Financial capability guide

Essential information to support young people

April 2009

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Contents

Copyright statement

Note: This guide was as accurate as possible when it was updated in March 2009. The financial world is fast moving. Rules, entitlements, products and services develop and change constantly. Always check information with a reliable and updated source – see section 7 Further information for useful websites.

There are significant differences in the laws, benefits, processes and terminology between England and Wales, Scotland and Northern Ireland. This guide indicates in places some of the major differences. But it is important to check what local conditions apply before passing on or acting on any advice or information here.

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1. Financial capability and young people

Introduction

Money is a problem for many young people. That is not just because they don't have enough of it.

It is a problem because most young people have had little opportunity to understand how money works. No one has helped them explore their own attitude to it, or develop the skills they need to feel confident in managing it. No one has given them the tools to make sense of financial services and products that are such a vital part of adult life.

That is changing. Financial education is increasingly on the agenda – in schools, further and higher education, and the workplace. This has to happen because society now makes far more sophisticated demands on young people's personal financial management and planning than in any earlier generation.

Yet financial education in mainstream education and employment misses well over a million 16 to 25-year-olds – those who are not in education, employment or training (the so-called NEETS).

Such young people are often on low incomes and with little formal structure in their lives. Social exclusion prevents them accessing cheap financial products and services. It also prevents them accessing the financial capability education that might help.

Role of youth workers

Youth workers are in a unique position to help. In this guide we use the term youth workers to refer to the range of professionals and volunteers who work outside the formal education system with young people. They build relationships with young people that are unlike those of other adults. They have a range of skills for working with young people – whether in sex and relationships education, alcohol or drugs education, anger management or other aspects of the successful transition to adulthood.

However, youth workers, like most other adults, may not feel particularly confident about delivering financial education to young people. They perhaps feel there are gaps in their own knowledge and understanding. Or they do not feel qualified to talk to young people about money when they sometimes struggle to cope themselves. Or perhaps their eyes just glaze over at the thought of all those figures and all those percentages.

It doesn't have to be that way. Most youth workers do probably need to know more about personal finances. But not that much more. Gaining the confidence to work with young people on financial capability can be a steep learning curve. But it does not have to be a particularly long or arduous process. Many of the basics are just that – basic common sense. The really serious stuff – detailed debt advice, working through complex, intertwined problems involving maths and percentages, negotiating with creditors – is, in any case, best left to specialist money advice workers.

Overview of this guide

This financial capability guide has been funded by the Financial Services Authority to provide back-up information for youth workers who take part in 'Young People and Money' training events. It is designed to help youth workers build their confidence and make a start in meeting young people's modest need – for adults to talk to them about money.

This guide is broken down into simple sections with step-by-step explanations of key ideas. There are plenty of useful tips, some handouts and checklists to use with young people, and links to further resources. A glossary explains terminology briefly.

Useful tips

Here are two pieces of advice:

- Don't feel embarrassed about not knowing something. No one expects youth workers to be financial advisers. Just do what you do whenever young people come up with questions that you cannot answer. Work out a way of finding out together. There are a lot of sources listed in the further information section on page 73.

- Accept that talking about money can seem boring or intrusive. Accept, too, that young people will occasionally make these points, perhaps forcefully. But it is equally true that most young people do want to be seen as good money managers. So pick your moments, and build on young people's own experiences and interests.

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Financial capability

Financial capability is a relatively new concept, and not necessarily widely understood. What is meant by it? What is the difference between someone who is financially capable and someone who isn't?

The concept can be usefully divided into five areas:

- making ends meet
- keeping track of finances
- planning ahead
- choosing financial products
- staying informed.

Most of this guide, sections one to four, deals with the essentials of making ends meet and keeping track of finances. These are the basic building blocks of financial capability that will be of most relevance to young people and those who work with them.

However, young people also need key skills and understanding in the other areas. Many regard debt as a fact of life. But they can lower their chances of falling into problem debt by planning ahead to reduce unexpected expenses and put aside money for larger items. And they can significantly reduce the costs of borrowing by knowing how to choose between the different types available. From 2018, all 16 year olds will also be able to manage their own child trust funds. So, planning ahead, choosing between products, and keeping ahead of changes are key skill areas. They are covered in section five.

2. Income and budgeting

Financial capability has two crucial first levels:

- Making ends meet
- Keeping track of finances.

These are not necessarily directly connected. Some young people manage to make ends meet without recording exactly where their money is going. Similarly, some keep detailed accounts of their spending, and yet fail to make ends meet.

This is not really surprising. Many people living on very low incomes will struggle to meet their spending commitments. Many try, and keep careful note of where the money goes but that doesn't mean they can solve the most difficult problems.

On the other hand, some people, perhaps most, are natural in their money management. Experience and instinct determine their spending choices, rather than close attention to income and outgoings.

It is worth bearing this in mind, and not getting too hung up on exactly how young people manage their money. But whatever their personal style, the essential elements of money management at this level are:

- To distinguish between essential and non-essential spending.
- To make sure income is higher than the total for essential outgoings.
- To make conscious choices about non-essential spending.

Needs and wants

Some spending is essential. This includes the basics such as food, fuel bills, rent or other housing costs. Apart from these obvious items, opinions will differ on which kinds of expenditure are a necessity and which are a luxury. Various factors will affect this. For example, some people can't manage without their phone. For others, cigarettes may be a necessity. High travel costs may be unavoidable if you live in a rural area. The point is that whatever your income, you have to make choices about how to spend it, and accept that buying one thing may mean that you have to go without something else. But individuals will have different priorities.

Group exercises geared to helping young people explore the difference between essential and non-essential spending are covered in the On Your Own 2 Feet toolkit produced by Fairbridge. Key points to note are:

- Young people's experiences vary. Never assume, or impose your views about what is essential and what isn't.
- External pressures are very powerful. Young people may need help figuring out what is actually important to them – rather than what other people, including peer group and advertisers, say is vital.

Maximising income

An obvious first step in making ends meet is to increase income to the maximum possible. For young people this may well involve some, if not most, of the following:

- Claiming the state benefits, allowances and tax credits they are entitled to.
- Challenging benefit refusals, if necessary by appealing.
- Claiming back any overpaid tax and ensuring their PAYE tax code is correct.
- For lone parents, ensuring the child's other parent is contributing fully.
- Claiming travel and subsistence expenses for any volunteering, and child care costs if relevant.
- Applying for social fund loans, especially while on benefits and needing to buy something like replacement furniture or a cooker, or when moving into independent living for the first time.
- If working, making sure that the employer is paying the national minimum wage. This applies to temporary, part time and casual work.
- Applying for any allowance or grant designed for people in education. Education Maintenance Allowance (EMA) is for those staying on in education after age 16, and the care to learn scheme can help with childcare costs. See, for England, Wales, and Northern Ireland, http://moneytolearn.direct.gov.uk/ For Scotland see www.emascotland.com and www.saas.gov.uk or call the free Young Scot InfoLine on 0808 801 0338 for more information.

Benefits

All benefits are complex, and that is particularly true of the system relevant to young people.

A trained benefits adviser is needed. But just as a broad overview these are the benefits that might help a young person maximise their income. There are also some general tips on benefits, including a handout for young people.

Benefits for people who are unemployed or on low incomes

Jobseeker's allowance (JSA)
Jobseeker's allowance is a benefit for people who are unemployed but capable of work. They must show that they are fit for work, available for work and actively seeking employment. They must also have a Jobseeker's Agreement.

It is normally for people aged 18 and over, but some unemployed 16 and 17-year olds not in full-time education may, in some circumstances, be able to claim.

Income support
Income support is a benefit for people on a low income to help them pay for their day-to-day living costs.

It is normally for people aged 18 or over.

Those aged 16 or 17 may get income support if they:

- have a child or are pregnant
- are in certain kinds of education or training and also fall into one of a small number of other categories, such as being estranged from parents.

Usually, 16 or 17 year olds who have been in care cannot get income support. Again there are some exceptions, such as lone parents and some disabled young people.

Housing benefit and council tax benefit
Housing benefit is a benefit for people on a low income to help them pay their rent.

Council tax benefit is a benefit for people on a low income to help them pay their council tax.

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A young person can claim housing benefit, but the amount payable to a single person aged under 25 with no children is restricted. They will usually be entitled only to the average rent in the area for a single room with shared facilities, regardless of their actual circumstances and rent.

In England, Scotland and Wales, council tax benefit can be claimed only by people aged 18 or over. There is no council tax in Northern Ireland, but housing benefit can include an amount to help you pay your rates.

Social fund
The social fund helps people on a low income pay for one-off expenses which they would not otherwise be able to afford. The cash in the fund is limited, and loans are discretionary – not a question of basic entitlement. There are three types – crisis loans, budgeting loans and community care grants.

Young people may be able to claim a *crisis loan* from the social fund in an emergency if they are unable to pay for their immediate needs. They do not have to be receiving any other benefits in order to claim.

Someone receiving income support or income-based jobseeker's allowance may also be able to get a *community care grant* to help with expenses so that people can live in the community and families can stay together. Or a *budgeting loan* to help with certain categories of expenses including furniture, clothing and travelling.

Crisis loans and budgeting loans must be repaid, but are interest free. Community care grants do not have to be repaid.

Benefits for people bringing up children

Child benefit
Child benefit is a flat-rate weekly benefit paid to a person who is responsible for a child under 16 (or a young person under 20 in full time education up to A level or equivalent, or on certain approved training courses).

Child tax credit
See tax credits below

Benefits for people who are disabled, sick or carers

Disability living allowance
Disability living allowance (DLA) has two components – care and mobility – paid at different rates depending on the nature and extent of the disability. The benefit is designed for people whose disability means they need extra care or support or who have difficulty getting around.

DLA is not means-tested (see glossary). Entitlement to DLA can mean that a person becomes entitled to other benefits, such as income support. It can also have the effect of increasing benefits that are already in payment, again such as income support.

The rules are complex. The likelihood of a successful claim, at the correct rate, is increased by having the help of a specialist adviser.

Incapacity benefit
Incapacity benefit is for people who are unable to work because of sickness or disability. It is a weekly payment for those under state pension age.

Since October 2008 you can't make a new claim for Incapacity Benefit.

Employment and support allowance
Employment and support allowance (ESA) is for people who can't work because of sickness or disability. You usually prove you can't work by sending in sick notes. Most people will also have a medical examination to decide if they qualify.

Carer's allowance
Carer's allowance is for people who give regular and substantial care to disabled people in their own homes.

More information on benefits for people who are sick, disabled or carers is available at www.adviceguide.org.uk or www.dwp.gov.uk/lifeevent/workage.

Tax credits

Working tax credit and child tax credit
Young people aged 16 or over can claim tax credits.

To get working tax credit a young person must work 16 hours or more a week, be on a low income and either have a disability which puts them at a disadvantage in getting a job or be responsible for a child.

Child tax credit is payable to over-16s who are responsible for a child under the age of 16.

Those under 16 and responsible for a child cannot claim child tax credit in their own right but may be included in their parents' own claim.

Some young people aged 20 or under in full-time training or non-advanced education can be included in a claim for child tax credit by their parent or person who has responsibility for them.

2

Benefits Table

is there anybody in the household who is?	contributory[1]	non-contributory[2]	means-tested benefits[3]	tax credits
unemployed (and available for work)	• contributory jobseekers allowance (JSA)		• income-based JSA • council tax benefit • housing benefit	• child tax credit • working tax credit (if partner works)
pregnant / recently given birth or adopted	• contributory employment and support allowance (ESA)	• statutory maternity / paternity / adoption pay • maternity allowance • child benefit	• income support/ income-based JSA/income-based ESA • social fund maternity payment • help under the healthy start scheme • housing benefit • council tax benefit	• child tax credit • working tax credit
on low wages (check number of hours worked)			• income support/ income-based JSA • council tax benefit • housing benefit	• child tax credit • working tax credit
bringing up children	• contributory jobseekers allowance	• child benefit	• income support/ income-based JSA • council tax benefit • housing benefit	• child tax credit • working tax credit (if partner working)
off work because of illness for less than 28 weeks	• contributory employment and support allowance (ESA)	• statutory sick pay	• income support/ income-based JSA/income-based ESA • council tax benefit • housing benefit	• child tax credit • working tax credit (if previously working)
disabled / off work because of illness for more than 28 weeks	• contributory employment and support allowance (ESA)	• non-contributory ESA[4] • industrial injuries disablement benefit • disability living allowance	• income support/ income-based JSA/income-based ESA • council tax benefit • housing benefit	• child tax credit • working tax credit (check disability elements)
caring for someone who is sick or disabled		• carer's allowance • benefits for disabled person	• income support • council tax benefit • housing benefit • benefits for disabled person	• child tax credit • working tax

1. paid only to those who have made sufficient National Insurance Contributions over a specific period of time.
2. paid regardless of an individual's National Insurance Contribution record.
3. means-tested benefits will take into account your income (how much you get paid) and any savings that you may have.
4. equivalent to contributory ESA for some young people.

Useful tips on benefits

- Be careful when talking to young people about benefits. Poor advice may discourage young people from applying. Or it can cause them to anticipate getting a benefit they do not qualify for. Both can add to young people's financial problems – sometimes in a major way.

- Appeals against a refusal of benefit or the amount awarded should be made within one month of the decision.

- Be alert to unfair treatment because of race, sex or disability in benefit claims. Government agencies have policies forbidding discrimination on the grounds of sexuality, religion or HIV status. Help young people who feel they've been discriminated against make a complaint.

