# debt and money management.

part of the Wealth at Work group

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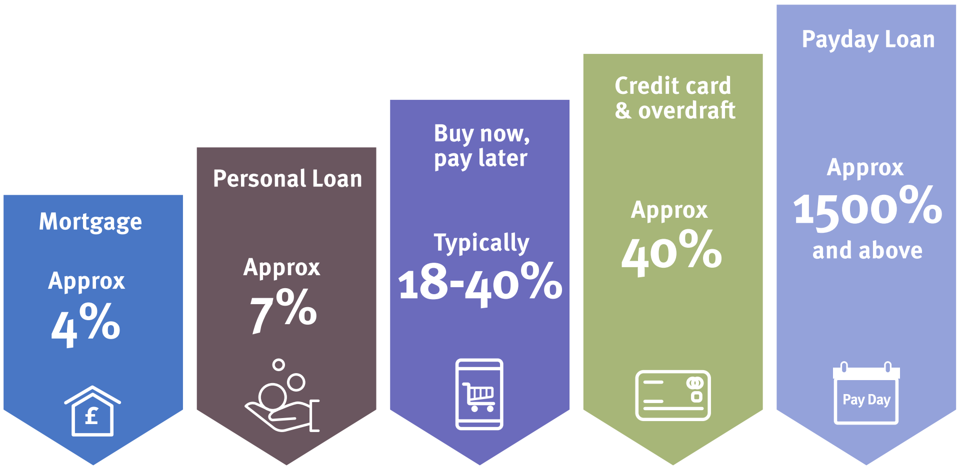
**Whether you're struggling to pay your bills on time or you'd just like to reduce the amount of borrowing you have outstanding, debt can be complicated. There are both good and bad forms of debt and this flipbook aims to guide you through the different types of debt and how you can take control of your finances to reach your goals.**

# types of borrowing.

Rates shown are examples only and are not intended as maximum or minimums. The interest rate you pay will be influenced by your personal circumstances.




## Mortgages

A mortgage is exclusively used to finance the purchase of a property, it's unlikely that you'll be able to finance this type of purchase a different way. The main two types of mortgages are repayment and interest only. Both are available as a fixed interest rate mortgage or tracker mortgages.

With a repayment mortgage, you are paying off the debt as well as any interest, so your debt reduces with time. On the other hand, with an interest only mortgage, you are not repaying the original debt, only the interest. This means that your debt will not reduce and at the end of the term you should have a way of repaying the debt, otherwise the property could be taken from you.

A fixed interest rate is more favourable if you like the stability of knowing exactly what your payments will be each month and you can also choose how long you'd like to fix your rate for. Usually at the end of that fixed rate you'll move to a standard variable rate set by the bank. However, if you'd like another fixed rate, you'll have to renegotiate your deal again.

A tracker mortgage is a type of variable rate mortgage that tracks a specific rate - usually the Bank of England base rate. Your interest rate and monthly payments move in line with this rate. This doesn't mean they are the same, just that they move in line with each other, so your monthly payments may go up or down. Tracker mortgages can be a good option whilst interest rates are low, but you are also open to the risk of interest rates rising and therefore, your payments rising too.

## Personal Loans

A personal loan could be a good idea if you need to make a large purchase and plan to pay back the money over a number of years. Most loans have a fixed interest rate, which means you agree to pay back a set amount per month for a set period of time.

Remember to shop around as the interest rate offered will vary largely between lenders and - more importantly - so will the total amount you end up paying back.

If you're looking for a short-term loan for a smaller amount, a better option could be a credit card.

*Did you know?*

You may be eligible for a loan through a workplace benefits provider. Repayments on these types of loans are taken direct from your salary, which means that the loan represents a lower risk to the lender. Due to the reduced risk, you could be offered a loan at a lower APR – but remember to compare the APR of standard loans and other forms of lending before making any commitment.

## Overdrafts

Bank overdrafts allow you to spend more money than you have in your current account by going into a negative balance, or debt, with your bank. This can be useful to avoid missed payments and charges but this should only be used in emergencies. With proper financial planning you should aim to avoid using an overdraft. Both the arranged and unarranged overdrafts can have interest rates of up to 40% so there may be a cheaper way of borrowing money, like a loan or credit card with an interest free period.

