The James Hornsby School

Together we excel

- Everyone has the right to be heard and respected.
- We will use language that won't offend or upset other people.
- We will use the correct terms, and if we don't know them, we'll ask the teacher.
- We will comment on what was said, not the person who said it.
- We won't share our own, or our friends', personal experiences.
- We won't put anyone on the spot, and we have a right to pass.
- We won't judge or make assumptions about anyone.

Understanding personal finance

DO NOW:

1. List four 'protected characteristics'.
2. How can hate crimes impact an individual?
3. Based on statistics you've studied state one reason for the spike in the number of religiously and racially motivated hate crimes in 2016 and 2017.

In pairs, separate the items into two categories. Then label each category.

iPhone 14

Bus fare

Packet of pasta

Second hand small car

Rent

Nike Air Max 270

Weekend break to Barcelona

Range Rover Sport 2022

Baby formula

Car insurance

Needs

These are items that are essential to achieving what you are planning to do, and without them you would not be able to reach your goal.

Wants

These are items that you would like to have, but my not be completely necessary. They may not be essential, but they are enjoyable

Where does money come from to pay for these needs and wants?

Think of where your parents/carers get their money from.

Sometimes we may not have enough money to pay for our needs or wants so banks and other financial institutions can provide finance by allowing you to **borrow money** in the form of loans, overdrafts or credit cards.

The decision to borrow should not be taken lightly. You should consider whether or not you really need to borrow (do you really need the new car?) and how you intend on repaying it.

When might you need to borrow money?

https://natwest.mymoneysense.com/teachers/resources-16-18s/topic-1-when-might-i-need-to-borrow-money/video/

What is interest?

Interest is the cost of borrowing money (or the amount earned on savings).

What are interest rates?

An interest rate tells you how high the cost of borrowing is, or high the rewards are for saving. Interest rates are expressed as percentages.

How might interest rates affect me?

So, if you're a borrower, the interest rate is the amount you are charged for borrowing money, shown as a percentage of the total amount of the loan. The higher the percentage, the more you have to pay back, for a loan of a given size. In simple terms, if the interest rate is 10% on a £1,000 loan, it means £100 is paid in interest so the total amount that needs to be paid to the bank is £1100.

If you're a saver, the savings rate tells you how much money will be paid into your account, as a percentage of your savings. The higher the savings rate, the more will be paid into your account for a given sized deposit.

Even a small change in interest rates can have a big impact. It's important to keep an eye on whether they rise, fall or stay the same.

What's the difference between a fixed interest rate and a variable interest rate?

Banks usually offer both fixed interest rates and variable interest rates. Fixed interest rates do not change over the term (or life) of the loan. Whereas variable interest rates can change. They fluctuate, often because of changes in base rates (benchmark) set by the Bank of England.

Some people prefer the stability of fixed interest rates as the borrower knows exactly how much needs to be repaid every month, so it's easier to predict than variable rates. Some people choose variable interest rates as they offer low interest rates to begin with and some people may be optimistic about a future decrease in the cost of borrowing.

1. What is an interest rate?
2. What's the difference between fixed and variable interest rates?
3. Why might someone choose a fixed interest rate over a variable interest rate?

Confused.com

compare
themarket™

GoCompare

Turn and talk - what do you think are the different types of borrowing?

Types of borrowing

1. Overdrafts

An overdraft is when you can withdraw more money from your bank account than what you actually have. So when the balance drops to £0 you're able to borrow from the bank until you next get paid. Many overdraft policies incur (is subject to) high interest rates. Overdrafts should only be used to pay for bills and other necessary items like groceries until you next get paid.

2. Loans

When you borrow money from a bank or other lender you enter into a contract with them which governs the repayment. You have to be 18 years old to be able to enter into such a contract. Say, for example you arrange to borrow £1000 from a bank, the bank will offer you a period of time over which you can repay the money usually stated in months eg. 12, 18, 24 months etc. The bank will tell you what their interest rate is stated as Annual Percentage Rate or APR. They will tell you how much interest is charged per month and how much your monthly repayments will be. You will also agree on the means of payment e.g. standing order (same amount paid straight from your bank account each month) or direct debit payment (amount can vary month to month).

