



Understanding and managing debt

Age range: 14-16



Quiz: question 1

2

How can you check how much money you have in your current account?

Click the answer you think is correct

A

Via an ATM/cashpoint

B

**Visiting your bank/
building society branch**

C

Logging on to online banking

D

Via a mobile banking app

Quiz: question 1

2

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C

Logging on to online banking

D

Via a mobile banking app

All of them are correct

You can check the balance of your current account via any of these methods. The quickest is likely to be via a mobile banking app, as you can do this from anywhere. Most banks also offer telephone banking.

Quiz: question 2

3

Which term describes your bank account if the balance drops below £0?

Click the answer you think is correct

A

Under-balance

B

Over-balance

C

Overdraft

D

Bank draft

Quiz: question 2

3

Which term describes your bank account if the balance drops below £0?

Click the answer you think is correct

A

Under-balance

B

Over-balance

C

Overdraft

D

Bank draft

The answer is C

If you attempt a transaction when your bank account balance is below £0, you use money from your overdraft, if you have one set up. This is borrowing from the bank. Some banks will let you borrow up to a certain amount as an overdraft for free, while others will charge you interest or a fee if you go as much as a penny overdrawn. It's worth finding out what your bank's policy is, just in case.

Quiz: question 3

4

Which of the following forms of borrowing do you think has the highest risk associated with it?

Click the answer you think is correct

A

Loan shark

B

Mortgage

C

Credit card

D

Payday loan

Quiz: question 3

4

Which of the following forms of borrowing do you think has the highest risk associated with it?

Click the answer you think is correct

A

Loan shark

B

Mortgage

C

Credit card

D

Payday loan

The answer is A

Loan sharks are people who lend money illegally. Because they are unregulated by law, they are a high risk way of borrowing money – there is no paperwork, they can set their own interest rates and repayment terms, and change them without warning, and may encourage further borrowing to pay off existing debts.

Quiz: question 4

5

What does the term Annual Percentage Rate (APR) mean in relation to a credit card?

Click the answer you think is correct

A

**The minimum you must repay
on the total amount you owe**

B

**The percentage of your annual
income that you must use to
repay credit card debts**

C

**The interest rate you pay
for borrowing money**

D

**The amount you can borrow
over a year without paying interest**

Quiz: question 4

5

What does the term Annual Percentage Rate (APR) mean in relation to a credit card?

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A

**The minimum you must repay
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B

**The percentage of your annual
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repay credit card debts**

C

**The interest rate you pay
for borrowing money**

D

**The amount you can borrow
over a year without paying interest**

The answer is C

A credit card's interest rate is the price you pay for borrowing money. For credit cards, the interest rates are typically stated as a yearly rate, called the annual percentage rate (APR).

Quiz: question 5

6

Why is your credit rating important?

Click the answer you think is correct

A

Lenders will consider your rating when deciding on whether to lend you money

B

It can impact on the interest rates lenders set for you

C

Your rating can affect how likely banks and building societies are to give you a mortgage to buy a house

D

It lasts for six years

Quiz: question 5

6

Why is your credit rating important?

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A

Lenders will consider your rating when deciding on whether to lend you money

B

It can impact on the interest rates lenders set for you

C

Your rating can affect how likely banks and building societies are to give you a mortgage to buy a house

D

It lasts for six years

All of them are correct

Lenders will consider your rating when deciding on whether to lend you money, it can impact interest rates lenders set for you, affect how likely you are to get a mortgage, and last six years. Your credit rating is a record of your money habits. It takes into consideration late payments and even the rating of people you have shared accounts with. Lenders will use the information on your credit rating to decide whether to lend you money – for a loan, a mortgage, or a credit card. Your rating indicates the likelihood of you being able to repay the debt.

Quiz: question 6

7

Which of the following could have a negative impact on your credit rating?

Click the answer you think is correct

A

Having a credit card

B

**Paying your mobile
phone bill by Direct Debit**

C

**Living at the same
address for a long time**

D

Missed payments on a credit card

Quiz: question 6

7

Which of the following could have a negative impact on your credit rating?

Click the answer you think is correct

A

Having a credit card

B

**Paying your mobile
phone bill by Direct Debit**

C

**Living at the same
address for a long time**

D

Missed payments on a credit card

The answer is D

If you make your payment after the monthly deadline on your statement, you might have to pay a late payment charge. On top of this, other companies might see that you were late, as part of your credit record. This could have a negative impact on future credit applications including applying for a mortgage.

Quiz: question 7

8

Which of these is the most important bill to prioritise if you are in financial difficulties (pay first)?

Click the answer you think is correct

A

Council tax

B

Broadband – telephone/internet

C

Water

D

Digital TV package

Quiz: question 7

8

Which of these is the most important bill to prioritise if you are in financial difficulties (pay first)?