- The Jobcentre Plus office will want to see evidence of identity (originals, not copies), circumstances, earnings, savings and housing costs. Couples making a joint claim for JSA will both have to produce evidence.

- Claims can be made without the necessary documents – though payments will not normally be made until the evidence has been produced.

- Young people can get help with benefits from:
  - Citizens Advice Bureaux – for everybody, has specialist benefits advisers
  - Young Scot InfoLine – free phone information line and website specifically for young people
  - Connexions – specifically for young people
  - Jobcentre Plus
  - Sure Start – for people with children, for general advice on benefits
  - Social services – for young people who have been in care
  - Local advice agencies, which you can find at www.adviceuk.org.uk

- Useful websites:
  - www.youthinformation.com
  - www.direct.gov.uk
  - www.connexions-direct.com
  - www.adviceguide.org.uk
  - www.youngscot.org.uk

2

Benefits handout

Claiming benefits doesn't always go smoothly. Remember that the rules covering benefits for young people are often very different from the rules for people over 18, and can be particularly complicated. The better informed they are about the benefits system, the more likely it is that they will receive their correct entitlements, even if it takes time for their claim to be dealt with. Once benefits are being paid, young people may still need to be supported to maintain their claim – this can include attending interviews, responding to queries and notifying changes of circumstance.

If in any doubt, encourage young people to get advice.

If appropriate, the following sheet can be photocopied and used as a handout for young people – in groups or as individuals. They may have their own tips to add or share.

You may also want to check that the young people you work with know about the different organisations that provide help and advice with benefits. This could include those listed on page 13, and any local advice agencies you are aware of.

Benefits tips for young people

- Claim as soon as you can, or you may lose money.
- If you have a good reason for not claiming earlier, it may be possible for your benefit to be backdated. The rules about this are complicated, so seek specialist advice. Act quickly, as backdating is for a limited period.
- Claim forms can look long and complicated. But you probably won't have to fill in all the sections, e.g. if you claim just for yourself, you can ignore questions about partners or children.
- If you don't understand any of the questions, ask someone for help.
- If you don't have all the information you need for a claim, ask if you can provide it later. Don't put off making the claim, or you could lose money.
- Whenever you have contact by phone or in person about benefits, make a note of the date and what happened. This can help make sure you get the payments you are entitled to.
- If claiming by phone is a problem for you, ask someone to call for you and request a claim form.
- If you don't have a bank account, open one so benefits can be paid in.
- If your circumstances change, e.g. if you start or stop work, tell anyone who is paying your benefits. This could be Jobcentre Plus, the Housing Benefit office or HM Revenue & Customs. Keep a note of when you told them. If you think you have been overpaid benefit, query this. Having to repay money can cause hardship later on – and you could be accused of fraud.
- If you are thinking about moving in with a girlfriend or boyfriend, check how it will affect your benefits. If your partner is working you might lose benefits. This applies to all couples, including gay and lesbian partners.
- Ask for receipts for forms or documents you take as evidence for your claim.
- Do not accept poor service. Sometimes there are delays. You may be paid the wrong amount, or your benefit may stop. Get advice about appealing or making a complaint.

Reducing spending

There are two parts of the 'making ends meet' equation. One is maximising income (see page 8). The other is reducing spending.

While there is factual information about minimum wage rates and benefit entitlements, it is not so easy to give concrete, reliable information about reducing spending. So much of spending behaviour is personal, and to do with attitude, circumstances and the influence of peer groups.

Making judgements about spending has to do with 'softer' or 'fuzzier' social and life skills. Learning to use money in the way that you want to is connected with emotional intelligence and the ability to negotiate social relationships. It is part of young people's growth to full independence, working out what kind of person they are and want to be.

Advice appropriate to one group will be inappropriate to another.

Logically, if you work through the options they fall into categories:

Find out where the money is going

↓

Identify spending areas which can be cut out, or reduced

↓

Identify cheaper alternatives, or ways of buying

↓

Work out some targets, and stick to them

If young people are dealing with issues such as alcohol or drug use, or gambling, this is likely to have an impact on their finances. This could also be an issue if they are supporting someone else, such as a friend or family member who is dealing with these problems. If this is the case they may be, understandably, reluctant to speak about it. So, it may take time and patience to get them to open up about all their commitments. Surveys suggest that we find money more difficult to discuss than sex, so don't be surprised if you have to allow time to build up trust before they will feel able to talk completely freely to you.

Be sensitive to the gap between intention and reality. What a young person says they plan to spend their money on in a one-to-one discussion with an adult may not have much resemblance to what they actually do when they are with a group of mates and faced with particular choices. Don't make young people feel bad about that intention-reality gap. It afflicts most people of most ages. But do acknowledge it, and help young people think about how to cope with spending temptations that they cannot afford.

Spending problems

People's spending problems vary, but there are certain patterns that can be identified. Raise them with young people and they might recognise them in their own lives.

- **Existing bad deals**. Some people are committed to regular spending due to a decision they made some time ago and never did anything to change. Customer inertia – the tendency to not quite get round to changing something you know you should – is a major source of income for many companies. That's why starter offers are often so generous. Anyone serious about cutting spending may want to revise their current deals. Overpriced mobile phone contracts are an obvious example.

- **Unnecessary and meaningless spending**. This may include insurance for something not worth insuring – such as a pay-as-you-go mobile phone. Or insurance or service contracts that duplicate existing cover. This could also include situations where the young person has a multi-channel home entertainment system but doesn't have enough money for the electricity to power the telly. Or anything overpriced that a young person buys out of habit without really valuing or needing.

- **Peer pressure**. Spending money because everyone else is, or because it seems expected, is another problem that affects anyone of any age. There are no quick fixes. But youth workers can help young people explore and share techniques for dealing with the problem. This isn't just about spending on luxury goods or having fun. Young parents can feel under serious pressure to buy the best and newest equipment for their child.

- **Use the plentiful advice on saving money, from the press, television and websites, to discuss approaches to spending**. But be wary of sounding out of touch or silly with advice from pundits whose lives are very different from young people's.

2

Keeping track

Keeping track of where the money goes is a key element of financial capability. Consider these two groups of people:

Group A
People who know accurately how much is in their current and savings account. They know how much they owe on their credit card or other loans, when they will pay it off and at what cost. They check their receipts against their statements when they get them, and query any unexpected charges. They note down all their everyday spending in a notebook, and review their choices regularly. They have a budget which copes with all the quarterly and annual bills and other irregular spending such as birthdays, holidays and Christmas. They know their income, and when they can expect it.

Group B
People who have no real idea what their current balance is, or how much they owe on their loans. They leave bank statements unopened, and are unaware what charges they might be incurring. They throw away receipts. They never complete cheque stubs. Money flows through their hands unrecorded. They are prone to saying they just don’t know where their cash disappears to. They are regularly in crisis, as bills appear they haven’t planned for. They do not know what their monthly income is or when they receive it.

Most young people, like most adults, are somewhere on a spectrum between A and B. Exactly where they are depends on their circumstances, personality, life experience and peer pressure. Most will improve their money management and feel more in control if they move towards group A and away from group B.

Budgeting is an excellent way to get a firm grip on tracking money and making ends meet. But setting up and operating a weekly budget is a big ask for a lot of young people. For those who have very little structure in their lives, who have a history of missing even the one or two appointments a week they have, a budget is at best an aspiration. It is not something that they will suddenly be able to adopt and maintain.

It is also worth remembering that some people’s income does not and cannot exceed their essential spending and existing commitments. Doing a budget can be a positive experience that ends with clarity, a defined amount of money available for spending on non-essential items, and a sense of control. For those on very low incomes it can be a depressing reality check. It can confirm that someone's problems are very serious, and not due to attitude or approach, but just because of the reality of being on a low income.

For those who are ready to devise a budget, the section on setting a budget sets out the basics. There are also good websites, with online budget tools, or lists and forms to print and use. See, for example, www.moneymadeclear.fsa.gov.uk or www.nationaldebtline.co.uk.

An adviser, such as a money adviser at a Citizens Advice Bureau, can take someone through the process. Such specialist help is especially important if the young person has debts from more than one source and needs help in distinguishing priority and non-priority debts (see page 55), and perhaps agreeing a repayment schedule.

Young people not ready for a formal budget can make steps in the right direction of keeping track. This should increase their chances of making ends meet.

Key Points

- Store some cash separately, or even give it to a trusted friend, so that it doesn't disappear too quickly. This is particularly helpful when socialising, where spending limits and good intentions are easily brushed aside.

- Start trying to remember where yesterday's cash went. Identify danger times and places. Edge towards the idea of a period of keeping a spending diary.

- Remember that when debit cards are used, for purchases or for withdrawals from a cash machine, the system does not necessarily check that funds are available. Assuming that there must be money in the account if the transaction succeeds is tempting, but wrong.

- Bank statements are never an absolutely up-to-date record of the state of an account. The time lapse between transactions and statements means young people need to keep track themselves.

Setting a budget

Ask a young person about to make a purchase – can you afford that? There is a fair chance that the honest answer is, "I don't know". Even if they have the cash, there may be doubt about whether that money isn't properly earmarked for something else.

The working tool that removes such uncertainty is known as a budget. With a budget, amounts are allocated to different categories, and this is then compared to the money coming in. If the income is more than they allocated for spending then the young person will have money left over. If not, there will be a shortfall at the end of the month.

Key principles of setting a budget

- Use weekly or monthly amounts – don't mix them up.
- To convert weekly payments to monthly, multiply the weekly payment by 52, then divide the result by 12. Just multiplying by 4 is not accurate enough.
- To convert monthly payments to weekly, multiply the monthly payment by 12, then divide the result by 52.
- Make sure the amounts are realistic, preferably based on actual spending recorded in previous bills or statements but if these are not available guessing is better than ignoring them.
- Start with a rough copy – and do as many as you need to get it right.
- Include fines.
- Don't forget travel costs – for visiting family, getting to work, shops or wherever.
- Include any loan or catalogue repayments.
- Include an amount for emergencies such as equipment breakdowns and other 'lumpy' (see glossary) expenditure like Christmas and birthdays.
- Accurate figures will of course give an accurate budget but if you're not sure of a figure then have a guess at it rather than leaving it out.

Keep the budget under constant review. If some part of it isn't working, try to change it. It is a dynamic tool, changing to new events like getting a job, finishing paying a fine, or taking out a loan. Encourage young people to use their budgets actively, not be ruled by them.

3. Banking and saving

Young people wanting to move beyond cash-only dealings will need some form of bank account or post office account.

An account will help with budgeting, paying bills, receiving income, and building up a credit history. It is also necessary to receive certain benefits or grants – such as education maintenance allowance – which can themselves be a route to inclusion.

It is important to help young people think through what they want their account for, and what would be the best option for them.

The table on the next page gives a quick summary of different kinds of accounts. For useful leaflets on basic bank accounts, Credit Unions, and proving ID see www.moneymadeclear.fsa.gov.uk – follow links to useful tools, publications.

Choosing an account

Help young people decide why they want an account. Which features are relevant, and which are not?

On the next page is a list of things to consider. Print off this checklist for young people and invite them to review it and tick the features that seem important to them.

Choosing an account checklist

		Important feature?
Ways to run an account	Face-to-face contact at a branch	
	Phone banking	
	Online banking	
	Postal account for savings	
Access to cash	Branch nearby	
	Cash machines nearby – and free to use	
	Cashback facilities at supermarket, other shops or pub	
	Access at the Post Office	
Interest	Amount of interest paid	
	Amount of interest charged	
Borrowing	No overdraft facility	
	Overdraft facility - is it free or are there charges?	
Services	Cash card	
	Debit card	
	Cheque book	
	Direct debits	
	Standing orders	
Restrictions	Any restrictions on withdrawals	

Types of bank account

The three main types of bank account are:

Basic bank account
for managing day-to-day money. Cheques can be paid in, as can wages or benefits by electronic transfer. No cheque book will be offered, but cash can be withdrawn at machines. Direct debits and, sometimes, standing orders (see glossary) can be set up. No overdrafts are offered – or, at the most, a buffer of £10. A major advantage is that credit checks are not usually required.

Current account
also for managing day-to-day money. Has more features than a basic bank account. Some may be accessed by telephone or internet. There are special accounts for children and students. Sharia compliant accounts, which operate within the principles of Islam and so are structured differently from conventional accounts, are also available in some areas.

Savings (or deposit) account
for putting away money that is not needed immediately, for safe keeping and to earn interest. Good for saving for furniture, a holiday or emergencies, for example. There is more on savings accounts on page 35.

Main alternatives to bank accounts are the Post Office card account and, in some places and depending on eligibility, Credit Unions.

The Post Office card account
can be used to receive benefit, state pensions and tax credit payments only. No other payments, such as wages, can be paid into it. Cash can be withdrawn, free of charge, at any Post Office branch using a plastic card and a PIN. No credit checks are required.

Credit Unions
are organisations owned and run by their members, for their members. All offer savings and loan accounts to members. Most also offer free life or loan-protection insurance, and perhaps other insurance products. A few of the bigger ones also offer some form of current or basic bank account. Credit Union members all share a 'common bond' such as living or working in the same area, working for the same employer or belonging to the same trade union, church or other association. Although they are becoming more popular, there are still many areas where no Credit Union operates. More information on Credit Unions is available at www.moneymadeclear.fsa.gov.uk/pdfs/credit_unions.pdf.