3. Mortgages

Mortgages are simply long term loans. Mortgage loans are used to buy a home or to borrow money against the value of a home you already own. A mortgage is an agreement between you and a lender that gives the lender the right to take your property if you fail to repay the money you've borrowed plus interest. There are several things to look for in a mortgage

- The size of the loan
- The interest rate
- The closing costs of the loan, including the lender's fees
- The Annual Percentage Rate (APR)
- The type of interest rate and whether it can change (is it fixed or variable?)
- The loan term, or how long you have to repay the loan
- Whether the loan has other risky features, such as a prepayment penalty

Focus on a mortgage that is affordable for you given your other priorities, not on how much you qualify for.

4. Credit cards

Credit cards

Use
To pay for goods or services even if there's not enough money in your account.

Where
Shops, online or ATMs (you can withdraw cash).

Who
You have to be at least 18 years old to apply for this type of card and must pass credit scoring.

Features
- You can spend money that you don't have, but you'll pay interest if you don't pay it all back within an agreed time
- If you withdraw cash you'll be charged interest and a handling fee
- Interest rates can be high, so manage your credit card use carefully
- Allow you to withdraw currency from an ATM when you are abroad
- Late or missed payments can affect your credit rating

1. What's an overdraft?

2. What's the difference between a loan and a mortgage?

1. What should you keep in mind when applying for a mortgage?

Pros and cons of credit cards

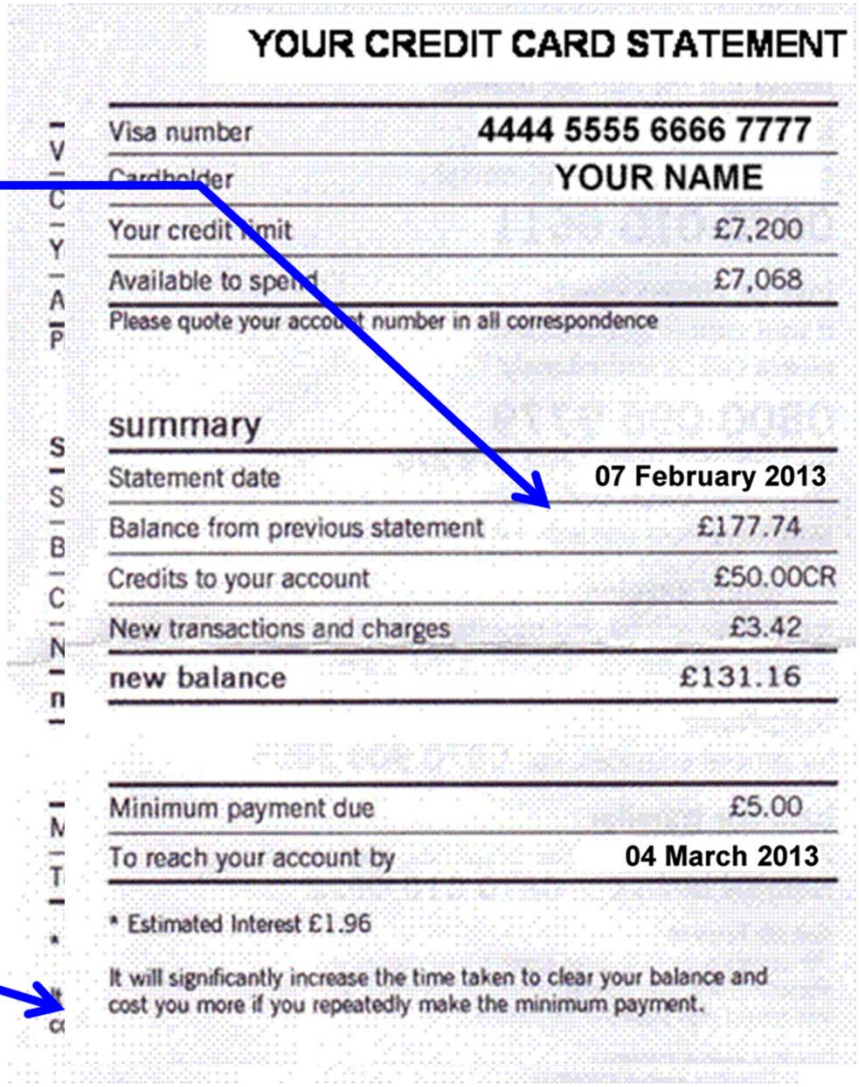
✓ Advantages	✕ Disadvantages
✓ Can give you up to 51 days of free credit which can help with budgeting	✕ Very high interest rates if you don't pay off the balance in full each month
✓ There are some good 'points' and 'cashback' offers to take advantage of	✕ You need to have a regular income to be approved at application
✓ Interest-free 'balance transfer' offers over a period of time can be helpful provided you pay the right amount off each month to ensure the debt is clear by the end of the interest-free period	✕ It's easy to get 'carried away' by having ready access to money that you may not be able to afford to repay

Explain what a credit card is and summarise the advantages and disadvantages of using credit cards.