Click the answer you think is correct

A

Council tax

B

Broadband – telephone/internet

C

Water

D

Digital TV package

The answer is A

This is classed as a priority debt, those that you should pay first if you're unable to meet all your bills and debt repayments. Others include a TV licence, gas and electricity, mortgage and rent. This is because they could lead to you receiving a court summons.

Quiz: question 8

9

How much is an annual colour TV licence to watch live or recorded TV, or use BBC iPlayer?

Click the answer you think is correct

A

Under £50

B

Between £50 and £100

C

Between £100 and £200

D

Over £200

Quiz: question 8

9

How much is an annual colour TV licence to watch live or recorded TV, or use BBC iPlayer?

Click the answer you think is correct

A

Under £50

B

Between £50 and £100

C

Between £100 and £200

D

Over £200

The answer is C

An annual colour TV licence is currently £159. It doesn't matter how you record it or what device you watch it on. It's worth researching what you need a TV licence for because if you break the law you could face a fine of up to £1000.

The money mentors challenge: Making the books balance

10

Samir, Katie, Carmel and Dexter are having trouble keeping track of their finances and have come to you for help. Can you sort out their monthly income and expenses and calculate the balance at the end of the month?



Samir, age 18



Katie, age 17



Carmel, age 24



Dexter, age 24

Samir: student sheet

11

"I work as trainee software developer for a company that prevents cyber-attacks. It pays well – I take home £800 a month – but I really want to be a computer animator.

I'm doing a training course to get the qualifications I need, which costs £150 a month. I'll admit that I'm a bit of a geek! I like to keep up to date with films that use computer animation, which costs me about £100 a month on DVDs and cinema tickets.

I give my Mum £100 a month to help out as I live at home. I also buy a £9 weekly bus pass into town to get to work. I buy my own lunch every day from cafes and takeaways near the office which usually costs £4.50. I also put £200 into a savings account each month, so I worry less about the future. I think it's important to plan for emergencies – What if I lose my job? What if my computer breaks down? What if I lose my phone? It means I can't go out with friends as much as I'd like but it's better to be safe than sorry."



Katie: student sheet

"I'm studying at college but I also have a part-time job at a big cinema. Every month I work twelve shifts of four hours at £7.50 an hour, plus as much popcorn as I can eat for free!

I love shopping – I usually buy a new item of clothing when I go shopping with mates on a Saturday, at about £20. I always try to bag a bargain, I just buy too many of them! I'm a real chatter box so I'm always on my phone, and need to top it up by £10 a couple of times a week. But it's not all about me – I come from a big family so I've usually got a birthday present to buy, and I like treating my sister by taking her to see live bands, so that usually comes to £35 a month. Thankfully I've passed my driving test – the public transport round here isn't good! I use ½ a tank of petrol a week getting to college and work, and running my friends around. No-one else has a car, but it seems mean to ask for petrol money when they're no better off than I am – it's only £20 a week."



Dexter: student sheet

"I'm a full-time sports coach. It's hard work but I really enjoy it. I take home £1,500 a month, but it doesn't seem to stretch very far.

It costs me £550 a month for my mortgage and household bills – gas, electricity, council tax and TV licence. My daughter goes to a nursery 2 days a week when I'm at work which costs £60 a day, and luckily a friend looks after her the other 3 days. I use a tank of petrol every month which costs £45, and spend £45 a week at the supermarket. I like having people round on a Saturday to watch the football.

Getting pizza delivered for £12 a week means we can concentrate on the match. I'm also saving £150 a month for my daughter's future – school trips, a car and even university. I also buy three lottery tickets each month. It's my only chance of getting some serious cash, and they're only £1.50 each."



Carmel: student sheet

"My career has been going well since I graduated from University. I was recently promoted to Events Manager and the pay rise means I take home £1,200 a month.

My parents helped me out financially so I haven't got a huge student loan left to pay off. Even so, I don't like being in debt.

I pay £90 for a monthly train ticket – the bus is cheaper but it takes much longer. I'm renting a small flat until I can get a mortgage to buy a home of my own. I pay £550 a month for rent, bills like gas, electricity and council tax, and food. I spend most of my spare time doing sponsored events for charity. I love a challenge so this year I've signed up for a 100k bike ride in Italy and the New York marathon. They're costing me about £900 in flights and accommodation, plus annual travel insurance of £35. It's worth it though – what a great way of fundraising and keeping fit at the same time."



End of the month: student sheet

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Using the information about each character, complete the table to calculate their end of the month balance.

Item	Calculations	Income	Calculations	Expenses
Total		Total		£
Remaining balance				£

You might be surprised how quickly savings can grow. The following slide reveals the answers.