Types of account table

		Basic bank account	Current account	Internet account	Savings account	Post Office Card account	Credit Union
Money to open Account		None or minimal (£1)	Yes	Yes	Yes	No	Yes minimal
Credit checks		Sometimes	Yes	Yes	No	No	Only if borrowing
Access		Cash machines Post Offices	Cash machines Post Offices	Cash machines Post Offices	Cash machines Post Offices	Post Offices	Credit Union Sometimes cash machines
FEATURES	Debit card	Limited use	Usually	Usually	Not usually	No	No
	Cheque book	No	Usually	Usually	Not usually	No	Not usually
	Direct debits	Yes	Yes	Yes	Not usually	No	Not usually
	Overdraft	Limited buffer only (max £10)	Yes Charges if used	Yes Charges if used	No	No	No
Advantages		• Available if low credit score • Cash machines • No risk of going overdrawn	• Direct debits • Debit cards • Cheque books	• Direct debits • Internet access • Higher interest rates	• Higher interest rates	• Can use for benefits payments	• Available if low credit score • Local • Good value
Disadvantages		• May not get direct debits or debit cards	• High charges for going overdrawn	• Needs secure internet access	• No direct debits • May have notice period on account	• Money only from bank account • For benefits only, not wages	• Few offer cash machines or direct debits

Basic banking features

Young people can appreciate someone non-patronising making the effort to explain terminology and key features of the banking system. Worth covering, if only to check there are no gaps in knowledge are:

- The different functions of a cash card, a debit card and a cheque guarantee card. And the difference between them and a credit card.

- How to keep a record of current balance and check statements.

- The system of direct debits and standing orders, and the practical difference between them.

- PIN numbers, using them, keeping them safe and remembering them.

- What overdrafts are, and the costs involved.

- Basic security and the procedures following a lost or stolen card or cheque book.

- The basics of what a cheque is, the mechanics of the banking system and the length of time it takes for a cheque to clear. How to write a cheque, including the stub.

Key terms are briefly described in the glossary on page 76.

Frequently asked questions about banking

What is the minimum age for opening a bank account?

There is, generally speaking, no minimum age – though the facilities offered to young children will be limited. The youngest age for receiving a cash card is 11. Some 16 and 17 year olds have debit cards. An overdraft is a form of credit – so is usually available only to 18 year olds and older. There is more information on this at www.adviceguide.org.uk – follow links to consumer affairs, young people, money and consumer rights.

What ID is needed to open an account?

Banks need to verify customers' identity. They can be fined if they breach strict regulations, including laws designed to track movements of money by terrorist and criminal organisations. Banks have to take ID seriously.

Some bank staff may insist that a potential new customer must produce a driving licence, a passport, a recent utility bill in the customer's own name or other types of ID that are not readily available to all young people.

Many young people are discouraged at this first hurdle. This is a shame, because the banks may well have more flexibility than it seems at first. Their obligation is to verify identity and there are other ways to do it.

Youth workers and other intermediaries can help act as broker to smooth this process. For instance:

- Make personal contact with a manager of a local branch, explain the problems that young people are having, and try to agree a way to get around them. This may be to draw up a list of 'alternative but acceptable' ID for young customers. This could include correspondence about benefit entitlements, and a letter of verification on headed notepaper from hostel, foyer, school or college or other institution. In Scotland, the Young Scot card is accepted in some banks as ID.
- Get into the habit of offering to write and sign a testimonial letter for a young person to use for ID verification.
- In cases of prolonged difficulty, seek out the financial institution's senior member of staff who is authorised to deal with exceptional cases. There will usually be one.
- Help young people understand the logic behind ID checks. A good start is the leaflet, Proving Your Identity, which can be ordered or downloaded from www.moneymadeclear.fsa.gov.uk/pdfs/proving_your_identity.pdf.

What can a young person do who is refused a bank account?

This can be a serious setback for young people, particularly since payments such as education maintenance allowance must be made through a bank account. Reasons for problems opening an account include not having acceptable ID, having a low credit rating or a criminal record.

First check why the young person has been refused and whether anything can be done so they can get a bank account (e.g. problems with identification). If they cannot get a bank account, alternatives to consider are a basic bank account or a Credit Union. If it is to receive benefit payments, a Post Office card account may be suitable. All these are easier to obtain than a full current bank account.

One simple thing to help a young person improve their credit score is to suggest they register to vote. It is now possible to join the electoral register at any time of the year. A fixed address is not necessary. Homeless people can give details of where they spend a substantial part of their time on a form called a Declaration of local connection obtainable from the local electoral registration office. See www.aboutmyvote.co.uk.

What happens if a young person loses their card, cheque book or forgets their PIN or thinks someone else might know what it is?

Tell the bank as soon as possible, either by visiting the branch or ringing the helpline. Make a note of the number, which is on statements and often on the back of bank cards.

There will be a delay while the bank sends a replacement card, cheque book or PIN number. In the meantime it should still be possible to withdraw money from the account, by attending a branch with appropriate details – sort code and account number – and documents such as bank statements or letters and some ID. Sort code and account numbers can be found on bank statements.

Are there accounts run according to Islamic principles?

Many high street banks now offer Halal or Sharia accounts which are structured differently from conventional accounts. They do not pay or charge interest, but operate on a principle of shared risk, profits and losses. Investments by the bank should not include forbidden practices – trading in alcohol, betting and pornography are not allowed.

How can someone complain about a bank?

Talking to a branch manager or other senior member of staff is a good first step. All banks must have a written complaints procedure which can be used if the problem is not easily resolved. Details should be in their branches or on their website. Or just ask for a copy. Remember that banks do not have to let someone open an account, but they should still try to help sort one out for a young person. See the leaflet Making a complaint – www.moneymadeclear.fsa.gov.uk/pdfs/complaint.pdf.

How much do bank accounts cost?

At the moment, most bank accounts are free to customers as long as their account remains in credit. Charges for going overdrawn vary, usually costing less if the overdraft has been agreed with the bank in advance.

What happens if a young person goes overdrawn?

Basic bank accounts usually don't let you go overdrawn by more than £10, if at all. This is a buffer zone facility so that, for instance, if a young person has just £6 in their account they can still use a cash machine that gives only £10 notes. However many current accounts let you go overdrawn without any warning. It is the customer's responsibility to keep track of their spending and their account balance. Going overdrawn without prior agreement – known as unauthorised overdraft – can incur large costs.

Banking services

Current accounts and even basic bank accounts are not just a way of depositing and withdrawing money. They offer a range of different services. Exactly which ones young people can access will vary, according to the bank's policies, the length of time they have held an account, their age and their credit worthiness.

Here is a summary of the main facilities that can be connected to bank accounts. It starts with the different forms of plastic card:

Credit cards

- A form of borrowing, credit cards are issued by banks, building societies and some high street shops (when they tend to be called instore credit cards or just store cards).

- They will not be issued to anyone under 18.

- They are a temptingly convenient and easy way to make purchases – widely accepted in shops, restaurants, pubs, over the internet and by telephone. Nowadays, cards are usually inserted in machines which read the electronic chip and the customer types in a four digit PIN. (The system is known as chip and PIN.) Some shops still take an impression of the card on a special voucher which the customer signs. Purchases over the internet or by telephone usually ask for a three digit security number on the back of the card.

- The credit card holder does not have to pay anything until the monthly statement arrives listing the recent purchases. If the monthly bill is settled in full by the specified payment date, no interest is charged. If some of the balance is carried over to the next month, significant interest charges are added.

- Users agree to repay at least a minimum amount each month, a small percentage of the total bill. Failure to do so can lead to a bad credit rating.

- Paying only the minimum means the debt and the charges will keep growing, due to the relatively high rates of interest rates on credit cards and it will take many months or years to pay off.

- Credit cards can be used to withdraw money from cash machines. Such withdrawals are an expensive option as they attract interest charges straight away – there is no interest-free period before the statement arrives.

Debit cards

- Debit cards are the same size and shape as credit cards but do a different job. They are not a form of borrowing. When customers use them to make purchases the money is immediately transferred out of their bank account.

- Some banks offer debit cards to customers aged 16 and over. People under the age of 18 (16 in Scotland) cannot generally enter into a legally-binding contract so banks will often offer a type of debit card which checks transactions against bank balances before authorising them. This prevents the account becoming overdrawn as a result of debit card purchases. Such cards, e.g. Solo and Electron cards, are not accepted in as many places as other debit cards.

- Purchases in shops, over the internet and by telephone are possible, using a PIN in the same way as with credit cards.

- Debit cards can be used to withdraw money from cash machines – and so also operate as a form of cash card, see below. There is no interest charge – because there is no borrowing – and usually no other charge for using the banks' own machines. But using convenience cash machines, often in local shops, garages, nightclubs or pubs, will probably cost £1.50 or so for each withdrawal.

- Customers making purchases in shops with debit cards may be offered up to £50 'cashback'. This is like making a cash withdrawal, in addition to the purchase. The cash is taken out of the till and handed to the customer with the receipt, and taken automatically from the bank account. Unlike convenience cash machines, there is no charge for taking this money out.

Cash cards

- Also known as cash-machine-only or ATM cards (an ATM is a cash dispensing machine, often called a 'hole in the wall'). They allow customers to withdraw money from their account at a cash machine or in a branch – but cannot be used to purchase goods or services. They cannot be used to withdraw more money than is in the account.

- Customers who are issued with debit cards (see above) will not need an additional cash card. The debit card does the same job.

Other plastic

There is a bewildering array of other plastic cards.

- **Cheque guarantee cards** were stand-alone cards which, when presented with a cheque, guaranteed a cheque written up to a specified value (£50, £100 or £250). They are now often incorporated into debit cards.

- **Pre-paid cards** are marketed as a convenient alternative to cash or as a way of spreading costs, useful for people who do not qualify for debit or credit cards. Many can be used on-line and over the phone as well as in shops. The card carries on it a fixed value of money which has already been paid for. The stored value reduces as the card is used to buy goods or services. Many can be re-loaded with more money. Some are specific to particular purchases, such as electricity meters. Others, for general use, tend to make a number of charges, so they can be an expensive option.

- **Contactless cards** are debit, credit or pre-paid cards you can touch against a secure reader pad to pay for items. Used for transactions below £10, payment can be made by holding the contactless card up to a secure reader. No PIN needs to be entered, so the transaction is quick and easy.

Direct debits

- Direct debits allow companies to make regular automatic withdrawals direct from a customer's bank account. They are convenient for paying bills, such as energy bills, rent or mobile phones, as the company not the customer takes responsibility for the administration. Because the company is in control of taking payments, they are keen to encourage them, and some offer slight reductions in the bill for agreeing to pay by direct debit.

- To set up a direct debit, the company needs to know the bank account holder's name, the name and address of the bank or building society, the customer's account number and sort code. In some cases this can be taken over the telephone or internet. Or it may involve completion and signing of a direct debit instruction or mandate form. The form is returned to the company for processing, not to the bank.

- Direct debits can be cancelled by the customer at any time, by writing or telephoning the bank. It is advisable to let the company know of a cancellation at the same time.

- There are strict regulations relating to what companies must do before taking money through a direct debit instruction – informing the customer in advance of the amount and the date. If something goes wrong, and a payment is taken in error, the banks should repay the amount immediately.

- Be aware that if the company tries to withdraw the direct debit and there is not enough money in the account, they will usually charge the customer.

Standing orders

- A standing order is also an instruction to pay a regular amount from a bank account. But unlike a direct debit, the setting up is done by the bank account holder, not the company receiving payment.

- Standing orders are good for making regular payments of a fixed amount, for a bill that doesn't change from month to month or into another bank account, perhaps as a way of making regular savings.

- If there is not enough money in the account to cover a standing order, the bank will usually make a penalty charge.

Overdrafts

- Taking money out of a bank account is known as drawing out, or withdrawing money. Someone who draws out more money than they have in their account is said to be overdrawn. They have, in effect, borrowed money from the bank, and will be charged interest on it. The amount of money that is owed to the bank, the sum borrowed, is known as an overdraft.

- Going overdrawn without advance agreement may mean the bank refuses to pay cheques, direct debits and standing orders. It will probably charge for 'bouncing' these payments. Letters written to the account holder informing them of the overdraft may also be charged for. Interest on the overdraft is likely to be charged at a high rate.

- An agreed or authorised overdraft with the bank may involve an arrangement fee, but the interest on the overdraft will be lower. Going overdrawn without permission on a regular basis could affect your credit rating.

- Some accounts do not allow overdrafts. Basic bank accounts may have a buffer zone of up to £10.

Bank statements

- A full statement lists all the outgoings (money paid out, or debits) and receipts (money paid in, or credits) relating to an account and will show a running balance and the current balance. They can be issued regularly – every month or quarter – or available on request. They should cover the period since the last statement. Some can be viewed online, or will arrive in the post.

- It takes time for statements to be prepared and issued, so they may not include all the transactions. Some credits or debits may not appear as they are being processed by the banking system.

- Mini-statements can sometimes be requested at cash machines. They will print out a current balance and the most recent transactions available. Again, they may not accurately reflect what is in the account because of the time taken to process payments or receipts.

- Encourage young people to keep statements safe and always to shred or destroy any letters / statements with their details on that they no longer need.

Interest on savings

Not all young people operate in a state of permanent shortage of funds or borderline debt. Some consciously save, knowing that they want to achieve something in their future. Some acquire significant lump sums, from compensation awards, leaving care grants or some other source. In 2018, all 16-year-olds in the UK will be able to manage their own child trust fund. Two years later, they will have access to the money in their fund.