Here you can see:

- **the amount left over from the previous month. The amount paid since the last statement**
- **The amount spent with the card since the last statement**
- **The current balance**
- **The minimum payment due**

Please note the small print



YOUR CREDIT CARD STATEMENT

Visa number	**4444 5555 6666 7777**
Cardholder	**YOUR NAME**
Your credit limit	£7,200
Available to spend	£7,068

Please quote your account number in all correspondence

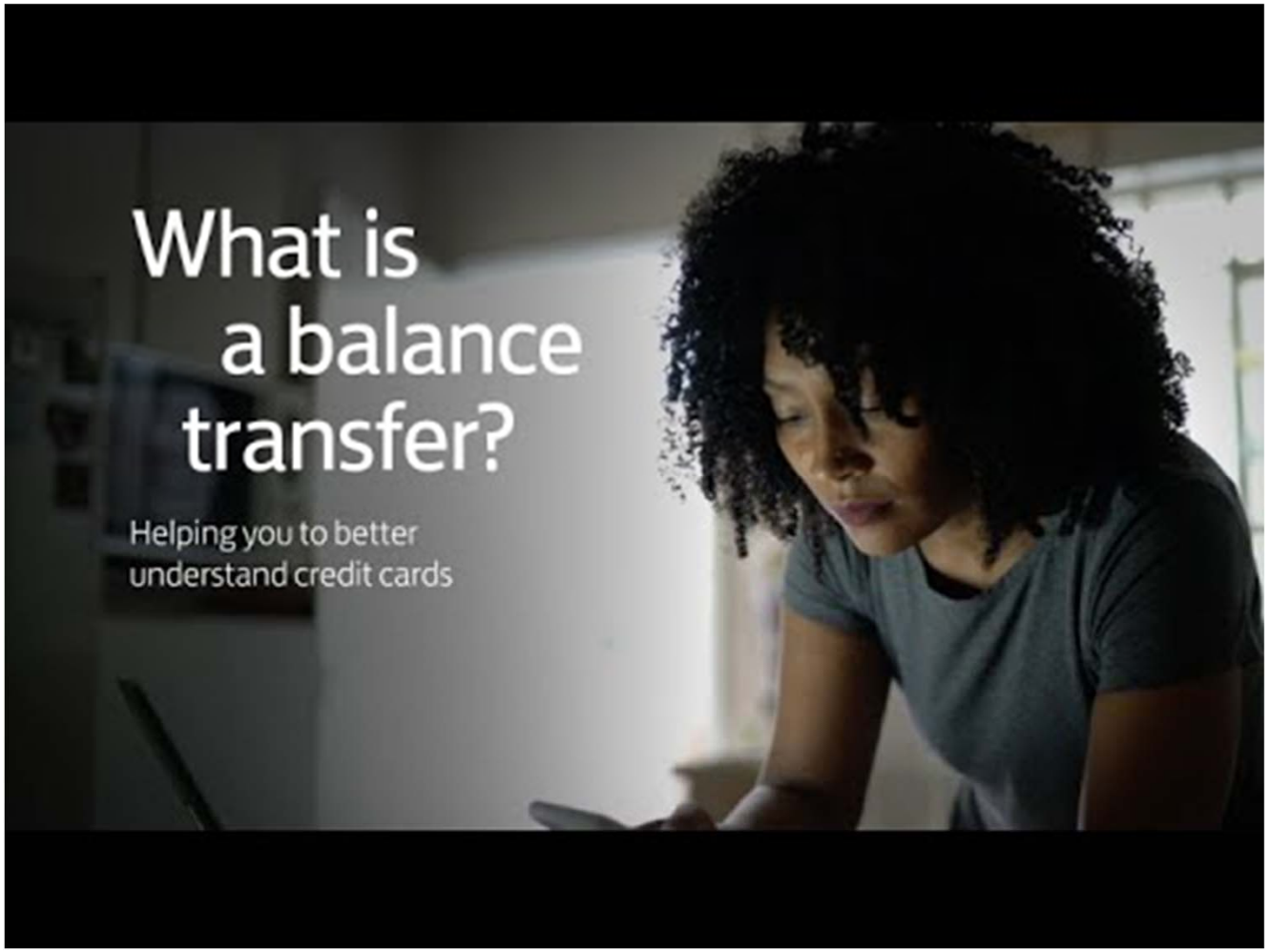
summary

Statement date	**07 February 2013**
Balance from previous statement	£177.74
Credits to your account	£50.00CR
New transactions and charges	£3.42
new balance	£131.16

Minimum payment due	£5.00
To reach your account by	**04 March 2013**

* Estimated Interest £1.96

It will significantly increase the time taken to clear your balance and cost you more if you repeatedly make the minimum payment.

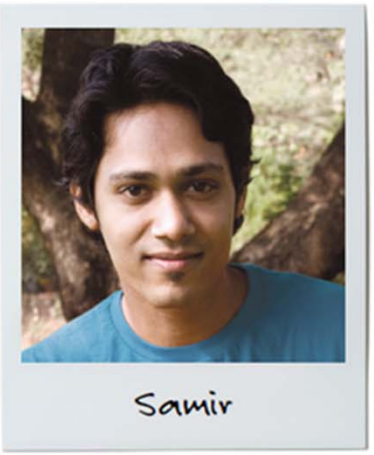

What is
a balance
transfer?
Helping you to better
understand credit cards

There is a danger that people may frequently balance transfer from one credit card to another (once their 0% interest term ends). This can lead to the accumulation of large sums of debt.

How to borrow safely?

Watch from 2.50

Which credit card?



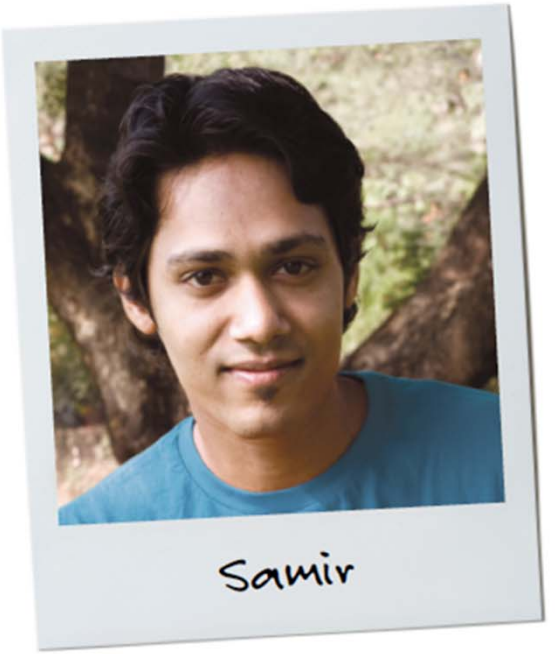