## Payday loans

Payday loans are not to be confused with regular loans. They are shorter term (often only one or two months) and crucially, they charge a much higher interest rate and Annual Percentage Rate (APR). They are also viewed negatively by most lenders, so having a payday loan on your credit file can be detrimental if you're applying for another sort of finance like a mortgage.

Being one of the most expensive ways of borrowing, payday loans should be your last resort. This is not only due to the high interest rates, but also because of the behaviours of many payday lenders, often encouraging borrowers to take out more loans resulting in a cycle of debt.

**If you're considering taking a payday loan think of the following:**

- Do you definitely need the money now?
- Could you borrow the money another way?
- Have you got friends or family that could help?

When deciding where to borrow from, remember to compare the APR of each product not just the interest rate. The APR is the real rate of interest as it includes all costs and fees added to any borrowing, the interest rate does not.

## Credit cards

Credit cards work by allowing you to spend up to a pre-agreed credit limit. You will normally get a statement each month and if you repay the money within a certain timescale (normally 28 days, although you could be on a zero percent offer for longer), you won't be liable for interest. If you do not repay the money within the timescale given, then you will pay an interest rate often up to 30% on the outstanding balance and remember - this is backdated to when you first spent the money if you haven't paid it off!

When you're making a purchase on a credit card, you also get a special form of consumer protection in the form of section 75 of the consumer credit act for any purchase over £100. Section 75 means that the credit provider is responsible for ensuring that the goods you have paid for arrive and are not faulty. If either of these scenarios happen and the retailer won't help you, you can contact your credit card provider to assist under section 75. This isn't to be confused with insurance or a warranty. To read more on section 75, please visit Money Helper: **www.moneyhelper.org.uk/en/everyday-money/credit-and-purchases/how-youre-protected-when-you-pay-by-card**

Although credit cards can be one of the most expensive ways of borrowing, they often have zero percent offers, meaning you don't pay any interest at all if you pay back the money within the interest free period.

## Buy now pay later

Whether shopping online or in store, you are often offered the opportunity to spread the cost of the payment using finance. This could be through the company themselves in the form of a store card or from an external company, like PayPal or Klarna.

Using a store card can be good if you are disciplined and make the required payments on time, but if something unexpected happens and you are not able to make a payment, that's when you could end up paying increased charges. This makes "buy now pay later" a risky method of paying for your goods. Make sure you look at the APR on the finance as these are often more expensive than using a regular credit card. Another option could be to save for the product until you can afford to buy it outright or use a credit card with 0% on purchases for a fixed period of time.

## Student loans

Student loans are different to other forms of debt or borrowing and different rules apply to how you should make repayments. The biggest difference with student debt is that the total amount you owe or the interest rate are not necessarily the most important figures, the amount you earn is.

If you earn over £27,295 in the current tax year, you will repay your loan at rate of 9% of your earnings above the threshold. This will be taken directly from your wage on a monthly basis. If you earn under that amount, you won't repay your student loan.

**Example earnings and repayments (23/24)**

| Wage | Annual repayment |
|---|---|
| £26,000 | £0 |
| £28,000 | £63.45 |
| £30,000 | £243.45 |
| £35,000 | £693.45 |

Student loans do not appear on your credit report and you may never have to pay off your full student loan either. Depending on when or where you studied, there are different rules that apply to student loans being written off.

For more information personal to your situation, please visit the Government website: **www.gov.uk/repaying-your-student-loan/when-your-student-loan-gets-written-off-or-cancelled**

# other essential outgoings.

## Gas and electric

Household energy usage can be expensive, especially with the growing number of connected devices we're using around the home. There are some things you can do to lower that cost though.

Firstly, look to switch your supplier, especially if you are on a standard rate or have been with your supplier a long time. Ofgem (Office of Gas and Electricity Markets) who regulate the energy sector published that the average household could save £300 per year, just by switching supplier.

Switching supplier is easy to do and can be done in under 30 minutes. You won't be cut off when changing, the only differences will be the name at the top of the bill and the customer service. It's recommended that you check a few price comparison sites before switching, as there may be exclusive offers with different suppliers that you don't want to miss.

If you don't want to switch because you feel loyal to your supplier, you can also save money by calling and asking if you're on the cheapest tariff. As long as you're not tied into a deal, they will usually switch you over to a cheaper deal.