Young people with a regular saving habit or a lump sum that they are not planning to use immediately need to know about savings accounts. The main options are outlined below.

First, here is a description of what interest is, and a brief explanation of annual equivalent rate or AER as a way of roughly comparing different saving methods.

Interest and AER

Someone who puts money into a deposit or savings account and leaves it there for some time expects to receive money for doing so. Usually the payment comes in the form of a regular amount, monthly or yearly, based on how much money has been in the account and for how long. This payment is known as interest. It is the pleasant counterpart to the interest that has to be paid by someone borrowing money (see page 42).

Interest is payable because money has a value – it can be used to make more money. Also, rising costs over time – inflation – will mean that the same amount will be able to buy less in the future than it could now. So someone saving money wants and expects it to increase in value.

The amount of interest paid on savings depends not only on the interest rate, but on other factors such as the amount of savings, how long the money has been in the account and how often the interest is calculated (it may be once a year, or more frequently). As a result, interest rates are not easy to calculate or to compare. That is why regulations were brought in to help make comparisons.

Banks, building societies and others who pay interest on savings are required by law to use a standard way of expressing the rate of interest they offer. **This is known as the annual equivalent rate or AER**.

Luckily, most consumers do not need to know more than the basic fact that:

The higher the AER, the better the return on the savings

e.g. AER of 4.6% is better than AER of 3.8%.

Because it is standardised, it is possible to compare different products which calculate the payments on a different basis.

Generally speaking, AERs are lower for instant access accounts, and higher for accounts where notice has to be given of a withdrawal (typically between 30 and 90 days). Accounts that are fixed for a time period, such as a year or longer during which no withdrawals are possible also pay higher interest rates.

Interest rates might be quoted as gross or net – which are references to tax. Gross interest is the figure before tax is deducted. Net is a lower figure representing the rate after tax has been paid. See below for more on tax and interest.

Tax and interest

Income tax has to be paid once individuals have earned above their personal allowance – the annual tax-free threshold.

Interest on savings is also taxed, with one or two important exceptions. Banks and building societies normally deduct the tax before the interest is passed on to the customer – they pay interest net of tax, at the standard rate.

Young people who are not tax payers, perhaps because they do not earn enough to have to pay income tax, can register to receive interest in future without tax deducted. This is called receiving interest gross of tax. To register, young people need to obtain and complete form **R85** from HM Revenue & Customs (HMRC) or from their bank or building society.

If a young person has paid tax and they think they should not have they may be able to claim back from HMRC some or all of the tax previously deducted from their interest.

- No tax is payable on the interest earned on saving accounts which are held within an Individual Savings Account (ISA). Because of the tax advantages of ISAs the Government restricts the amount of money that an individual can have in these accounts. Young people who are tax payers may find these ISAs tax efficient.

- Young people need to be made aware of the difference between a cash ISA and a stocks and shares ISA. Stocks and shares ISAs are linked to the stock market so their value can rise or fall depending on the performance of the stock market. This is a risk and as the value could fall is generally appropriate only over the longer term and when the investor has money they can afford to lose. Deposits in a cash ISA are risk-free savings.

- The government offers some tax free savings products through National Savings and Investments (NS&I). For instance, fixed interest savings certificates, which must be held for a period of either two or five years, are free of income tax.

Child trust fund

Shortly after receiving child benefit, parents will get a child trust fund voucher. This is used to open a savings or investment account for the child. There's no catch. It is free money from the government. It is part of its strategy to help young people understand money, get the savings habit, and have some resources to draw on as young adults.

Parents can choose from a range of child trust fund accounts, and can switch accounts – but not withdraw the money – at any time.

The account will not affect benefits, and neither parents nor the child will be liable for tax on income or capital gains from it. At 18 the child can then use the money in any way they choose or if the child wants to carry on saving, their child trust fund can roll over into an individual savings account.

More details at www.childtrustfund.gov.uk and
www.fsa.gov.uk/financial_capability/pgtm/parents/fmf/pdf/TRUST_FUND.pdf.

Saving options

The main types of savings likely to be of interest to young people are:

- bank and building society savings accounts
- National Savings and Investments (see www.nsandi.com)
- Credit Union savings accounts.

As well as regular savings accounts, there are also special Christmas savings accounts offered by some building societies and most Credit Unions.

Banks and building societies in the UK must be regulated by the Financial Services Authority (FSA) to be able to take your money and hold it. The FSA also regulates Credit Unions in England, Scotland and Wales. The Companies Registry in the Department of Enterprise, Trade and Investment regulates Credit Unions in Northern Ireland.

These savings, or deposits, are secure. As long as the company is regulated by the FSA, the Financial Services Compensation Scheme should pay compensation to customers in the unlikely event of a bank collapse, up to certain limits.

The Government offers savings products through National Savings and Investments (NS&I). NS&I products offer total security as they are backed by the Government. There are many different products available and the website has a useful tool to help people find the product most suited to them.
www.nsandi.com/savingneeds/helptodecide.jsp

Other ways to save include:

- Christmas hampers or gift vouchers
- Christmas saving schemes and clubs run by supermarkets, large retailers, local shops, social clubs, pubs and workplaces. These might involve stamps or credits which are exchanged for shopping vouchers which can be used on specific goods or services.

Such saving options do not earn interest. Also, spending choice is restricted depending on the type of shop or institution offering the scheme.

The FSA does not regulate Christmas hamper schemes or other Christmas savings schemes and clubs. So they are not covered by any compensation scheme. If the scheme goes bust, savers may not get all their money back.

Useful tips on banking and saving

- Some accounts are designed to appeal to young people. They offer freebies such as vouchers or railcards. Though tempting, such offers should be considered carefully along with the overall terms and conditions of the account. There may be better options.

- Convenience cash machines, not run or owned by the bank, are temptingly placed inside small shops, on garage forecourts, at railway stations and in nightclubs. They may charge young people a fee each time money is withdrawn. This may be as much as £1.50 or £2 for withdrawing £10!

- Credit cards, and store cards are a very expensive form of borrowing. They are convenient for short term borrowing, just a few weeks until the bill comes in. But owing money over months and years incurs hefty charges. Paying only the minimum each month is an expensive option.

- Young people may not realise that they are borrowing and have to pay interest if they use a credit or store card and then pay back less than the full amount. They may think that if they have not spent up to their credit limit they somehow still have money left. It may be necessary to have several conversations to get across this basic concept, and there is material on this in section four – Credit essentials.

- Young people know when they have run out cash – their pockets are empty. They find it harder to keep track of how much is left in their account or how much they have spent on a credit card. Try to encourage record keeping and regular checks of current balance and recent transactions. Make it a matter of pride to guess or remember accurately.

- Young people sometimes continue spending, assuming (or hoping) that if their debit card is still working, money must be left in their account. Make sure they know that most debit cards do not prevent overdrawing. It is the customer's own responsibility to make sure they don't overspend, not the bank's.

- Unauthorised overdrafts or refused (or bounced) payments are costly, and can affect credit ratings.

- Understanding AER makes comparing interest payable on savings accounts easier. But be aware that many companies design products to score well on AER best buy tables in the consumer press. There may be strings attached. The offer may be for a short period only, make penalties for withdrawals, or have other unfavourable terms.

- Help young people with basic security. Include safeguarding their PIN and how to handle material potentially useful to identity thieves such as bank statements and correspondence. Help them recognise phishing (see glossary) emails or telephone calls pretending to come from officials.

- Practise good procedures at cash machines. Avoid using remote machines in badly lit areas if possible. Check that nothing has been tampered with, while appreciating that some of the card reader devices that criminals fit to machines can be very plausible. Type PINs so no one can see them. Reject any help offered by passers-by, however pleasant they seem – criminal teams of very convincing people distract machine users and steal cards.

- Don’t bother with a tax efficient savings account (e.g. ISA) if you don’t pay tax.

- Bank statements are useful, and vital for identifying mistakes or erroneous transactions. But encourage young people not to rely on them as an accurate and up-to-date record of the state of their account as when they receive the statement the details will be a few days out of date already. They need to keep track themselves as well.

4. Credit essentials

Explaining credit

Credit is a very heavily used word, and can be confusing in the variety of its uses. Young people cannot be expected to know automatically what it is all about.

This introductory section sets out the basics, explaining how the word has developed its various meanings.

You may want to use it to become familiar with useful terminology and examples, so you are prepared to give clear and confident explanations if and when asked.

Note: see the glossary on page 76 for short explanations of key words

Be prepared to revisit these terms time and again. Tell young people not to worry if they don't get it the first time. Lots of adults are hazy, confused at times about this terminology. But if they can pin it down, it will help make sense of a lot of detail. This is true not just about borrowing, but also about understanding their bank account and savings account, their mobile phone, or their rent account with a landlord, energy company or anyone else.

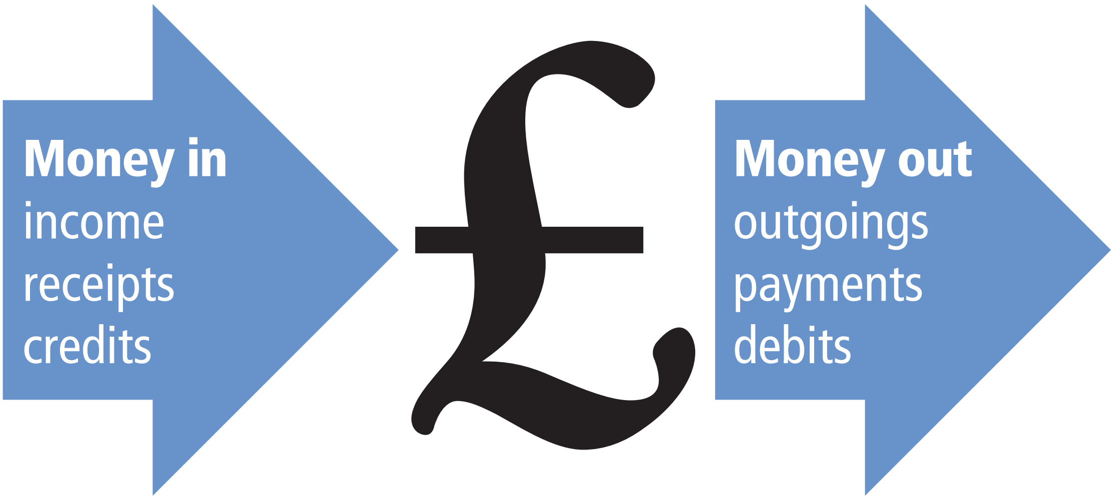
It is possible to use the financial jargon of credit without properly understanding it. People do it all the time. But they will get a deeper understanding, feel more confident, and make fewer mistakes, if they can get properly familiar with it.

The term 'credit' is commonly used in many different ways, which can be very confusing:

- interest free credit
- credit agreement
- buying on credit
- credit card
- an account in credit
- creditor
- creditworthy
- bad credit rating
- asking for credit
- credit check

One way to make sense of this is to start with the basics. For any one of us money flows in two possible directions:

- money coming in
- money going out.



When people keep records of these money flows, such as a bank statement or personal accounts, different terms can be used:

- money coming in is ‘income’ or ‘receipts’ or ‘credits’
- money going out is ‘outgoings’ or ‘payments’ or ‘debits’.

Credits and Debits

Something paid into your account, or given to you, adds to what you have. It is a credit to you.

Something going out of your account, that you spend or lend reduces what you have. It is a debit.

One person’s credit is another person’s debit, and vice versa. You can show how this affects a young person’s own accounts or statements by giving examples. e.g. when they pay money from their bank account to settle their monthly mobile phone bill

- the payment is a debit (money out) from their bank account
- and a credit (money in) to their mobile phone account.

4

Credit is money we borrow. We use that particular name because:

- Loans are money in. They go on the credit side of our personal balance sheet.
- They are money which has to be paid back. We owe it to someone. We have to give them something back in return.

Someone who lends a person money is known as their creditor. They provided credit – they are the creditor.

What about when an account is said to be in credit? This means that when all the credits are totalled and compared with all the debits, the credits are higher. There is money in the account. If the opposite is true, and the debits are higher, the account is in debit. There is a debt.

Key points

- Credit is about borrowing money – receiving some form of income, which has to be paid back. It is a loan.
- All credit costs money. Some forms cost much more than others. So-called free credit will always be paid for in some way.
- Getting something on credit costs more, in the long run, than saving first then buying it outright.
- Not all credit is bad. For instance, buying something on credit – such as a motorbike – might allow someone to get to work or college. If the repayments are affordable, that can be a very good thing.

Choosing credit

A legal contract made with someone under 18 (under 16 in Scotland) is not enforceable in law. So, generally, speaking, credit is available only to people aged 18 or over.

Credit is not available to everyone. Those lending make efforts to ensure that they have the best chance of getting their money back. So they may not be interested in lending to someone who doesn't have a bank account, a job or good credit rating.

However there are some organisations and people who will lend to people who are not able to prove that they have a good credit history, sometimes known as loan sharks or door-step lenders. Because they are taking greater risk, they will charge more for the loan.

Always high on the list for consideration, if available, are Credit Unions. They provide cheap credit to people the main lenders will not. They help you take control of your money by encouraging you to save what you can and only borrow what you can afford to repay. Many also run financial education schemes or have advisers who can help with budgeting or other aspects of money management.

