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 (are 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 e.g., 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