1. If you have £520 in a savings account that earns 1.5% interest annually, how much will you have in your account:			
After 1 year		After two years	
2. You're a student renting a room for £100 a week in a shared house, which you plan to live in for the three year course. You pay rent for 52 weeks a year but for eight weeks over the summer you only pay 75%.			
How much rent will you pay over three years assuming the rent doesn't increase?			
How much would you save if you moved into a cheaper house share after the first year, paying £70 a week with the same summer discount?			
3. You're saving up for a course of driving lessons that will cost £400. You have a part-time job five hours a week which pays £5.50 an hour. You spend half and save half.			
How long will it take you to save enough for the lessons?			
How much more would you have to put aside each week to save up the £400 in six months?			

Savings: answers

16

You might be surprised how quickly savings can grow.

1. If you have £520 in a savings account that earns 1.5% interest annually, how much will you have in your account:

After 1 year

£527.80

After two years

£535.72

2. You're a student renting a room for £100 a week in a shared house, which you plan to live in for the three year course. You pay rent for 52 weeks a year but for eight weeks over the summer you only pay 75%.

How much rent will you pay over three years assuming the rent doesn't increase?

£15,000

How much would you save if you moved into a cheaper house share after the first year, paying £70 a week with the same summer discount?

£3,000

3. You're saving up for a course of driving lessons that will cost £400. You have a part-time job five hours a week which pays £5.50 an hour. You spend half and save half.

How long will it take you to save enough for the lessons?

Approximately 29 weeks

How much more would you have to put aside each week to save up the £400 in six months?

An additional £2.92 per week

Credit versus saving: student sheet

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Use the table below to put the following statements in the correct category

Statements	Benefits of using credit	Disadvantages of using credit	Benefits of saving	Disadvantages of saving
Using a credit card lets you buy something now				
Saving for something means you'll have to wait to buy it				
Using a credit card doesn't cost anything if you pay it all off each month				
Using a savings account earns interest on your money				
Borrowing money, such as a student loan or a business loan, can help get you started on the career ladder				
Saving for something means you don't get into debt				
If you use a credit card and don't pay it all back each month, you pay interest on what you spend				
Borrowing money and paying it all back when needed improves your credit score				
Getting into debt can have a negative impact on your credit score				
Having some money saved reduces the stress if something goes wrong or an unexpected event happens				
Add your own here				

Credit versus saving: answers

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The table below shows the correctly categorised statements

Statements	Benefits of using credit	Disadvantages of using credit	Benefits of saving	Disadvantages of saving
Using a credit card lets you buy something now	✓			
Saving for something means you'll have to wait to buy it				✓
Using a credit card doesn't cost anything if you pay it all off each month	✓			
Using a savings account earns interest on your money			✓	
Borrowing money, such as a student loan or a business loan, can help get you started on the career ladder	✓			
Saving for something means you don't get into debt			✓	
If you use a credit card and don't pay it all back each month, you pay interest on what you spend		✓		
Borrowing money and paying it all back when needed improves your credit score	✓			
Getting into debt can have a negative impact on your credit score		✓		
Having some money saved reduces the stress if something goes wrong or an unexpected event happens			✓	
Add your own here				

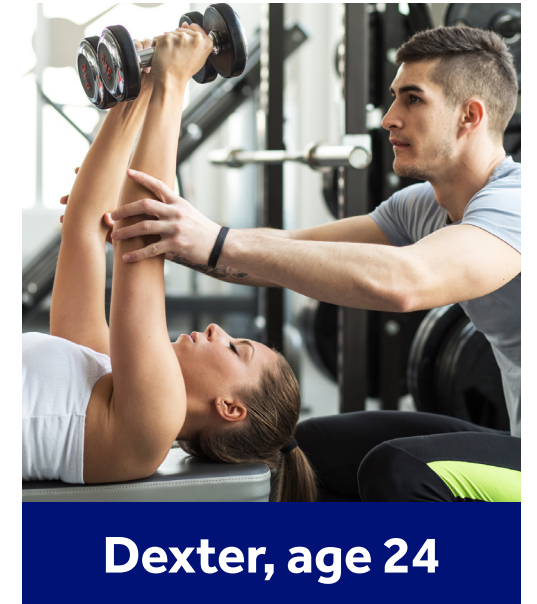
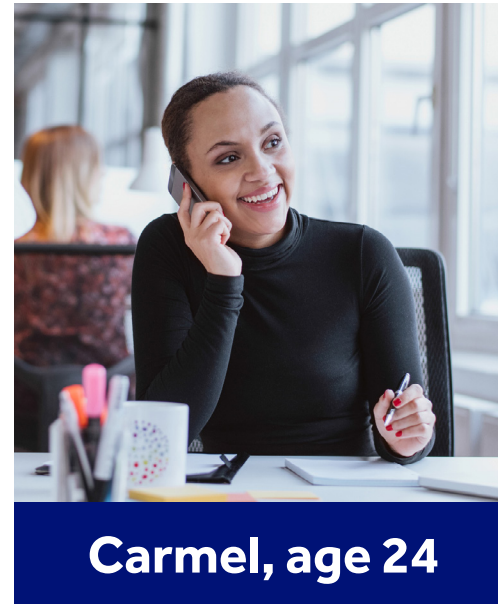
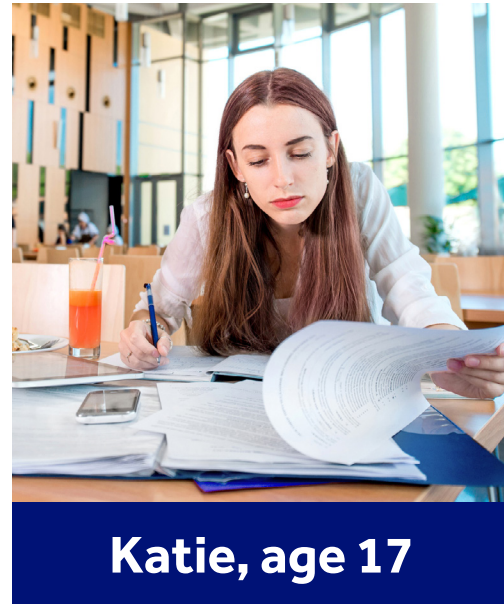
The money mentors challenge: Action planning