One of the first things to consider is whether, in any situation, credit is the best option for the young people. Other things to consider might be to delay a purchase and save for it – or find an affordable alternative or secondhand item (including from friends/family or the internet through online marketplaces).

If borrowing is the best, or least worst, option, potential sources of credit for young people may include any of the following:

- Friends and family
- Doorstep lender
- Local loan shop
- Pawnbroker or buyback shop
- Credit Union
- Bank overdraft
- Credit card
- Store card
- Buy now, pay later shop
- Catalogue
- Hire purchase
- Social Fund
- Bank loan
- Bill of sale

The table below looks at these options in turn, with pointers to the advantages and disadvantages of each.

But first, to make sense of the costs of borrowing, it is necessary to understand the term APR, which stands for Annual Percentage Rate – a standardised way of expressing the amount of interest to be paid.

If young people have understood the key points about AER on page 32, they will not have difficulty with APR. It's the same thing, but relating to borrowing rather than saving.

Understanding APR

APR stands for the Annual Percentage Rate. It is used to compare different credit and loan offers. The APR is calculated by looking at key factors about the loan:

- The interest rate being charged.
- How the loan will be repaid – how many instalment payments, how frequently they occur, the amount of each payment and the length of time before the loan is paid off.
- Certain admin fees and other 'extras' associated with the loan – such as an arrangement fee or a pawnbroker's 'storage fee'.
- Charges for payment protection insurance (see glossary) that the lender says are compulsory, but not those that are optional.

All lenders have to say what their APR is before agreements are signed. The rate will vary from lender to lender. The key point to emphasise is that the lower the APR, the better the deal is for the borrower. That is why people are encouraged to shop around and compare.

APR is very difficult to calculate as it includes fees and interest charges. The longer you take to pay back, and how often you make payments (e.g. weekly or monthly) will also affect the APR.

Credit options table

What type of credit	Pros	Cons
Bank overdraft	If authorised, can be relatively inexpensive – ranging from low to medium APR.	Not available on all accounts or to all customers. If unauthorised is likely to be very expensive – very high APR.
Credit card	Free for short-term loans of a few weeks, provided balance is cleared each month. Flexible – repayments above the monthly minimum are determined by the customer.	Dependent on satisfactory credit check. Interest is charged immediately on cash withdrawals. Can take a long time to repay. Expensive – high APR.
Store card	Free for short-term loans of a few weeks, provided balance is cleared each month.	Dependent on satisfactory credit check. Purchases limited to the store that issued the card. Can take a long time to repay. Expensive – high to very high APR.
Buy now, pay later (free credit deals)	Can be easy to arrange, even for those with low credit rating. Can repay in small affordable instalments.	Goods may be far more expensive than equivalents in mainstream shops. Relatively high APR. Very expensive extras, such as insurance and service cover. If you don't keep to the agreement it can be very expensive.
Catalogue	Easy to order and receive items. There are often special offers.	Goods may be more expensive than equivalents in shops. Relatively high APR.

continued

What type of credit	Pros	Cons
Hire purchase	Can be easy to arrange, often through the retailer. Goods can be returned if circumstances change.	Moderate APR. Goods are owned by HP company until final payments made. Goods can be taken back if payments missed. Some shops offer weekly or monthly payments on goods such as furniture. This is often a hire purchase agreement.
Social Fund	No interest payments. Repayments made direct from benefits.	May only be available for those on benefits or in a crisis. Difficult and time consuming to arrange – may be refused. Benefits reduced to cover loan can leave future income level uncertain.
Bank loan	Reasonable rate of interest. Dependant on good credit rating.	Dependant on good credit rating
Bill of sale	Instant availability.	Lender takes ownership of security (usually a car).If used to buy a car, none of the legal protection of a Hire Purchase agreement. Very, very high interest rates.
Alternatives		
Secondhand sources	Cheaper, or even free through charities or community scheme or marketplace websites.	Availability limited, may not fit needs. May be lower quality, faulty, less reliable.
Save for it	Cheaper than borrowing. No ongoing financial commitment.	Goods not available immediately.

Costs of credit

Interest charges are the obvious way that borrowers pay for their loans. But there are also other costs that mean that young people, especially those on low incomes or with poor credit rating, will pay more to borrow.

Arrangement, admin or handling fees
A one-off charge to set up the loan. Should be reflected in the APR calculation.

Extended guarantees
Often offered at the time of buying electrical goods, like a stereo or fridge, and offer free repairs, parts or replacement in case of future failure and are added to the total cost. These guarantees are very expensive and may cost an unreasonably large proportion of the cost of the item. They may not even provide much more than existing rights under consumer protection law.

Interest-free credit period
Fine if the whole amount is paid off during the interest-free period. But after that, additional charges will be imposed.

Early repayment fees
Someone wanting to end an unfavourable agreement, and with the money to pay it off before the end of the period, may find they are charged to do this.

Increased prices
Some shops and catalogues which offer credit simply price their goods much, much higher than a mainstream retailer would charge.

Insurance
As with extended guarantees, insurance can be offered at the time of purchase which can be expensive or unnecessary, or both.

Hidden extras
Other extra costs or charges can be outlined in the small print of the loan's terms and conditions.

Payment Protection Insurance (PPI)
This insurance may be offered at the time of purchase to help cover monthly repayments if someone is unable to work. PPI can give useful cover against unexpected changes in an individual's personal circumstances, but be careful to find out what it costs and the cover it provides.

Crucial questions

Any young person considering taking out a loan should first ask – do I really need this? Is there another way? Young people who have little structure in their lives might struggle with the commitments involved in a regular repayment scheme. Showing some evidence of an ability to save first might be sensible and build confidence.

Not all debt is bad. Debt can be fine, positive and healthy – if it is affordable. It may be taken on to provide something substantive that improves a young person's life, and helps them get nearer a predetermined objective.

Debt is negative, even disastrous, if it is unaffordable. It may be taken on for something which is not essential or whose benefits will be long forgotten when the repayments still have a way to go. It can lead to relationship breakdowns or health problems.

If the decision to take out a loan has been taken, or is being actively pursued, the following checklist will help work young people think through the issues. Photocopy and distribute to young people, if appropriate.

Choosing credit checklist

Basic facts	
How much is each payment instalment?	
How often are payments e.g. monthly or weekly?	
How long is the loan period? When will it be repaid?	
How many payments will it take, and what is the total that will have been repaid? Look at how much more it is than the amount borrowed.	
Will the goods still have value after the loan / credit card is paid off? e.g. if you're buying an item which has a 5 year life span and the credit takes 10 years to pay off there will be 5 years when you're not getting any value out of the item.	
What is the APR? How does it compare with other loans? Are there any deals with lower APR available?	
Does the interest included in the APR vary, or is the rate fixed? If the rate is variable, repayments could go up or go down.	
Is the credit agreement clear? Can it be taken away and examined?	
Is insurance included – is it useful, or cheaper elsewhere? Has it been included in the APR calculation?	
What happens if a payment is missed?	
What other penalties, extras, or other charges might be added under the terms of the small print?	
Things to think about	
Is it affordable now? Is there a weekly or monthly budget that shows that? See the online budget calculators such as www.fsa.gov.uk then follow links to consumer information, useful tools, budget.	
Will it be affordable in the future? What happens if income drops?	
What if an unexpected but essential large bill arrives? Or you need to buy a new pair of shoes? Are the payments still affordable?	
Are there savings to be made? Consider doing without optional extras that increase the cost.	

Useful tips on credit

- Accept that cheaper credit may sometimes take a bit more time and effort. Using a Credit Union can mean fitting in with limited opening times, and perhaps saving for a few weeks before being entitled to borrow. Companies in the home credit industry make it easier for their customers, by arriving on the doorstep regularly with money on the spot. But that convenience costs – a lot.

- Note how the word 'typical' appears against the quoted APR in many loan advertisements. It means that the rate quoted is not on offer to everyone. By quoting a rate as 'typical' the company is saying that at least two-thirds of the agreements it enters into as a result of the advert will be at that interest rate, or lower. People who don't fit the lender's ideal credit scoring profile, if they are accepted at all, will be offered a higher rate.

- Note that comparing APRs is important but is not the only factor to consider. A young person may decide a loan offer has affordable repayments and is worth it – given the purpose of the loan and their circumstances. Attempting to discourage them because of a relatively high APR may miss the point. Plenty of people spend more than they have to on all kinds of goods and services. Young people often choose expensive options, for trainers or mobile phones, and have various reasons for doing so. If the loan meets their needs, and they understand and can afford the implications, there's no obligation to switch to the cheapest option.

- Borrowing has to be affordable – not just at the start of the loan but throughout the period. Changed circumstances are a common cause of debt problems. Encourage young people to think, not just whether they can afford something now, but what will happen if their income drops, or other financial responsibilities crop up.

- Many financial products, including certain loan agreements and insurance must have a cooling off period. This gives a few days for the customer to cancel the agreement and owe nothing. Young people should be advised to check whether the agreement they are about to sign has a cooling off period and is therefore cancellable. Ensure that they know they can use this time, perhaps for a rethink or to take specialist advice about whether they have done the right thing.

- Check that young people know the real costs of paying only the monthly minimum on a credit card or store card. They may accept that the debt will end up costing much more than they originally borrowed and will take a long time to pay off completely. But here's an example, for illustration purposes only (the details vary from card to card), of what that actually means in practice:

Imagine you owe £1000 on your credit card at an interest rate (APR) of 25.9 per cent a year.

You pay the minimum each month. In this case, that is 3 per cent or £5, whichever is the greater. So in the first month you pay 3 per cent of £1000 = £30.

The £30 is deducted from your next bill. But interest would be added on – just under £20. So the debt is reduced only by around £10.

It would take you around 18 years to pay off the whole balance. The total payments would be about £2,500. That is £1,500 more than you first borrowed.

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5. Debt essentials

Specialist help

Helping a young person sort out complex debt problems is a specialist task. It is best handled by a trained money adviser. Non-specialist youth workers and others need to know how local advisers can be accessed – whether from Citizens Advice Bureaux or other organisations.

Youth workers will also benefit from knowing what a specialist money adviser tries to do, the terminology they use, and their general approach. This will help them support the work of the money adviser, and help young people with other aspects of their lives.

This section explains the approach money advice workers generally take. The intention is not to turn youth workers into mini-debt advisers. It is to help demystify the process, and extend youth workers' general awareness.

Overview

- Debt has many different causes. A period of high spending on consumer goods and entertainment does sometimes lead to serious debt. But it is not the main reason.

- Debts usually occur because of a sudden and unexpected change in circumstances. That could be the loss of income. It could be the arrival of one or more major bills or expenditure demands. Or both.

- Debt can be linked to other problems, such as depression or ill-health. It can make these problems worse, or in some cases be the cause of them.

- Some young people with debt problems have other underlying problems such as a drug, alcohol or gambling habit.

Causes of debt

Debt is often associated with unexpected changes in life. Many things can mean income drops or expenditure suddenly increases, leaving no obvious way to resolve the problems.

Here are some life events that might lead to someone becoming unable to make ends meet. It is worth stressing that many of them could happen to anyone. If two or more coincided, the most careful money manager could be overstretched:

- losing a job
- leaving home
- being ill
- becoming disabled
- moving into a new home
- a bereavement
- problems with benefits such as delays, overpayments or suspension
- low levels of benefits, training allowances and wages
- having a baby
- drug or alcohol dependency
- remaining in education
- problem gambling
- a relationship ending
- leaving a training course without a job to go to.

Problems debt causes

Being in debt has a knock-on effect on many aspects of life. It can cause depression, ill-health, difficulties in relationships, and arguments with families and friends. It can mean going without important things such as food, gas and electricity. Some people even lose their home.

To try to sort things out some people borrow more money. Some block their feelings out with alcohol or drugs. Others feel that there is no alternative but to try gambling or prostitution.

This is why debt problems are often very difficult to resolve. The causes and consequences can become intertwined, leading to further debt. Habits can be very hard to change. For someone to adapt to living within their means and paying something off towards past debts is tough. If they are also dealing with a drug or alcohol habit, coping with acute ill-health or long-term disability, a young demanding family, relationship problems, or intolerable living circumstances... the difficulties mount.

Getting out of debt can be hard but achievable for someone whose life is stable and who is well supported. Never underestimate the challenge for someone who is unsupported, socially excluded and whose life circumstances are chaotic.

Realism is needed, both by young people and worker, about how long getting out of debt might take, and the problems ahead. Try to make sure any step along the way is acknowledged, and rewarded.

Typical debts

Money can be owed to anyone. Typical debts are:

- rent (or mortgage)
- bank and building society overdrafts
- gas and electricity arrears
- water charges (not currently in Northern Ireland)
- gambling
- store cards / credit cards
- phone companies
- benefit overpayments
- money borrowed from friends and family.

The money advice process

To help sort out debts, many agencies and advisers follow a step-by-step process. It is set out here, to give an idea of what contact with a specialist debt or money advice worker is likely to involve.

The same process is used whatever the size of the debts.

The process followed by money advisers is:

STEP 1
Work out who money is owed to

↓

STEP 2
Sort out which are the priority debts

↓

STEP 3
Work out how much is needed to live on

↓

STEP 4
Arrange to pay towards the priority debts

↓

STEP 5
If possible, arrange to pay towards the non-priority debts

Free independent money advisers will also:

- get the full financial picture
- check liability for debts
- check the situation to maximise income if possible.

These steps are explained more fully in the next few pages.