Another way to save money is paying by Direct Debit or switching to paperless billing. This is a good way to avoid any late payment fees and most suppliers offer a discount if you take up these options

## Rent

Once a rent is agreed with a landlord or estate agent, it's unlikely you'll be able to reduce the amount you pay. However, you can do a few things to make sure you're getting the best value for your rent and that you're not charged unfairly.

When moving into a property, ensure the inventory matches the contents of the house. If anything is broken, damaged or missing, take pictures and contact your landlord or agency as soon as possible. Not doing this, could mean you're charged for the broken, damaged or missing items when you move out.

Ensure your deposit is protected by the tenancy deposit protection scheme. All landlords must put your deposit in one of these schemes within 30 days of receiving your deposit. This ensures that the deposit can't be unfairly withheld from you when you decide to leave the property. Your landlord or agency will give you this information upon signing your tenancy.

You should also check your contract to see what condition the house needs to be left in when you move out. Some agreements require professional cleaning or for the decoration to be returned to neutral colours. Again, ensure you take photographs of how you've left the property.

## Broadband

Like gas and electric, broadband has also become an essential household bill. How much you pay for your broadband can vary depending on:

- Where you live
- What speed you need
- How much data you use

In order to work out the answers to these questions, most providers offer a broadband usage calculator to help you through the process. Once you know how much data you need and what speed, you can use price comparison websites to find the best deals.

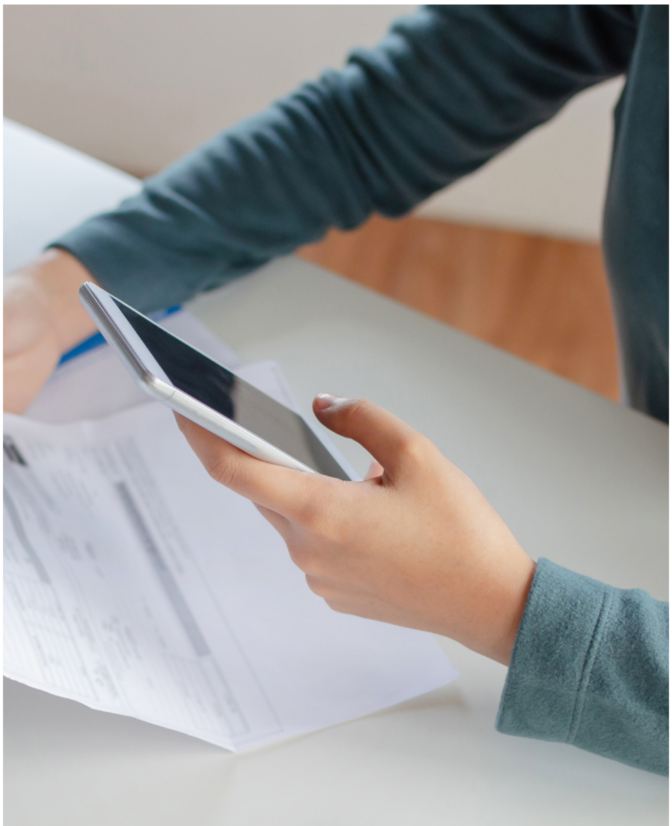
If you're thinking of taking another product at the same time, such as a TV package or mobile phone, make sure you also check the broadband provider's website, as they may be able to offer a discount for a bundled package.

## Council tax

Council tax is a tax charged by your local authority. The council use it to pay for local services such as schools, rubbish collection, roads and street lighting. In Scotland it also includes a charge for water and sewerage.

This is usually charged at a standard rate based upon where you live and the sort of house you live in. However, if you are the only adult in your household you can get 25% discount on your bill through the local authority.

Another way to reduce your monthly contribution towards council tax is if you spread the cost over 12 months. Usually councils spread the cost over 10 months, but you can request to pay over 12 months, if you feel that your current monthly bill is too high.



# actions to take.

## Credit score

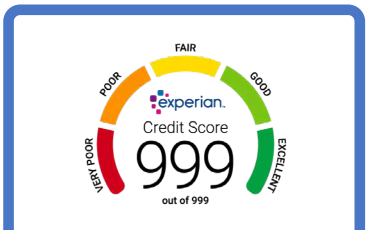

Your credit score is compiled from a report based upon your previous borrowing behaviour, known as your credit file or credit report.

Your credit report shows if you've made payments on time, if you've missed payments and any borrowing you have outstanding. This is useful for companies to assess if they should lend to you, how much to let you borrow and what interest rate you should be charged.

