# ASK THE EXPERTS

## Family finances: Supporting your children beyond school years

LLOYDS BANK

All information in this document is sourced from third party content providers including:

Money Advice Service

Which? University

gov.uk

NUS

Complete University Guide

Prospects

thisismoney.co.uk

StepChange Debt Charity

thisismoney.co.uk

Saga

The Money Charity

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# Higher Education & Gap Years

## Calculating the cost of university/how do student loans work?

### University tuition fees

From 2012 onwards, universities and colleges in the UK can charge full-time English students a maximum of £9,000 a year in course tuition fees. Many courses will be cheaper than this, especially where they are provided by local colleges, but in most cases you can expect to pay at least £7,500 per year.

Part-time fees are capped at £6,750 per year, with lower fees more likely the slower you are studying.

You don't need to pay for these fees upfront. Instead, you can apply for a tuition fee loan to cover the costs. You'll only need to start paying this loan back later on, once you're earning £21,000 a year or more.

If you live in Scotland, Wales or Northern Ireland, you may pay less or nothing at all – see our individual articles for more on the details.

### Living costs

The other day-to-day costs you'll need to cover while you're at uni will include things like accommodation, bills, food, travel and socialising. It's also likely that you'll need to factor in other course costs, such as books, trips and materials.

If you're full-time, the other element of your student loan - the maintenance loan – is designed to cover these.

For a student living in England the maximum amounts available are:

- at home - up to £4,418 a year
- away from home, outside London – up to £5,555 a year
- away from home, in London – up to £7,751 a year.

Note however that these are the headline rates and what you receive will probably be different for a number of reasons. If you receive any maintenance grant this will reduce the amount of loan you can borrow, by 50p for every pound of maintenance grant awarded – precisely so you accrue less debt. Students from better-off backgrounds may also have a portion of their loan reduced by the income assessment made by Student Finance England.

If your course is longer than 30 weeks and 3 days in the year you may be entitled to additional amounts of loan – this will be calculated automatically by Student Finance England – and the rate of loan is lower in the final year (because, technically, the loan amounts in earlier years are meant to cover the summer vacation too).

Students from elsewhere in the UK will have slightly different loan levels and rules; although in each case the system works on broadly similar lines to your English counterparts. The details are also outlined in the individual articles linked above.

Your tuition fee loan and your maintenance loan are added together to give the total amount you will have to repay. The variations mean it's difficult to say the exact level of debt you'll graduate with. However, a typical student on a three-year course outside of London might expect to graduate with around £35,000 - £40,000 of student loans. Check out the links below for calculators that might help you get a closer estimate for your circumstances.

### Keeping your student debts down

An interest-free overdraft offered as part of a student bank account can offer a short-term cash injection if your maintenance loan doesn't stretch far enough. You should use this sensibly and sparingly - remember, you'll have to pay it back. You can also help reduce your reliance on debt by thinking about options to earn cash elsewhere.

### Applying for a bursary, fee waiver or scholarship

Most unis and colleges now offer some form of financial assistance that you won't need to pay back, particularly (though not only) for students from lower income families. There are also hundreds of private charities and trusts that might be able to help. See our section on bursaries, scholarships and fee waivers to find out which option is best, and how to apply.

## Part-time work

Many full-time students take up part-time work around their studies, or during holidays, for extra spending money and all-important work experience for the CV. Most universities and colleges run ‘jobshops’ which help students find work so check these out.

## Paying your student loan back

If you’re funded via Student Finance England and studying full-time, you only start paying back your loan after you have left university and even then, only when you are earning above £21,000. If, after leaving university, in any one year you’re not working or earn less than £21,000, then you don’t have to pay anything back on your student loan.

If you’re part-time, you will start to repay after four years of study, even if the course hasn’t ended. However, repayments will only start if you’re earning above £21,000.

According to the latest graduate employment and salary stats from the Higher Education Statistics Agency (HESA), average starting salaries for graduates range from £18,000 to £24,000 depending on occupation.

Welsh students have the same repayment terms and conditions as English students, but it’s different in Scotland and Northern Ireland - see our tailored advice for more.

## How are my repayments calculated?

Your repayments are calculated on how much you earn, not on how much you borrowed. After you graduate, you’ll repay 9% per year of whatever you earn above £21,000 – regardless of whether your loan is £22K or £50K. This means if you’re earning:

- below £21,000: you won’t have to pay back anything
- £25,000 a year: you will repay £360 per year, £30 per month or £6.92 per week. This is the same however much you borrowed
- £30,000 a year: you will repay £804 per year, £67 per month or £15.46 per week. Again, this is the same however much you borrowed in loan.

## Will my student debt affect my credit rating?

No, because student loans are not included on your credit reference file.