Who to pay first

There is a well-established, logical order of approaching what to do first. This section explains that order. This is useful both for background, and to understand the different types of debt.

First, the principles:

- Not all debts are equal. Not all creditors (see glossary) are equal.
- The law gives different powers to creditors, depending on who they are and the nature of the agreement.
- The impact on a young person's life of not paying debts will vary, depending on their circumstances and the nature of the debt.
- It is vital to give greater priority to some debts over others.

So a systematic analysis and action plan for reducing debt will distinguish between different sorts of debt. The terms priority and non-priority debts can be useful – as long as you avoid giving the impression that some debts don't matter at all.

**Step 1: Work out who money is owed to.
List all the debts. How much is owed and to whom?**

This is easier and quicker to say than to do. Young people may not know how much they owe – they may have been avoiding the paperwork over a long period. They may not produce a complete list of all their creditors. They may have forgotten some. They may not be psychologically ready to face up to their whole situation. They may have some other emotional reason for not wishing to think about certain debts.

Don't be surprised if additional debts emerge later. However, do your best to stress that a successful debt clearance does depend on getting a full picture as early as possible. If debts are hidden from the start, the payment plan won't be accurate. It will fail and need to be revised, and creditors may lose patience and be less inclined to co-operate.

The young person may need to contact each creditor directly for an up-to-date statement of the amount owed.

Step 2: Sort out which are the priority debts

Priority debts are those where the creditor has legal power to recover the money, which can lead to the loss of something essential, or difficult or costly to replace, such as a place to live or an energy supply. These priority debts take precedence.

PRIORITY DEBTS

- rent
- electricity
- gas
- TV licence
- council tax (for over 18s) (Rates in Northern Ireland)
- income tax
- fines from a Magistrates Court or the Sheriff or District Court in Scotland
- maintenance payments (including child support)
- other items if essential, for example, a telephone for someone who is sick or disabled

NON-PRIORITY DEBTS

- catalogue
- mobile phone
- landline phones
- benefit overpayments
- water rates
- credit card
- store card
- student loans
- bank loan
- bank overdraft
- money borrowed from family or friends

The list below gives a general guide to the order of priority, and what can happen if different kinds of debt are not paid. It is a shortened version of the guide at the Moneymadeclear website www.moneymadeclear.fsa.gov.uk/tools/debt/sorting_out_borrowing_problems.html.

The list is only meant as a guide. Any young person should think about their individual circumstances and get advice if necessary.

Rent or mortgage
(plus other loans secured against a home – see secured loan in glossary)

This is a top priority debt – arrears can lead to homelessness. Seek expert advice immediately.

Agree a payment arrangement with the lender or landlord. Landlords have different powers depending upon the type of tenancy.

Someone evicted due to rent or mortgage arrears may not always be re-housed by the local council.

Citizens Advice or Shelter http://england.shelter.org.uk/get_advice can give advice on rent or mortgage arrears.

Council tax (rates in Northern Ireland)

In England and Wales, bailiffs (see glossary) may be called in after non-payment of council tax. In Scotland this would be a sheriff officer or in Northern Ireland a court appointed enforcement officer. Also, but less likely for young people, the council could get a legal order, known as an attachment of earnings (see glossary) or benefit, which can deduct money direct from the source – their salary, bank account or benefits.

In extreme cases the young person could face prison or bankruptcy (see glossary).

Note that no one under 18 has to pay council tax or rates. Full-time students will usually pay no council tax or rates.

Gas and electricity

Arrears of gas and electricity can result in the supply being cut off. Court action and bailiffs (or sheriff officers or court appointed enforcement officers) can follow. In Northern Ireland it is most likely that the utility provider will install a pre-payment meter.

Fuel companies should allow repayment in affordable instalments. Some fuel companies have grant schemes designed to help people in financial difficulties.

Companies may insist on a pre-payment meter to prevent disconnection.

Water

Water supplies will not be cut off. Unpaid water bills can lead to court action to recover the outstanding balance. Should water charges be introduced to Northern Ireland in the future, the domestic water supply will not be able to be cut off.

Water companies have affordable repayment schemes, particularly for people on benefits. Some companies have grant schemes.

Tax

Non-payment of tax can lead to court action, bailiffs (or sheriff officers or court appointed enforcement officers) or bankruptcy.

There are procedures for negotiating with HM Revenue & Customs (HMRC) or challenging them over tax arrears. Contact your local tax office for information. http://search2.hmrc.gov.uk/kbroker/hmrc/locator/locator.jsp?type=1.

HMRC also has specialist tax offices and helplines which may be able to help with specific queries – see HMRC website for a list.
http://search2.hmrc.gov.uk/kbroker/hmrc/contactus/start.jsp.

Hire purchase

Not making payments on hire purchase agreements can lead to a loss of the goods. If over one third of the full value has been paid, then the goods cannot be repossessed without a court order.

Court fines

Non-payment of fines can lead to bailiffs, (or sheriff officers or court appointed enforcement officers) attachment of earnings or benefits, or prison.

Magistrates courts are used to deal with minor criminal offences (e.g. maintenance arrears, TV licensing) and can result in a fine.

In Scotland the court that deals with minor criminal offences is called the District Court.

In Northern Ireland the courts which may be used are the Magistrates Court, County Court, Small Claims Court and High Court. There are also 'Civil Bills' which are heard in a civil court room and cover debts between £2,000 to £5,000.

TV licence

Non-payment can lead to fines. See above for consequences of unpaid fines.

Mobile phone

Contract phones involve a consumer credit agreement. People who miss a few monthly payments do not just owe the amount of their arrears. They owe the whole value of the contract. So the phone can be cut off and action taken for recovery of the debt. This may also affect credit ratings.

Maintenance to support a former partner or children

Failure to pay maintenance can lead to bailiffs (or sheriff officers or court appointed enforcement officers), attachment of earnings or benefits, or prison.

Loans from family and friends

Personal debts are not classed as priority debts. But the reality of young people's lives means that they can be very significant. Being cut off from family and previously close friends can seriously affect young people, emotionally and practically.

It can be hard for a young person to re-establish contact with friends or family after a relationship has broken up over money. But showing a commitment to pay off a loan may mend bridges and have positive spin-offs.

Social Fund Loans, benefit overpayments

These are not priority debts. But for anyone still claiming, they can be deducted directly from benefits. It may be possible to get the deductions reduced.

Loan sharks

It is illegal to lend money without a licence. People who do, often known as loan sharks or unlicensed lenders, charge a high rate of interest. The consequence of not meeting repayments is often unpleasant, involving threats and even actual violence.

Official advice is to contact local trading standards office, the police or an advice agency about unlicensed lenders.

Store cards, credit cards and personal loans

These are not considered priority debts. However, non-payers can be pursued through the courts for recovery of the money owed, and judgements can affect credit ratings.

They usually charge high interest rates so outstanding balances will increase rapidly. Penalty charges for missing monthly payments can also add significantly to the bill.

Step 3: Work out how much is needed to live on

Check income, and expenditure. Check if there are any ways to increase income. Draw up a budget. This will determine what money is available for clearing the debts. See page 19 for advice on budgeting.

Step 4: Arrange to pay towards the priority debts

Start with the priority debts. Contact the creditors, explain the situation, and begin the process of negotiating affordable repayments.

Remember that working out such payments is not part of a general youth worker's role. There will be questions, not least, about their authority to act on a young person's behalf. But knowing what is going on helps.

Step 5: If possible, arrange to pay towards the non-priority debts

This will only be possible if there is money left after making payments on priority debts.

Urgent debts

A debt can be urgent when something is about to happen very soon, for example like court action or bailiffs (or sheriff officers or court appointed enforcement officers) coming round. Such debts need dealing with quickly.

Any debt can be urgent, whether it is classed as priority or non-priority.

Think, for example, about the electricity about to be cut off. Or court action in three days' time for non-payment of a mobile phone bill. Both count as urgent debts – but the electricity company is a priority debt, while the mobile phone is non-priority.

Fast action can stop an urgent debt getting worse. If a young person is unsure what to do, it might be a good idea to refer them to an agency like a Citizens Advice Bureau.

Attitudes to debt

Getting debts in perspective is a major lifeskill. Young people may adopt one of two opposite positions –

a) They may be extremely worried about their debts, and spend a lot of time in a state of anxiety and fear about what is going to happen to them.

b) They may be unconcerned, happy to live for the moment, convinced that something will turn up and dismissive of the powers of creditors to affect them. It is also possible that they may be unaware of how serious the problem is.

Of course, some young people may shift from one position to another according to circumstance and mood. They may also appear unconcerned while actually feeling scared and unsure.

It is not easy to help someone cope with anxiety. Nor is it easy to help someone who is determined to enjoy life now and ignore accumulating debts appreciate that this is not a sustainable position.

It is possible to communicate to young people the basic facts about what powers creditors have.

This will at least help alleviate unfounded fears and give those currently ignoring the problem some sense of what could happen.

Debts – what can happen

Young people may well have heard about being taken to court for debt. It is important to distinguish between two forms of court action that take place in different courts – civil and criminal:

- Civil action – the county court (England, Wales and Northern Ireland) or the sheriff court (Scotland)

- Criminal action – the magistrates’ court (England, Wales and Northern Ireland) or the district court (Scotland)

In Northern Ireland there are also special arrangements for hearing civil cases of debts of different values.

Creditors normally use the county or sheriff court. This is the court that hears disputes between individuals and organisations. This sort of court case is known as a civil action, as opposed to a criminal case. Debts such as credit card debts, mobile phone bills and store cards fall into this category. Cases are heard by a judge. If a landlord takes someone to court for rent arrears, this will also be in the county court. In Northern Ireland, rent arrears would be heard in the Chancery Division of the High Court.

The magistrates’ or district court deals with minor criminal offences. The most common debt to be heard here is for council tax arrears (rates in Northern Ireland). Child Support, maintenance arrears and TV licence fines are also dealt with by the magistrates’ or district court.

In general, the way to avoid any form of court action is to inform creditors about the situation.

Creditors are often more understanding if they know about the difficulties someone is having. They know there is a difference between ‘can’t pay’ and ‘won’t pay’. If no one contacts them, they are likely to assume that a debtor can’t be bothered to pay. That is when they will use their toughest powers.

In many situations creditors will accept an arrangement to pay some money off each week, or month, at an affordable amount. They may accept an amount as low as £1 a month. Creditors are more likely to accept payments like this if they are sent a budget sheet explaining the situation and indicating a young person’s serious commitment. An experienced money adviser can help sort this out.

A young person may not owe all the money that a creditor says they owe. An experienced money adviser can help with this.

As explained above, what may happen depends on whether debts are priority or non-priority.

Here is what can happen if the most important debts – **priority debts** – are not paid:

Type of debt	What could happen
Rent	**A young person could lose their home.** A landlord who wants to evict someone ought to follow certain procedures. They vary according to the type of tenancy. Usually, a landlord must send a 'notice seeking possession' and get a court order before eviction. A landlord may also obtain a court order to: • Have money deducted from the earnings of a young person who is working. • Send bailiffs to take away goods which can be sold to cover the rent arrears. Known as enforcement officers in Northern Ireland, or sheriff officers in Scotland. There is a fact sheet on rent arrears on www.adviceguide.org.uk.
TV licence	**Can receive a court fine.**
Electricity and gas	**Electricity or gas supply can be cut off.** (Note: water supply cannot be cut off.) A disconnection notice must be sent first. This cannot be sent until at least 28 days after the bill. The supplier must give 7 days notice of the disconnection. Young people who are disabled or who have long-term ill health have extra protection from being disconnected. In Northern Ireland, the utility provider is most likely to install a pre payment meter. For more information see www.consumerdirect.gov.uk/EnergySupplyandPost/energysupply/. There is also a fact sheet on fuel arrears on www.adviceguide.org.uk.

Type of debt	What could happen
Court fines	**Money may be deducted from benefits or wages. A bailiff (or enforcement officers in Northern Ireland, or sheriff officers in Scotland) may be sent to seize belongings. Prison is also an option.** This applies to court fines, for what may seem a relatively minor offence. It includes fines for not having a TV licence, as well as theft, assault, or driving offences. There is a fact sheet on court fines on www.adviceguide.org.uk.
Council tax (rates in Northern Ireland) No one under the age of 18 has to pay council tax / rates.	**Court action to obtain a liability order. This may permit the council to deduct money from benefits or wages, or send bailiffs to seize belongings. Prison is also an option.** In Scotland a summary warrant entitles the council to ask for deductions to be made from benefit or wages, freeze money in bank accounts or ask for a sheriff to seize belongings. In Northern Ireland, non payment of rates can lead to a summons followed by a court judgment which may result in money deducted from wages or an enforcement officer seizing belongings. There is a fact sheet on council tax arrears on www.adviceguide.org.uk.
Maintenance for others, including support for children	**The Child Support Agency (CSA) can order money to be taken from benefits or wages or apply to the courts for a liability order. With a liability order they can send a bailiff (England) or sheriff officer (Scotland) to seize belongings or apply for powers to take money from a bank account.** If they still do not get the money owed, the CSA can ask the court for a prison sentence or disqualify the person from holding or obtaining a driving licence. In Northern Ireland once they have a liability order they can apply for: • an Attachment of Earnings Order (to take money from wages) • an order charging land • a Seizure Order to take your belongings. There is a fact sheet on child support and maintenance arrears on www.adviceguide.org.uk.

Non-payment of **non-priority debts** is a less important problem for a young person. But they still need dealing with.