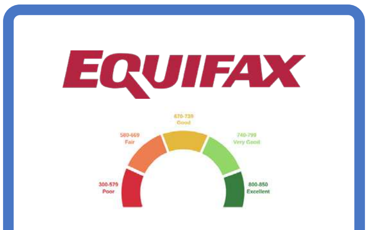
You can build your credit score by paying Direct Debits on time, managing existing borrowing well, repaying fixed term contracts, paying rent on time and by being on the electoral role.

It's a good idea to get a copy of your credit report because there may be errors that could lead to you being denied borrowing or being charged a higher interest rate. These errors can be fixed, but only if you take action to correct them.

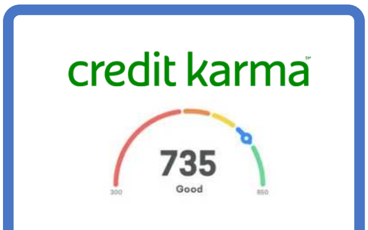
**You can check your credit score online and query any errors in your payment history using one of the three providers:**




www.experian.co.uk




www.equifax.co.uk




www.creditkarma.co.uk

## Budget

Without knowing your true income and outgoings, there is no way you can accurately plan ahead to meet your goals – whether that is to be debt free, to save or invest for a specific purpose.

A budget planner is a great place to start! In its simplest form, a budget planner is a list of all your income and all of your outgoings. Your income would be everything you gain money from including your job, investments or any other income.

Your outgoings should be all of your outgoings including monthly direct debits, any debt repayments and one-off spends like an annual holiday or planned home improvements.

To create an accurate budget planner, you'll need to be honest with yourself about your spending. The easiest way to do this is by having access to your bank and credit card statements.

If you budget as a couple, it is a good idea to do this with your partner. Not only will that enable you to get an accurate spend but by working on this together, you'll both know where you are financially and you can agree to move forward with the same goals in mind.

Money Helper has created a handy budgeting tool that is simple and free to use. This tool will give you a breakdown of where you're spending your money. Following that, you'll receive personalised tips on how to reduce your spend, if it's not already obvious from the results of the Budget Planner.

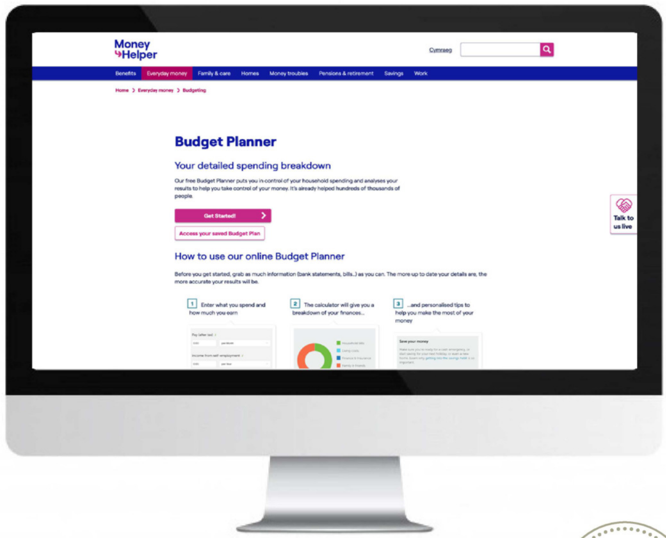
Visit: **www.moneyhelper.org.uk/en/everyday-money/budgeting/use-our-budget-planner** to access the budgeting tool.

This is the first step towards taking control of your financial wellbeing. Once you have a clear picture of income, outgoings and how you could save money, you can begin to set your financial goals.

This goal could be anything, for example, to save for an emergency fund (you may wish to save 3 months' worth of expenses) to pay off a debt or to begin investing.

**Whatever your goals, it's important that they are SMART.**

- **S**pecific
- **M**easurable
- **A**chievable
- **R**ealistic
- **T**ime-bound




*An example of this could be:*

My goal is to pay off my interest free credit card within 6 months. There is an outstanding balance of £600 and after budgeting I know I have £100 per month spare. By paying off £100 at the end of each month, I will have paid off my credit card in 6 months.

**This method could be applied to both saving and debt repayment.**

# what order should I repay my debt?

## Priority debts

First of all, you should look to pay off priority debts. These are debts with have the most serious consequences if you don't pay them.