## Will I ever pay back my entire loan?

Any outstanding debt you owe after 30 years is written off - even if you haven’t paid anything back during that time (because you weren’t working or you were earning below £21,000).

A major review into university funding in 2010 estimated that around 60% of graduates won’t have paid their full loan back after 30 years. So either you’ll be lucky enough to be in the top group of graduate earners, or you’ll never pay everything back. For this reason, paying your loan back early isn’t always worth doing, either.

## Is all this likely to change in the future?

There are no guarantees that these will remain the rules and terms for the next 30 years of repayment, but major overhauls to how the system works are usually more likely to affect new students rather than students already in the system. That said, it’s worth keeping an eye on changes or new rules as they’re announced, so you can work out if these will affect you and how much you’re paying.

http://university.which.co.uk/advice/how-much-debt-will-i-actually-get-into-by-going-to-university

Source: http://university.which.co./uk 07/04/14

# Budgeting at university/cost of living at university

The main student finance package includes a:

- Tuition Fee Loan
- Maintenance Loan - full-time students only
- Maintenance Grant - full-time students only

The rules are different if you became a student before 1 September 2012. Tuition Fee Loans pay for your course. Maintenance Loans and Grants help with living costs (eg accommodation, books, bills). You have to pay back loans but not grants. You might get extra help on top of this. You apply for student finance every year. You don't need a confirmed place at university or college to apply.

Go to: https://www.gov.uk/apply-for-student-finance to find out how to apply for a student loan.

## Loans and grants

Use the student finance calculator at https://www.gov.uk/student-finance-calculator to see what finance and extra help you can get.

## Tuition Fee Loan

English or EU full-time or part-time students can apply for a Tuition Fee Loan. The loan is paid directly to your university or college. You have to pay it back.

| Full-time student | Tuition Fee Loan |
|---|---|
| Full-time | Up to £9,000 |
| Full-time at a private university or college | Up to £6,000 |

| Part-time student | Tuition Fee Loan |
|---|---|
| Part-time | Up to £6,750 |
| Part-time at a private university or college | Up to £4,500 |

## Maintenance Loan for living costs

You must be a full-time English student. Part-time and EU students and students aged 60 and over can't apply.

You may have to give details of your household income.

The loan is paid directly into your bank account at the start of term. You have to pay the loan back.

### Maintenance loans

| Full-time student | Loan for courses from September 2013 | Loan for courses from September 2014 |
|---|---|---|
| Living at home | Up to £4,375 | Up to £4,418 |
| Living away from home, outside London | Up to £5,500 | Up to £5,555 |
| Living away from home, in London | Up to £7,675 | Up to £7,751 |
| You spend a year of a UK course studying abroad | Up to £6,535 | Up to £6,600 |

Any full-time student can apply for up to 65% of the maximum amount. How much of the remainder you get depends on means testing. Use the student finance calculator at https://www.gov.uk/student-finance-calculator to estimate your Maintenance Loan.

## Maintenance Grant for living costs

You must be a full-time English student. Part-time and EU students can't apply. You have to give details about your household income and your course start date. The grant is paid into your bank account at the start of term. You don't have to pay the grant back, but any grant you get will reduce  the Maintenance Loan you can get.

### Maintenance grants

| Full-time student – household income | Grant for courses from September 2013 | Grant for courses from September 2014 |
|---|---|---|
| £25,000 or less | £3,354 | £3,387 |
| £30,000 | £2,416 | £2,441 |
| £35,000 | £1,478 | £1,494 |
| £40,000 | £540 | £547 |
| £42,611 (2013) or £42,620 (2014) | £50 | £50 |
| Over £42,611 (2013) or £42,620 (2014) | No grant | No grant |

Use the student finance calculator at https://www.gov.uk/student-finance-calculator to estimate your Maintenance Grant.

## Special Support Grant

You must be a full-time student. Part-time and EU students can't apply.

You may get a Special Support Grant instead of a Maintenance Grant if you get or qualify for Income Support or Housing Benefit. The amount you get is the same as the Maintenance Grant, but it won't reduce the Maintenance Loan you can get.

You may get the Special Support Grant if, for example, you're a lone parent or have certain disabilities.

You may also be entitled to extra help: https://www.gov.uk/student-finance/extra-help

Find out how to apply at: https://www.gov.uk/apply-for-student-finance

Source: gov.uk 04/04/14)

# Concerns around children getting into debt at university

## Can you afford not to have a degree?

### Sarah Thomas, a second- year student at Keele University, sizes up the statistics

The financial website thisismoney.co.uk estimated in 2012 that the average cost of going to university is £53,330, which is an astonishing amount of money. But in comparison to not getting a university education, is a degree more cost effective than at first glance? What is the real cost of not going to university?

