
 - c. You may not be eligible for a mortgage
 - d. All of the above

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Bank Account

You have now heard that you will need a bank account before you move into your own property and apply for Universal Credit if you need to do this. But how do you set one up?

There are a lot of banks out there, so find which one you would like to open an account with and look up their website. You will usually be asked to complete an online application form, but you may also be able to do this by going into a branch of the bank.

- You will be asked for:
- Your full name
- Your date of birth
- Your address
- Two ID documents e.g. passport, recent bill (one will have to include your address on it)

A **CURRENT ACCOUNT** is the type of bank account you may already have. This is where you would manage your day-to-day money, including:

- Paying bills
- Receiving money
- Keeping track of where your money is going.

These bank account details are the ones you would need to provide to an employer or the Department of Work and Pensions (DWP) to receive payments.

If you can it is also good to set up a **SAVINGS ACCOUNT**. This is a separate bank account where you put away money you would like to save for the future or for emergencies.

Different banks offer different interest rates for their savings accounts, so it is a good idea to shop around to see where you could make the most interest on your savings.

It is important you live within the money you have and stick to budgets:

If you cannot put any money aside from your total income or have very low disposable cash after paying your bills, you may need to look elsewhere for money on a short-term basis. This would involve taking out a loan. There are lots of different types of loan, some more sensible than others...

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Where can I get a loan from?

Below are a list of different types of loans, you will also see a number of descriptions about them. Please match up the statement to the kind of loan it is describing:

1. Bank
Loan

A. This is a loan that is usually taken out with a specific shop e.g. clothes shop, where you buy an item and then enter into an agreement to pay off the total amount over an agreed length of time.

2.
Weekly
Payment
Shops

B. You would enter into an agreement with the bank where you have a set amount of money you can spend once your bank balance is £0.00. This is typically -£200 - -£1000. This money is displayed on your bank balance and you will be expected to pay this money back to the bank over an agreed length of time with interest.

3.
Budgeting
Loan

C. This loan is usually a payment card from a bank or financial company where you can pay for items up to a certain amount. You enter into an agreement to pay back an agreed upon amount over a period of time until the total has been repaid. There may be a limit on the minimum you can pay back each month.

4.
Family/
Friends
Loan

D. This loan allows you to buy items from a store e.g. a sofa, by entering into an agreement with the shop to pay for the item for an agreed number of weeks, with interest added to the total cost.

5. Credit
Union
Loan

E. This loan is short term and has very high interest rates. They are widely available on the high street and online.

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Where can I get a loan from?

6. Mortgage

F. These are illegal money lenders who charge extremely high interest rates. They are known for threats and violence if payments are not made as agreed. You can report them anonymously to your housing association, local Council or police.

7. Pay Day Loan

G. You can apply for this loan if you are a member of the union and you make regular savings with them. There will be agreed upon interest rates as well as the length of time you will have to repay the amount lent to you in full.

8. Store Card

H. You would take out this loan to pay for a house and you enter into the agreement to make monthly payments, with an agreed upon interest rate. Once this is paid back in full, you own the house.

9. Loan Shark

I. You would apply to the bank to take out this loan. This can be any bank and when your application is accepted, you would enter into an agreement to pay back the loan over a certain length of time with interest.

10. Bank Overdraft

J. Money is borrowed from a close friend or family member, and the way you repay the total is decided upon between yourselves.

11. Credit Card

K. You would be eligible to apply for this loan if your circumstances meet the criteria set by the Department for Work and Pensions (DWP). To repay this, payments are taken directly from the benefits you receive until the money is paid back.

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If you need to take out a loan...

When you live on your own you will see a lot of information and advertising about the different loans you are eligible to apply for. This can be very a very attractive and seemingly easy solution in a situation where you are struggling to pay for your rent, bills or even something else you have your eye on. Therefore, it is very important that you have the knowledge to know which loan would be the best option for you, and which to avoid at all costs.

Think about the loans and descriptions you have just matched up, if you were in a situation where you needed some extra money before your next pay day, which would you want to explore?

Arrange the types of loan according to how risky you think they would be for you:

TOP TIP: You may want to cut out the types of loan below so that you can move them around to organise.

1. Bank Loan

7. Pay Day Loan

2. Weekly Payment Shop

8. Store Card

3. Budgeting Loan (DWP)

9. Loan Shark

4. Friends/Family Loan

10. Bank Overdraft

5. Credit Union Loan

11. Credit Card

6. Mortgage

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Check your Credit Rating Score

Should you apply for a loan in the future, whether it is from the bank or a mortgage, your credit score will be checked to see if you are likely to be able to repay the money that is lent to you.

Therefore it is very important to know what your credit score is, and to abide by any repayment arrangements you enter into – not making payments on time can have an effect on your credit score which will have an impact on the likelihood of a future loan application being accepted or rejected. Any bad credit, e.g. a missed payment, will remain on your credit score for 6 years, and therefore will not make you look favourable in any new credit applications.

TOP TIP Remember that the amount of credit you apply for or searches done to check your eligibility for a loan can also negatively affect your credit score.

There are a number of different websites that you can use to check your Credit Rating, but some of them charge for this service.

Although there are a number of options, Experian and Equifax are the two main databases where your credit score can be calculated. Once a creditor checks your credit score, they choose which database to store your score on to.

Look at the Money Saving Expert website for more information about how you can calculate your score for yourself. The link to this will be in the 'Useful Links' section of this module.

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The Impact of Debt

Think about the impact that debt can have on someone and what consequences that someone in debt could experience – what do you think these are?

Write your ideas below:

What are the
impacts and
consequences of
being in debt?

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TOP TIPS:

1. If you do find yourself in a situation where you are in debt, it is important that you address this as quickly as possible. There are a number of debt agreements which will allow you to pay back the money you owe. There is a link to the GOV.UK website for more information about this in the 'Useful Links's section of this module
2. Whenever you enter your PIN (Personal Identification Number) either in a shop or at a cash point, it is important to shield this from the view of any passers by or cameras that have been installed into cash points;
3. If you lose your card, or suspect that someone has found your card details, it is important that you act quickly and cancel your card. You can do this by contacting your bank, or you may be able to do this using your banking App if you have this on your phone;
4. Never enter your personal or bank details through email, or via text. Some scammers will target people by sending emails/texts that look legitimate, but if this happens, check the email address that it comes from, or if you are still unsure, call the company that the email has been sent from e.g. TV licensing to see whether they have tried to contact you.

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What does this look like in real life?

Now you have thought about the impact of debt and what consequences this brings with it, it is useful to see what this looks like in real life. It is important to remember that this can happen to anyone, which makes it essential that you are aware of your income and outgoings, ensuring that you can pay for rent and bills first and foremost.

Follow this link and watch this video which is about a TV presenter's experience of being in debt and how this affected their life:

<https://www.youtube.com/watch?v=-vWxTvffbuE>

Miquita Oliver: bankruptcy and what I've learned about payday loans



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Useful links –

For more information about setting up a bank account:

- [Getting a bank account - Citizens Advice](#)

For more information about Pay Day Loans and in particular the policies of Bright House

- <https://www.brighthouse.co.uk/on-finance/lending-charter>

For an APR Calculator which could help you calculate loan repayments

- <http://www.thisismoney.co.uk/money/cardsloans/article-1633405/Loan-repayment-calculator.html>

For more information about the impact of debt

- <https://www.citizensadvice.org.uk/Global/CitizensAdvice/Debt%20and%20Money%20Publications/The%20Debt%20Effect.pdf>

For more information about debt agreements –

- [Options for paying off your debts - GOV.UK \(www.gov.uk\)](#)