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Samir, Dexter, Katie and Carmel forgot to share some important information. They each have a money worry and a dream item. As their mentor, can you suggest how they can tackle their worry and achieve their dream?

Most people need to borrow money at some time in their lives – when buying a house, studying at college or buying a car. Being in debt is not necessarily a bad thing, provided you understand the risks and manage the repayments sensibly.

If the characters are not in a financial situation that allows them to save for their 'dream item', should they borrow the money? What are the benefits and the risks? What kind of bank account suits the characters? You could use the online or downloadable Bank Account Comparison tool to help decide.



Samir part two: student sheet

Money worry

"I bought £400 of new computer equipment on a credit card recently because I didn't want to dip into my savings. I pay £50 back every month but the interest's starting to rack up. I could ask my parents to lend me the money so I can clear the debt but I don't want to ask for their help."

Dream item

"I want to move into town on my own so I can go out with my friends more often. It would save me money on getting taxis home late at night, and commuting to work. I've worked out that I need to have £600 for a deposit to rent a flat. I really don't want to use the savings I've already got – they're for emergencies only."

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Katie part two: student sheet

Money worry

"I borrowed £850 from my parents to buy a secondhand car. It keeps breaking down, making me late for work and college. I need £350 to get it fixed, and then need to get an MOT once a year. My parents say they don't mind when I pay the loan back, but I feel guilty about it every time I sit in the driver's seat."

Dream item

"I want to take my best friend to Paris for Fashion Week to celebrate her 18th birthday in style. I think £500 should be enough for the two of us."



Dexter part two: student sheet

Money worry

"Last month my mortgage went up by £90. I borrowed the extra from my brother but he made it clear I can't ask him again. I could earn extra money by doing personal fitness sessions four times a week, and charge £30 a session. I don't want to work seven days a week though. I'd miss my daughter too much, and I'd have to pay extra for childcare."

Dream item

"I want my daughter to be a football fan too. Same team hopefully! I'd love to take her to the stadium instead of watching from the sofa but an annual season ticket costs £700."



Carmel part two: student sheet

Money worry

"I'm saving up to buy a house with my boyfriend. We've just checked our credit scores to see if we're likely to get a mortgage, and although mine is pretty good, my boyfriend's isn't – he was in a lot of debt when he was younger and had trouble paying it back. His poor rating might mean we can't get a joint mortgage. I suggested he could move in anyway and pay me rent, but he said it wouldn't be fair to make him feel like a lodger."

Dream item

"I want to sign up for the ultimate charity mountain climb – Mount Kilimanjaro – but it costs £2,000. Anything I raise in sponsorship goes towards this, but I'll have to make up the difference myself if I don't hit the target."

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Action planning: student sheet

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In the box on the right, come up with a plan to tackle their worry and be able to buy their dream item. Include some advice about how they should adjust their spending and saving.

What should they prioritise? Should they save more? Should they consider borrowing money, and if so, what might the risks be? How could they spend within their means?

Character name:



Summary: student sheet

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A budget allows you to keep track of your money. What goes into it will depend on your personal circumstances. You need to think about:

- Money coming in (income) e.g. regular allowance, allowance, pay from part-time work
- Money going out (expenditure) e.g. food/snacks, travel, clothes, entertainment, sports clubs

If you need to borrow money think carefully before getting into debt, it may not be necessary or worth the risk.

Make sure you talk to someone you trust if you need help about your finances.

For more tips, visit:

[Money Helper](#)

[Citizens Advice](#)