This can include debts such as: court fines, tax bills, child support, mortgages, loans secured against your home and utility bills.

If debts such as these were not paid you could end up without gas or electric, a home or even a prison sentence. So, these debts should be paid off as a priority, even if they have a slightly lower interest rate.

It's also worth noting that there are Government schemes available that can help with paying the interest on your mortgage if you're struggling with mortgage payments and also some of the major gas and electric companies have grants available to help if you have a large arrears. To find out more about these schemes visit The Money Advice Service webpage on debt: **www.moneyadviceservice.org.uk/en/categories/taking-control-of-debt**

## Other debts

Once you have paid off your priority debts, you should look at non priority debts like credit cards and unsecured loans and put them in order of interest rate.

You should then pay off the debts with the highest interest rate first. If you're not sure of the interest rate, then you should contact the company in order to find out how much the APR is.

Once you've paid off the debt with the highest interest rate you should move down the list to the next debt and repeat this process until you are debt free.

If this sounds too difficult to tackle on your own, there are debt advice charities and free services available as listed at the end of the flipbook.

## Making debt overpayments

You may find that although you are repaying your debt, the amount you owe is increasing. This can be confusing and frustrating.

One reason your debt could be increasing is that your monthly payments may not be covering the interest and charges that are being added to the debt each month. When this happens, it will take longer to pay off your debts and your overall debt may increase.

To counteract this, you should speak to the companies you have debt with about increasing your monthly payments, so that the payments are more than the level of interest and charges you are receiving. It's also a good idea to ask for more information on any of the charges, as doing something as simple as changing the payment date could help you avoid late payment charges or interest.

As long as you do not have any early repayment charges, the quicker you repay a debt, the less you will pay overall. This is because you'll pay less in interest. So, where affordable, you should try to pay your debt off earlier. Even if you have no outstanding debt on things like loans or credit cards you could still make overpayments on a mortgage if your lender allows you to. Making overpayments can potentially save tens of thousands in interest over the mortgage term and help you pay off the mortgage faster.

# help if debt is out of control.

If you need support or help with your debts you're not alone. There are a number of charities and Government services that have been set up specifically to help people in this situation. They offer free services to help people take control of their finances and move out of debt. Talking to an expert with experience in these matters can take the weight off your shoulders.

Be cautious with the repayment terms available through "debt consolidation" companies that advertise on television, online or in newspapers. These often appear at the top of search engine results and although they may be able to offer you lower payments, you'll normally end up paying more in the long term.

**We've put together a list of trusted places you can go to for help through a number of different methods.**

**www.stepchange.org**
**0800 138 1111**

Stepchange offer free advice and a range of solutions to help you pay, manage or write off debt. This help is available either online or over the phone.

**www.tools.nationaldebtline.org/dat-reg**
**0808 808 4000**

National Debtline offers free debt advice online through its digital advice tool and its web guides, fact sheets and sample letters.

**www.citizensadvice.org.uk**
**0800 144 8848**

Citizens Advice offers free, independent, confidential and impartial debt advice through their web chat service as well as telephone support and face to face meetings.

**www.tully.co.uk**

Tully is the UK's first completely digital debt adviser. Go online, share your statements, build your budget and get free, confidential and personalised advice within minutes. This is all carried out on their website www.tully.co.uk

# consolidating debt.

With multiple interest rates and multiple payments coming out each month if you have several debts, you might be feeling overwhelmed.

There is an option to consolidate your debt into one monthly payment with one rate of interest. You can either do this through a debt consolidation company who may charge you for this advice or you can do it yourself.

If you're planning to do this yourself it's a good idea to contact the companies you have a debt with, ask what the current rate of interest is and if there are any early repayment charges. Also, request a final settlement figure, because if you pay off the debt in one go, they may be willing to settle for a lower amount than the outstanding debt.

You can then find a loan using tools such as online comparison websites which may have a lower interest rate than your current debts, which will allow you to borrow enough money to pay off your existing debts. The key is to ensure that you're repaying an affordable amount each month and that you do not continue to borrow more on products like an overdraft or credit cards.

# glossary.

## Annual Equivalent Rate (AER)
All accounts are required to show an AER. This is a way of expressing the account's interest rate over a one year period and includes the impact of any compound interest and bonus that may be received. The AER is a useful way of comparing the interest rate of two different savings accounts.

