



Borrowing

This is some quick and easy advice about borrowing money.

People can borrow money from a friend or family member. When this happens it is down to the people involved to work out how the money is paid back

Friends and family are less likely to charge you interest (the amount extra you must pay when you pay back the money). They may also be more flexible with paying money back. However borrowing money from friends or family you can sometimes put a strain on your relationship.

Borrowing from a bank or building society is a business transaction with clearly defined rules to follow.

Some ways of borrowing money

- Loans
- Overdrafts
- Credit cards
- Credit agreements
- Store Cards
- Mail Order
- Credit unions
- Mortgages



Loans

When you borrow money from a bank or other lender, you enter into a contract with them. This says how much you pay back. You have to be 18 years old to be able to enter into this sort of contract.



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For example, if you borrow £500 from a bank they might offer a time limit over which the money can be repaid. The bank will tell you what your interest rate is. This is called **Annual Percentage Rate**, or **APR**.

They will tell you how much interest is charged each month and how much you need to pay back each month.

They should also tell you how much you will pay in total for the length of the loan.

You will also agree the means of payment for example;

- standing order,
- cash payments,
- cheques,
- and the date each month when they must be paid.



Overdrafts

An overdraft is an agreement with a bank to take out more money from your current account than you actually have.

For example, an overdraft limit of £200 on an account means all the money in the account can be spent, plus another £200.

An overdraft can be a good way to borrow money short-term or to have some money available in case of an emergency.

Credit cards

Credit Cards are a separate account from which you can borrow money. You can use the card to pay for things in shops, by phone or on the internet.

When you get a credit card, it will have a credit limit. This is the amount of money you can borrow.



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Each month they will be sent a statement which shows:

- Each time money is spent,
- the total balance,
- the interest charged (extra money),
- the minimum amount you can repay this month.

Credit agreements

Sometimes when you want to buy something, you can buy it on credit so you do not pay for the whole thing at once. You pay for it in smaller chunks instead. You usually have to pay some interest (extra money) to buy things this way.

Store Cards

Store cards are the cards that many big shops offer their customers as a way of buying things in their stores. Store cards are like credit cards with a monthly statement being sent showing the amount you have to pay off. This can be an expensive way to buy things.

Mail order

Mail order shopping is usually done through a catalogue. You have an account so you pay for things you have bought in instalments (smaller chunks). This can be an expensive way to buy things.

Credit unions

A credit union is a self-help co-operative. Members pool their savings to give each other credit at a low interest rate. Credit unions encourage people to save what they can and only borrow as much as they can afford. After you have been saving with the credit union for a few months you can apply for a loan. The maximum interest charge is 1% per month. This can be a cheaper way to borrow money.



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Mortgages

If you want to buy a home, you may be able to borrow money to do this. This is called a mortgage. The loan is for a fixed time (usually 25 years) and interest is charged on the loan. If a consumer does not keep up the payments, the lender can take ownership of their home.

Mortgages are available from banks and building societies and also other lenders.



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