

# Credit scores and debt

Age range: 16+



Barclays LifeSkills have partnered with Spectra First to support those leaving care to build their employability skills and financial capability. As a signatory of the **Care Leaver Covenant**, alongside other organisations, Barclays has committed to offer a different type of support and expertise from that statutorily provided by local authorities. For more information visit [mycovenant.org.uk](https://mycovenant.org.uk).

Pages 1-4 of this pack are delivery notes for the facilitator, and pages 5-11 are worksheets for young people. Page 12 has a list of links for further support.

## What is a credit score?

5 mins

### Ask if the group/individual knows the definition of what is a credit score?

- Read out the definition below and compare answers:

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

- Watch out for common misconceptions about credit scores:
  - Each person doesn'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 at risk: financial companies want to make sure that you will be able to repay a credit card debt, but they may also want to see whether you'll pay some interest rather than paying off the whole amount every month, essentially to make sure you are a profitable customer. Remind them that building a credit score is a positive thing to do and that they can go up as well as down
- 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



# Credit scores and debt

## What goes into a credit score?

10 mins

- Explain that companies use a number of pieces of information to create someone's credit score. Using the **Worksheet 1**, ask the group/individual to see if they can work out which information is used in a credit score

### What goes into a credit score? Answers

Description	Yes	No
Credit reference agency files – information held by ClearScore, Experian for example	✓	
Paid parking fines		✓
Council tax arrears		✓
Your application form to the lender	✓	
Medical history		✓
Criminal records		✓
Savings accounts		✓
County Court Judgements (CCJs)	✓	
Past dealings with the lender to which you are applying	✓	
Account data with other lenders	✓	

- Ask whether they have heard of a credit reference agency before. Explain that there are multiple commonly used credit agencies, including Noddle, ClearScore, Experian, Equifax and Callcredit. These companies put together information from five 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)
- Display the **Why can't I get credit? worksheet** and ask groups/individuals to allocate a poor/good/excellent rating against Laura's scenario. Run through the correct answers on the back of the worksheet

# Credit scores and debt

## Dealing with debt

15 mins

- Explain that being in debt is one way that your credit score can be affected negatively
- Ask the group/individual to come up with a definition 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, money you are able to pay off  
 Being in financial difficulty is a crisis situation with debts you cannot repay

- Explain that if you get into difficulty with money then the most important first step is to talk to someone about it. Look at **Worksheet 3** and talk through the options that someone might consider if they find themselves in financial difficulties. Ask them 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
- Look at **Worksheet 4** which features a series of scenarios about financial difficulties. Allocate one of the scenarios and ask them to consider which of the options listed on the **Worksheet 5** 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 together
- Once they have worked through the scenarios, ask them to draw up a set of tips which they could refer back to in the future

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 rent 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 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 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.

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## Dealing with debt (cont'd)

Debt scenario	Additional information
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?	<p>Loans are available for university tuition fees and living costs at a relatively low interest rate.</p> <p>You don't start paying off the loan until you have graduated and your annual income reaches £25,000. You repay 9% of income over £25,000. The repayments are deducted from your pay.</p> <p>You can't negotiate lower payments or to suspend payments.</p>
5. 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.	<p>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.</p> <p>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.</p>
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.	<p>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.</p> <p>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.</p> <p>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.</p>
7. 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.	<p>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.</p> <p>You can ask the bank for an overdraft for a fixed time period at an agreed rate of interest, known as an arranged overdraft.</p> <p>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.</p>
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.	<p>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.</p> <p>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.</p>

# Credit scores and debt

## Worksheet 1: 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 – information held by ClearScore, Experian for example		
Paid parking fines		
Council tax arrears		
Your application form to the lender		
Medical history		
Criminal records		
Savings accounts		
County Court Judgements (CCJs)		
Past dealings with the lender to which you are applying		
Account data with other lenders		

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## Worksheet 2: Why can't I get credit?

Laura 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 1 active 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 1 settled account 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 1 derogatory item in your payment history from a missed payment
	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
Poor	You have a default on your account which shows you have not paid a previous debt
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

# Credit scores and debt

## Worksheet 2: Why can't I get credit? – answers

Credit Agreements	
Good	You have 1 active 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
Good	You have no active accounts and 1 settled account 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 ago
Poor	You have 1 derogatory item in your payment history from a missed payment
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
Poor	You have a default on your account which shows you have not paid a previous debt
Electoral Roll	
Poor	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	
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

# Credit scores and debt

## Worksheet 3: Getting help with financial difficulty

Action	Yes	No
Talk to a trusted friend or family member		
Contact the lender and explain your financial situation		
Contact your personal adviser		
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		



# Credit scores and debt

## Worksheet 4: Dealing with debt – scenarios



### 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 rent 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.



### 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?

# Credit scores and debt

## Worksheet 4: Dealing with debt – scenarios



### Scenario 5

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 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.



### Scenario 7

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



### 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.

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## Worksheet 5: Dealing with debt – possible actions

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

# Further support

The following links can be explored to get further advice on a number of topics around managing finances and living independently:

**The Childrens Commissioner (general advice for those up to 25)**

[childrenscommissioner.gov.uk](https://childrenscommissioner.gov.uk)

**The Rees foundation (general support for Care Leavers of any age)**

[reesfoundation.org](https://reesfoundation.org)

**Care Leaver Covenant (help finding job opportunities)**

[mycovenant.org.uk](https://mycovenant.org.uk)

**The Association of British Credit Unions (help finding the right credit unions and general information about these)**

[findyourcreditunion.co.uk](https://findyourcreditunion.co.uk)

**Propel (support for those going to university, including financial advice)**

[propel.org.uk/UK](https://propel.org.uk/UK)

**Citizens Advice Bureau (general legal and financial advice)**

[citizensadvice.org.uk](https://citizensadvice.org.uk)

**Step Change (debt management advice)**

[stepchange.org](https://stepchange.org)

**Money Helper (general financial advice)**

[moneyhelper.org.uk](https://moneyhelper.org.uk)

**Debt Advice Foundation (free, confidential debt advice charity)**

[debtadvicefoundation.org](https://debtadvicefoundation.org)

**Benefit calculator (free tool to help find estimates for benefits entitlements)**

[entitledto.co.uk/help/better-off-calculation](https://entitledto.co.uk/help/better-off-calculation)

**Experian (free tool for credit score checks)**

[experian.co.uk](https://experian.co.uk)

If you are a young person and want to know more about money and work, register at <https://barclayslifeskills.com/help-myself/>

If you are working with young people who have experienced care, explore more adapted content at [barclayslifeskills.com/help-others/lessons](https://barclayslifeskills.com/help-others/lessons) and select 'Care leavers'.

Many other LifeSkills lessons are also suitable for use with care leavers to support them on their employability journey. To find out more, go to [barclayslifeskills.com/help-others/lessons](https://barclayslifeskills.com/help-others/lessons) and select the 'Building key skills to do well at work' category.