## Annual Percentage Rate (APR)
Annual Percentage Rate (APR) is the figure that includes interest rates and any associated charges such as administration or redemption fees that may be applied to money you borrow. The APR shows the cost for comparison of borrowing money over a 1 year period. This figure can be used to compare costs between different lenders.

## Arrangement fee
A fee that is applied to some mortgages for setting up the mortgage. This is sometime referred to as a booking fee.

## Arrears
A mortgage is referred to as being 'in arrears' when a scheduled payment has been missed.

## Authorised overdraft
These are arranged in advance with the bank or building society that provide your current account. Your bank or building society will allow you to borrow money up to a limit. Fees and interest are often charged and you should review the terms of the overdraft before using it.

## Balance transfer
Transferring money owed from one credit card over to another credit card.

## Capital repayment mortgage
A mortgage that requires the repayment of the debt as well as the interest cost each month. The term of the mortgage is defined at the outset and the mortgage will be repaid at the end of the term provided all payments have been met.

## Credit card
A credit card can be used in a similar way to a debit card. Unlike a debit card, which is linked to your current account, a credit card allows you to pay for goods or services on credit. Each month you'll be sent a statement showing all of your credit card purchases. You can choose to pay off the debt immediately or pay it off over a period of time. If you don't pay it off immediately you will normally be charged interest, which can be high.

## Credit default
Failure to make an agreed repayment on time. For example a borrower failing to make the monthly repayments.

## Credit score / Credit rating
A number that indicates whether you may be considered a high or low risk by credit providers such as banks and other lenders. This number is based on information including your previous credit history and applications.

## Discount rate mortgage
A mortgage rate that is set at a pegged amount below the lender's Standard Variable Rate.

## Fixed rate mortgage
An interest rate that is fixed and will therefore not change for an agreed period. Fixed rate mortgages are typically for period of 2, 3 or 5 years but other terms are offered by certain lenders.

## Freeholder
The outright owner of the home and the land it is built on.

## In-store finance
In-store finance is a popular way to purchase items and spread the cost over a period of time, it is often referred to as 'buy now pay later' credit. You may be offered an interest free period meaning you won't pay any interest if you pay back the loan before this ends. If you haven't paid off the debt at the end of the interest free period you will start to pay interest, normally at a high rate. This will make paying off the debt even harder.

## Interest only mortgage
A mortgage that requires only the interest costs to be paid each month. The debt is not paid off by the regular payments made with an interest only mortgage.

Borrowers who have an interest only mortgage are required to build up a savings pot that can be used to clear the outstanding debt at the end of the mortgage term.

## Legal fees
The costs for the legal work, searches and valuations that are required as part of the home buying process.

## Loan to value ratio
The amount that is being borrowed as a percentage of the value of the home.

## Mortgage
A type of loan used to purchase a house or land.

## Overdraft
An overdraft allows you to spend more from your current account than your balance. This is referred to as being 'overdrawn'. There are two types: Authorised Overdrafts and Unauthorised Overdrafts – look up these definitions for further information.

continued on page 12.

## Payday loan
Payday loans are short-term loans with extremely high interest rates, intended to fund small purchases (normally under £1,000) until your next payday. If you don't repay the debt on time it can quickly spiral out of control. Due to the high interest rates often applied to pay day loans these should usually only be considered as a last resort.

## Personal loan
A loan made to an individual, usually for a fixed amount of money over a fixed time period. Personal Loans are normally offered by banks and building societies, however other high street retailers have begun to offer personal loans.

## Secured loan
These loans are borrowed against assets such as your home or car. If the terms of the contract are broken, the lender could seize the asset.

## Standard Variable Rate Mortgage
An interest rate, set by the lender that may go up or down during the term of the mortgage.

## Tracker mortgage
A mortgage that will rise and fall in line with the Bank of England base rate. Specific terms will vary between lenders, however variable rates that are set at an agreed amount above the Bank of England base rate are common.

## Unauthorised overdraft
This is unplanned borrowing that your bank or building society has not agreed to. An unauthorised overdraft also applies when you exceed the borrowing limit on an authorised overdraft.

## Unsecured Debt or loans
A type of loan or debt not secured against any assets. Personal loans, credit cards and in store credit are typically unsecured.

# notes.

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08/23