Prison is not an option for failure to pay non-priority debts. But if someone makes no offers to pay, without explaining why, the creditors may refer the debt to a debt collection agency, or take court action.

Failure to pay after a court has ordered it allows creditors to take further action. For instance, they could obtain another court order allowing them to send bailiffs (enforcement officers in Northern Ireland, or sheriff officers in Scotland) round to seize property. This will be sold to cover the debts.

Non-priority debts are often called credit debts.

These might be debts like catalogues, water rates, store cards, overdrafts, credit cards, bank loans, mobile phones, landlines.

Debt collectors

Companies owed non-priority debts will sometimes instruct a debt collection agency to try to get the money. Debt collectors do not have many powers. But they can and do put pressure on young people to pay the money they owe.

If pressure does not work, the company might begin court action (see below).

Debt collection agencies can be patient. They may well agree to relatively small repayments, such as £1 a week or month.

Some debt collection agencies might make repeated phone calls at all hours, turn up at the door and frighten or threaten a young person. This is harassment, and is against the law. Young people who are being harassed over debts can seek help from an agency like a Citizens Advice Bureau.

Court action

Sometimes, creditors begin court action to try to get their money back. This is a civil action between two parties in the county court (or sheriff court in Scotland), not a criminal action.

In Northern Ireland the courts which may be used are the county court, small claims court and high court. There are also ‘Civil Bills’ which are heard in a civil court room and cover debts between £2000 and £5000.

The court will send the young person forms to fill in. **It is very important that they complete and return these forms**. If not, the court can decide that they owe all the money claimed. Experienced money advisers can help with these forms.

If the court finds in favour of the creditor, a court order (known as a County Court Judgment, or CCJ, or in Scotland a court decree) may be made against the young person. This will order them to pay the money owed and will affect their credit rating in the future.

They may be able to make repayments in affordable instalments. If they have been ordered to pay more than they can afford, they can ask the court to 'vary the order' to reduce the payments.

If the debt is still unpaid, creditors can go back to court to try to enforce the judgment another way. The court might send bailiffs (enforcement officers in Northern Ireland, or sheriff officers in Scotland) round – the cost will be added to the debt.

The court may also order money to be taken from your wages or benefits.

If court action has already started for a debt, young people should get advice as soon as possible if they are not sure what to do.

There is a fact sheet on Adviceguide called *What to do if you are taken to court for money you owe* at www.adviceguide.org.uk For Northern Ireland, see *Frequently Asked Questions about credit and debt* on the same website.

Myths, rumours and bad sources of advice

The information above gives a broad outline of the main issues. It should help young people who are in debt begin to get a grasp of their situation and know their options.

The main advice for someone with debt problems is to get reliable help and advice from a genuine specialist adviser from an independent agency such as a Citizens Advice Bureau.

The trouble is, there are plenty of other, unreliable, advice givers around. They range from commercial companies who profit from other people's debt to well-meaning but poorly informed friends. Some will promote the benefits of Individual Voluntary Arrangements (IVAs) or Trust Deeds (in Scotland), consolidation loans or the services of debt management companies. Commercial companies may sound plausible and knowledgeable, but they won't have young people's interests at heart.

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Youth workers can provide invaluable help in the usual ways – taking an interest, listening to young people, supporting them through tough times, providing interesting and fun activities and ideas that help put things in perspective and offer a respite from their troubles. And of course, they can help by putting young people in touch with specialist advisers.

Useful tips on debt

- Encourage young people not to ignore debts. They won't go away. Leaving them can end up costing more.
- If a young person is ready to start to clear their debts, they may need help from a trained money adviser. Advisers can explain the principles and priorities, and, crucially, negotiate with creditors for a realistic repayment schedule.
- Help by reinforcing the basic principles and distinguishing between different types of debt, especially which are priorities.
- Sorting out repayment of debts needs a comprehensive overview of all the debts. Only that way is it possible to prioritise, and devise an accurate and affordable payment schedule.
- Not all debts are equal.
- The biggest debt is not automatically the most important or urgent one.
- Creditors who call loudest and most frequently for repayment are not necessarily priorities.
- Young people's instinct about which are priority debts may be technically wrong. Explain this, but be flexible and respect their views. A repayment schedule that they have chosen is one they may be more committed to. In any case, learning comes from experience, and making mistakes is not something to be eliminated.
- Don't expect wonders – and do not despair at relapses. Changing behaviour takes time and sometimes many attempts.
- Getting out of debt is usually a long haul. Encourage young people not to put their lives on hold, and build in non-financial rewards for successes.

Useful contacts for money advice

Youth workers will want to be aware of local agencies offering money advice services. The following national organisations may be able to help:

Citizens Advice Bureaux
Advice and information on a range of issues, including benefits and welfare rights, consumer, employment and housing rights, money and debt.
www.citizensadvice.org.uk

Citizens Advice Northern Ireland
This is the largest advice charity in Northern Ireland and will give advice on a range of issues.
www.citizensadvice.co.uk

Money Advice Scotland
They can tell you the details of the nearest adviser for people living in Scotland.
Helpline: 0141 572 0237
www.moneyadvicescotland.org.uk

National Debtline
Helpline offering information and advice to people in England, Wales and Scotland on debt, including credit cards, council tax, utility bills, bank charges, and harassment. It also provides an information pack on dealing with debt.
Helpline: 0808 808 4000 (Mon – Fri 9am – 9pm, Sat 9.30am – 1.00pm)
www.nationaldebtline.co.uk

Community Legal Advice
Information on local legal advisers and solicitors.
0845 345 4 345
www.clsdirect.org.uk

The Consumer Credit Counselling Service
A registered charity whose purpose is to assist people who are in financial difficulty by providing free, independent, impartial advice.
Tel: 0800 138 1111
www.cccs.co.uk

All the above agencies are reputable and will give free, confidential advice.

Other agencies may charge for advice. These include lawyers, accountants, insolvency practitioners and fee-charging debt advisers. Anyone considering going to one of these agencies should make sure they are clear about how they will benefit and how much it will cost.

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6. Financial capability

The main part of this guide focuses on making ends meet and keeping track of finances. They are the foundations of financial capability.

Three other key areas are

- planning ahead
- choosing financial products
- keeping informed.

These areas clearly interconnect with each other, and with making ends meet and keeping track. A bank account is a financial product, and choosing one is one of the first steps in planning ahead. However, many young people will not have very much experience, if any, of bank accounts, credit cards, debit cards, insurance, savings accounts and the other key products that are a sign of financial inclusion, and which can vastly improve their money management and understanding.

This section focuses on moving young people towards engaging with these areas. As a practical guide for youth workers and other intermediaries, the emphasis is on

- helping change attitudes – by making the case for planning ahead and
- understanding financial products in terms that are meaningful to excluded young people.

Planning ahead

The longest period some young people budget for is the next few hours. They have money, and they spend it on things they need or want. They deal solely in cash. They accept that when their cash is gone they will be without funds, often literally penniless, until they get some more.

Some will argue – why change? Here are some possible responses, and areas for discussion:

- If cash is lost or stolen, the owner will probably never see it again. Banks don't lose customers' money. If someone steals it – through fraud – the bank simply pays it back.

- People who pay cash have to pay more for essential services like gas and electricity supply and phone bills. This is just because they are charged more than those paying by direct debit.

- Someone with a bank account can pay in a cheque with no charge. Getting a cheque cashed at a high street outlet could cost up to 10% or more of its value.

- More and more employers only pay wages directly into bank accounts. People with bank accounts have better paid jobs than those who do not.

- The more financial products someone has, and the longer they have had them, the better their credit rating. So if a sudden problem arises, they are more likely to get someone to lend to them – relatively cheaply.

At the heart of planning ahead is the idea of saving. It means not spending everything you have right now, but keeping some back for the future.

One reason is to be able to enjoy things that otherwise wouldn't be possible.

- Most people agree that a holiday is a chance to relax, forget your day-to-day worries, and just enjoy yourself. But some people find it hard to do that knowing the money they are spending still has to be repaid when they get back home.

- The same can apply to other purchases – gadgets, clothes, things for the home, presents for a friend, or just a really good night out. Not only do those who have saved have less to worry about, they can also have more things to enjoy and pay less for them. Borrowing costs money. Someone who uses credit for so-called 'consumer spending' will pay more and so can afford fewer things in the long run.

The other reason for saving is to help avoid unpleasant things:

- Anyone can meet with bad luck at any time in their lives. They can get ill, lose their income, or face sudden essential expenditure way beyond what they expected. Sometimes a string of bad luck can happen at more or less the same time. The strain that puts on someone's ability to manage is enormous. Someone who has saved and who has options of inexpensive credit, may be able to cope. They will take time to recover, and it will be tough, but they will get by. For someone without savings, the impact can be disastrous. Many suffer real hardship, poverty and a very long period struggling with debt.

Choosing financial products

It is not enough just to plan ahead. Young people need help to plan ahead in ways that are best for them.

Not all financial products are the same. Like any other product, they vary in cost and quality. Some are expensive and poor quality. Some seem better value, but turn out to be a bad buy. Some are good value and very good quality. Knowing the difference is a key lifeskill. If a young person is financially excluded they are likely to end up paying more for goods and services because they don't have access to appropriate financial products.

At this point, a lot of young people – and youth workers – lose interest. It can all seem hopeless. Some financial products aimed at people on low incomes have turned out very badly for example Christmas savings schemes. So have some aimed at people in well paid jobs, such as pension schemes.

What can anyone do? The answer is to look around, take advice, and get to know who is reliable and what is risky.

- Financial services are highly regulated. There are rules that finance companies must follow by law. They allow comparison between different products, build in safeguards for the consumer such as cooling-off periods, may offer some compensation, and provide someone to complain to if things go wrong. The regulator in the UK is the Financial Services Authority (FSA). Its website – www.moneymadeclear.fsa.gov.uk – is full of practical information designed for the interested consumer to make good decisions about products. The FSA impartial comparison tables are useful to compare similar financial products from different companies.

- Credit Unions can be good organisations for young people to join. They can offer very good value compared with the alternatives. And they are guaranteed by the Financial Services Compensation Scheme – www.fscs.org.uk which should pay compensation to customers in the unlikely event of a Credit Union collapsing, up to certain limits.

- Build on young people's own knowledge of financial products. Encourage them by pointing out how well informed many are about, for instance, the strengths and weaknesses of mobile phone contracts. They can see the complexities, the confusion in the different tariffs and pricing options. They will know people who are paying more than they need to because they cannot be bothered to change tariff. They may well know of others who went for an 'amazing value' cashback deal, which ended up costing them a lot of money when the company went bust or was very expensive once the special offer finished.

Help build young people's confidence in their financial ability. Few of the products discussed in this guide – current accounts, credit cards, savings accounts – are anything like as complex as mobile phone tariffs. If they can work out a good deal for their phone, they can feel confident about choosing financial products. It just takes a bit of time.

Staying informed

For most people, choosing financial products is not a constant daily or weekly activity. A typical pattern is that people do some thinking about what they need, research what is available, taking advice as necessary. Then, when they have chosen their account, savings method, insurance product, or whatever, they forget it, file the paperwork as appropriate, and get on with the rest of their lives.

This is healthy. There is no need to scrutinise the best-buy tables obsessively and fret about whether a marginally better deal might be on offer somewhere else.

It is, however, a question of balance. The financial services industry is constantly changing, developing new products, and reducing the value of old ones. That alone is a reason for staying on top of choices, reviewing them periodically, at renewal time or during life changes (e.g. new job, new home), to make sure they are still relevant and good value.

What is more, the context of financial decisions undergoes regular change. For instance, young people will need to be aware of changes to the benefits or tax credit systems that affect them. They will want to keep an eye on the job market, to help make decisions about their own jobs, and to have an idea of what the near future might hold.

Other financial indicators, such as the price of rents locally and the way the local housing market is changing, could influence their decisions. All this will be affected by general economic growth, interest rates and inflation.

This can seem daunting, but there is really no way of avoiding it. Young people are going to have to be more sophisticated about financial matters than any generation before them. Luckily they are not alone. There are many sources of information about finances:

- newspapers
- TV and radio programmes
- internet
- independent financial advisers
- money advice workers
- friends and family
- employers, trade unions or work colleagues
- government statements and guidelines
- financial service providers – banks, building societies, Credit Unions.

Not all will be available or appropriate to all young people. Nevertheless, one of the big favours youth workers can do for young people is to help them get used to using the sources that are relevant to them. That way they can build and develop their understanding, skills and confidence in all areas of financial capability.

7. Further information

Useful websites and resources

Citizens Advice
www.adviceguide.org.uk
A CAB website that provides independent advice on rights. Includes fact sheets and a jargon buster of financial terms.

www.citizensadvice.org.uk
The Citizens Advice service website including details of local bureaux, and how to become a volunteer.

Citizens Advice Northern Ireland
www.citizensadvice.co.uk
The largest advice charity in Northern Ireland, giving advice on a range of issues.

Connexions
www.connexions-direct.com/index.cfm?go=Money
Information and advice for young people with money section which includes tips and case studies.

Credit Action
www.creditaction.org.uk
A national money education charity with links to the Consumer Credit Counselling Service.

www.moneybasics.co.uk/resources/spendometer.html
The Moneybasics Spendometer helps you keep track of your spending on your mobile phone.

DebtCred
www.debtcred.org.uk
High Sheriffs' of England and Wales financial literacy project.