Samir has a regular income and a good credit rating. He's decided to apply for a credit card because he travels abroad a lot for his job. As there is a short delay in reclaiming his travel expenses from his employer, a credit card would be a good way to get free credit for a short period. He has every intention of paying off the full balance each month by direct debit. He has no current credit card balances outstanding.

	Card A	Card B	Card C	Card D
Reward	Points (1 per £1 spent) redeemable at shops and restaurants	Free gift (choice of tablet computer or mobile phone)	Charity donation (20p in every pound spent)	Airline loyalty points
APR on balances not paid off each month	18.9%	17.9%	18.7%	17.8%
Additional services	0% on balance transfers from other cards for 20 months	None	0% on balance transfers from other cards for 24 months	No fees on transactions overseas

Which card would you recommend for Samir? Explain your choice.

Which credit card?

- What factors should you consider in recommending this card for Samir?
  - He has no card balances so the 0% offers are irrelevant
  - The APR isn't relevant as he intends to pay off the full balance by direct debit each month
  - The points on card A might be useful if he likes to eat out
  - The free gift on card B might be tempting but is of low value compared to rewards earned over the lifetime of the card
  - Card C is a good option if Samir is looking for an ethical product
  - Card D is right for someone who travels abroad a lot as it will save on transaction fees and build up loyalty points for future use



Write down some advice you would give a young adult as they consider borrowing money to buy a new phone and laptop for university.