Directgov
www.direct.gov.uk/en/YoungPeople/Money/index.htm
Information from across UK government departments including a section on young people and money.

DoughUK
www.doughuk.com
A personal finance website designed to help young people develop their knowledge, skills and understanding of personal finance.

Fairbridge
www.fairbridge.org.uk
Works in the most disadvantaged urban areas to support 13-25 year olds. "On Your Own 2 Feet" good practice guide and tool kit to support young people in taking more control of their money.

Financial Literacy Resource Centre
www.fin-lit-resources.org.uk
A searchable database of learning materials.

FSA (Financial Services Authority)
www.moneymadeclear.fsa.gov.uk
Impartial consumer information from the Financial Services Authority.

www.moneymadeclear.fsa.gov.uk/tools/publications/publications.html
for a range of free Moneymadeclear guides

www.whataboutmoney.info
impartial financial information for young adults

Key Skills4U
www.keyskills4U.com
An interactive website designed to help develop key skills in young people and adults.

Kikass
www.whatwouldyoudoforapound.com
A charity bringing together young people across the UK to champion career and personal development – see the moneytips area.

National Debtline
www.nationaldebtline.co.uk
The helpline that provides free, confidential and independent advice on how to deal with debt problems.

NIACE (National Institute of Adult Continuing Education)
www.moneymatterstome.co.uk
Practical guide to family finance from NIACE, a non-governmental organisation promoting adult learning in England and Wales. Includes online sessions, interactive budgeter and loan calculator.

National Youth Agency
www.youthinformation.com
Online information toolkit for young people and all those working with them. Sections on money and managing money.

pfeg (Personal Finance Education Group)
www.pfeg.org.uk
Educational charity that supports UK teachers working with children and young people aged 4 to 19.

Personal finance qualifications centre
www.fin-lit-qualifications.org.uk/
A searchable database of financial capability qualifications for adult learners.

Young Scot
www.youngscot.org/channels/money
Information for 12-26 year olds in Scotland. See money section aimed at young people including articles and downloadable resources such as budget sheets.

Young people can also access the free Young Scot InfoLine 0808 801 0338 Monday to Friday, 10am – 6pm for information and signposting.

YouthnetUK
www.thesite.org.uk
A charity providing factsheets and articles on key issues facing young people.

Other resources and information

Credit Unions
www.abcul.coop
Information about Credit Unions in England, Scotland and Wales.

www.creditunion.ie
Information about Credit Unions in Northern Ireland.

UK Youth
www.ukyouth.org
Offers an activity-based approach to peer education through Youth Achievement Awards including one on financial awareness.

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8. Glossary

AER Annual equivalent rate. The standard way of expressing the rate of interest on savings offered by banks, building societies and others. The higher the AER, the better the return on the savings.

APR Annual percentage rate. This is a way of comparing the overall cost of a loan, taking into account the interest rate, other costs and timing of payments. All lenders have to say what their APR is. The higher the APR, the more expensive the loan.

Arrears Money which is owed and not paid by the due date.

Attachment of earnings A way of taking money from someone who has refused or been unable to pay what they owe. A court order is issued permitting money owed to be deducted in instalments from someone's earnings. Can also apply to benefits.

BACS Banks Automated Clearing System – an automated payment system that banks use to transfer money electronically from one account to another.

Bailiff Someone legally authorised to act on behalf of a creditor in England and Wales. Known as a sheriff officer in Scotland, and a court appointed enforcement officer in Northern Ireland. Bailiffs have certain rights to take some types of property belonging to a person in debt to sell to recoup the money owed. There are different types, such as county court bailiffs or private bailiffs, who can collect different types of debts and have different powers. The rules are complicated, and anyone facing action from a bailiff should take specialist advice.

Bankruptcy A legal status, which may be chosen by or forced on someone who is unable to pay their debts. Very simply, someone who is bankrupt is no longer liable for their debts, but has little control over their assets either. There are restrictions on what a person can do after bankruptcy. Choosing bankruptcy is a large step, with far-reaching implications, which, after proper consideration, may suit some people.

Basic bank account Allows account holders to receive money and pay bills. Opening one can be a first step towards opening a regular current account later. No cheque book is issued, but holders can pay in cheques for free, take money out at cash machines, and pay bills by direct debit or standing order.

Cashback Customers using a debit card for purchases in some shops may be offered 'cashback' – where they can use the transaction to make an immediate cash withdrawal, often up to a maximum of £50. Can be convenient for customers, saving a trip to a cash machine. Also convenient for shops, who reduce the cash they have to bank, lowering their costs. Cashback is also often used quite differently, to mean a deal that offers the customer taking out a contract, such as on a mobile phone, a cash payment at specified periods during the contract. Some deals seemed too good to be true – and were, with firms collapsing, taking customers' money with them.

Cash machine Machines, often outside banks, from which card holders can withdraw cash, check how much money they have in their account, change PIN numbers, and order statements. Also known as automated teller machine (ATM), hole in the wall, or cash point. Some are also operated by businesses other than banks, in small shops, pubs or garages, and they tend to charge a fee each time cash is withdrawn.

Cheque A cheque is a written instruction from an individual or organisation telling their bank to pay a certain amount of money from their current account to someone else. They are printed with the name and address of the bank and a six-figure sort code that identifies it. They also have the account holder's name and account number. There are spaces for the name of the payee (the person you are paying the money to), the amount in words and figures and the account holder's signature. Cheques are useful for paying for goods or services through the post. They can still be used for paying for goods in shops, but some have stopped accepting them.

Cheque book A book of printed cheques issued by a bank to current account holders.

Cheque cashing outlets Cheques nowadays have to be paid into an account. Banks will not generally give cash to the person the cheque is written to. Someone with a cheque payable to them but no bank account may go to a high street cheque-cashing outlet which will cash the cheque, in return for a charge of 10 per cent or more. Some pawnbrokers also offer this service.

Cheque guarantee card A plastic card which, when presented with a cheque, guarantees that the bank will not 'bounce' or refuse to process the cheque, up to a certain maximum amount. Now often incorporated as part of a debit card.

Child Trust Fund A savings or investment account for every child born on or after 1 September 2002. Vouchers issued by the government are used by parents to open a special kind of savings account. The money can be added to, but not withdrawn, until the child is 18.

Common bond Members of a Credit Union are required to have a common bond. Each member needs to have something in common, such as living in the same area or working for the same employer.

Cooling off period A variable period of a few days or weeks during which someone who has bought a financial product, such as a loan agreement or an insurance policy, can change their mind and cancel the agreement with no financial penalty.

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Court Appointed Enforcement Officer The equivalent of bailiffs In Northern Ireland.

Credit card A plastic card issued by banks, building societies or other companies which allows users to buy goods and services conveniently and settle the bill weeks later when a monthly statement arrives. Users can choose how much to pay off, above a small monthly minimum payment. High interest rates are charged on outstanding balances.

Credit rating Anyone offering financial services wants to know whether a new customer is reliable. They do this by checking their past history, using credit reference agencies which keep central records of key information about individuals. Companies do not disclose exactly what this information is and how it is used. But it will include being registered to vote, past and present loans, operation of bank accounts including use of overdrafts, and any court judgments. All this will be used to give an individual a credit rating. People with good credit ratings find it relatively easy to get bank accounts and loans. People with poor credit ratings may be refused accounts or loans altogether, or charged higher rates for them. See credit score.

Credit score Before agreeing to lend money, organisations will usually credit score applications. They will award points depending on the information provided on the application form and on what is recorded on an individual's credit report, held by a credit reference agency. This helps the lender decide whether to accept the application and may help set the credit limit and interest rate. See credit rating.

Credit Union An association offering savings and loan accounts to its members, who own and run it. Some offer more services as well. Credit Union members all share a 'common bond' such as living or working in the same area, working for the same employer or belonging to the same trade union, church or other association.

Creditor A person or company who has given credit, that is a loan, and is therefore owed money is known as a creditor. The person owing the money is known as a debtor, though this word is not used anything like as much as creditor.

Current account A bank account providing more facilities than the minimum offered by a basic bank account. Can include cheque book, debit card, and overdraft services. Known as a current account because it is normally used for the day-to-day flow of money in and out. Wages are usually paid into the current account and ordinary household and personal bills paid from it. Different from a savings account, where extra money, not currently needed, is deposited to gain interest.

Debit card A plastic card, of a similar size and shape to a credit card but doing a different job. When customers use them to make purchases the money is immediately transferred out of their bank account. So they are not a form of borrowing. They can also be used to withdraw money from a cash machine.

Debtor See creditor.

Direct debit A way of paying bills by giving a company permission to make regular automatic transfers out of a bank account.

Doorstep lenders Companies that lend small amounts of money over short periods to people on low incomes or with poor credit histories. A local agent calls at the borrower's home each week to collect the repayments. They often charge very high rates of interest.

Financial Services Authority An independent body, set up by the government to protect customers by regulating companies that provide financial services. Also a very good source of clear, impartial information about money matters.
See www.moneymadeclear.fsa.gov.uk.

FSA See Financial Services Authority.

Halal See Sharia.

Hire purchase A way of buying goods in instalments in which the goods remain the property of the company until the final payment is made. A popular way of buying large value items, particularly cars.

Interest The charge that banks and others make for lending money. Also the payment made to those who deposit money in savings accounts. Both are usually expressed as a percentage. See AER and APR.

Investment A financial product whose value can go up or down, such as a pension or savings account that is tied to movements in the stock market. Different from a savings account with a bank or building society, where money is deposited, not invested, and is guaranteed safe. Investments are generally appropriate only over the longer term and when the investor has money they can afford to lose.

Loan An amount of money borrowed.

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Loan sharks Unlicensed, and therefore unregulated, companies or individuals, who lend money to people on low incomes or with poor credit ratings. They charge very high rates and customers are likely to find it difficult to keep up the repayments. Loan sharks, also known as unlicensed lenders, may use violence or intimidation to collect debts.

Lumpy spending A term for bills and spending commitments that are not weekly or monthly but come once or twice a year, or at irregular times. Includes spending on holidays, Christmas and birthdays, as well as unexpected outgoings when major household items such as washing machines need replacing. Learning to cope with lumpy spending is a key feature of planning ahead.

Means-tested Some benefits or entitlements are available only to those who have a low income and capital or savings below a set limit . These benefits are known as means-tested.

Non-priority debt Debts, such as credit card or catalogue debt, where non-payment will not lead to the loss of something essential like a home or energy supply. Such debts are important, and creditors can pursue payment through the civil court. But they should be dealt with after priority debts have been sorted out. See priority debt.

Overdraft If someone draws out more money than they have paid in to a bank account, it is said to be overdrawn. The sum of money owed to the bank is known as the overdraft. If agreed in advance, overdrafts can be a moderately cheap way of borrowing. Overdrafts with no prior agreement, known as unauthorised, are very expensive.

Payment Protection Insurance (PPI) Insurance that will pay out a sum of money to help you cover your monthly repayments on mortgages, loans, credit/store cards or catalogue payments if you are unable to work.

Phishing A type of fraud which works by persuading bank customers to reveal their account and security details, usually by an email linking to a fake replica website. Modern banking security requires users to be constantly aware of phishing attempts. No bank ever sends ‘dear customer’ emails inviting account holders to sign on and check their accounts.

PIN A personal identification number – in banking normally a four digit number. People should memorise their own PIN and never tell anyone else what it is. Used in debit card or credit card transactions. Can be changed frequently. It is best to avoid easily guessable numbers.

Post Office card account. Like a scaled-down bank account, which requires no credit checks. PO card accounts can be used to receive benefit, state pensions and tax credit payments only. No other payments, such as wages, can be paid into it. Cash can be withdrawn, free of charge, at any Post Office branch using a plastic card and a PIN.

Priority debt Those debts where the creditor has legal power to recover the money, which can lead to the loss of something essential, or difficult or costly to replace. Rent arrears, electricity or gas bills, TV licence, and court fines are all priority debts. In sorting out debt problems, money advisers will ensure that these debts are dealt with first.

Savings account An account with a bank or building society for depositing money not needed immediately and which pays interest.

Secured loan This is a loan tied to something a person owns, most often their home. If the loan is not repaid, the lender can take possession and sell the property to get their money back. Can be misunderstood, even misrepresented, with severe consequences, as meaning a loan that a person is ‘guaranteed to get’. This is true in a way, because lenders are far more likely to make a loan secured on someone’s property. Always take specialist advice before taking on a secured loan.

Sharia or **halal** compliant accounts, operate within the principles of Islam. They are structured differently from conventional accounts, operating as shared risk, rather than deposit with guaranteed paid interest. Many banks now offer them.

Sheriff Officer Equivalent of bailiffs in Scotland.

Sort code A six-digit number, normally set out in three pairs with a hyphen between each pair, which identifies the branch where a bank account is held. Along with the account number and account holder name, it is the key identification information needed to make an electronic transfer into an account or to set up a direct debit.

Standing order An instruction to pay a regular amount from a bank account. Unlike a direct debit, the setting up is done by the bank account holder, not the company receiving payment. Standing orders are good for making regular payments of a fixed amount.

Unlicensed lenders See loan sharks.

Unsecured loan This is a loan which is not tied to something a person owns, such as their home. If the loan is not repaid, the lender cannot repossess the home. Even so, you are legally obliged to pay back the loan as you agreed.

Citizens Advice
Myddelton House
115-123 Pentonville Road
London N1 9LZ

Financial Services Authority
25 The North Colonade
Canary Wharf
London E14 5HS