In 2011 the Office for National Statistics (ONS) published a report in which they found that, over the last decade, people with degrees earned £12,000 a year more on average than those without a university education Additionally, the ONS found non-graduate salaries peaked at just £19,400 at 34, while graduates went on to earn up to £34,500 at 51. However, this is not the only advantage that degree holders have over their non-graduate counterparts.

A US study also shows that non-graduates have worse job prospects in an already stagnant economy. Georgetown University's Centre on Education and the Workforce published a study in 2012 which revealed that graduates gained 187,000 jobs during the 2007-2012 recession, whereas 5.6m jobs were lost by those without higher education qualifications during the same time period. This has repercussions on issues which at first might not seem related. As extraordinary as it sounds, there may be a link between the age a person buys their first home and whether or not they have a university education. In 2012 rightmove.co.uk, one of the UK's largest property websites, claimed that a whopping 69% of prospective first- time buyers were university educated, with an average age of 30 compared to 32 for non-graduates.

Overall, the real cost of not going to university is more far reaching than just the differences in average earnings. Other things to consider are the ability to put away savings or provide greater contributions to pension schemes. Of course,

investing in higher education is not the be all and end all; getting a degree is no guarantee of success. However, the studies that I have found speak for themselves; at the end of the day, while paying more than £50,000 for a degree is shocking, the cost of not having a degree is far higher.

http://themoneycharity.org.uk/advice-information/true-cost-higher-education/

## Budgeting

**What are the costs of study and living?**

How much does it cost to live and study as a student? Here are some average costs for a student in higher education to give you an idea and help you plan your budget.

Where do these figures come from? Every year, NUS estimates how much a full-time higher education undergraduate in England spends on average in an academic year (a standard 39 week period). These estimates are based on research such as the government's Student Income and Expenditure Survey, and the NUS/Unipol Accommodation Costs Survey.

Estimating 'average' costs is difficult because there's no such thing as an 'average' student – it all depends on factors like your institution, course and part of the UK you live in, plus your personal circumstances, which influence the grants, loans and benefits you're entitled to.

The estimated costs below are for students living and studying in England for the 2012/2013 academic year. You can use them as a rough guide if you live and study in other parts of the UK, but bear in mind that your costs and potential income may differ considerably. Costs and potential income may also be different for students in further education (post-compulsory education at pre-degree level).

Here's more detailed information about funding for higher and further education.

## Average course costs

Average course costs for full-time higher education are the same across England: £10,133 for each academic year.

This breaks down as follows:

- £8,354 for tuition fees
- £709 for travel
- £1,070 for books, equipment and so on.

These costs may be different depending on how much your university charges, and where you live in the country.

## Potential income

The estimated costs of study and living take account of your potential income from grants and loans. What you're entitled to may differ a lot, depending on your country and the year you start your course. The government provides anonline calculator for students in England to help you estimate what loans, grants and extra help you can get (eg if you're disabled or have children).

The estimates below are for new full-time students living and studying in England. The figures show the maximum amounts available, then an indication of what our 'average' student might be entitled to (a student with an average household income according to the Office for National Statistics, undertaking a 39 week course).

Potential income from loans and funding each academic year is up to £20,879 for London (our 'average' student gets £17,450) and £18,497 for the rest of England (our 'average' student gets £14,370).

This is made up made up of:

- Tuition fee loan (up to £9,000 depending on the cost of your course – £8,354 for our 'average' student)
- Maintenance grant (up to £3,250 depending on your household income – £934 for our 'average' student)

Loan for living costs away from home (depending on a number of factors, up to £7,675 for London – our 'average' student gets £7,208; or up to £5,500 for the rest of England – our 'average' student gets £4,335)

Loan for long courses (depending on a number of factors including the length of your course – for a 39 week course, £954 for London or £747 for the rest of England)

## Average expenditure for London

If you live and study in London, you should expect your total average expenditure to be £23,521 each academic year.

This breaks down as follows:

- £10,133 for course costs
- £13,388 for living costs (£6,143 for rent, £1,956 for food, £316 for household goods, £65 for insurance, £2,074 for personal items, £1,524 for travel and £1,310 for leisure).

Our 'average' student's income from loans and funding each academic year is £17,450, so you might need to find £6,071 on average every academic year to cover the shortfall between your expenditure and income from loans and funding, as well as funding to cover the long vacation.

## Average expenditure for the rest of England

If you live and study in England but outside London, you should expect your total average expenditure to be £22,189 each academic year.

This breaks down as follows:

- £10,133 for course costs
- £12,056 for living costs (£4,834 for rent, £1,956 for food, £316 for household goods, £42 for insurance, £2,074 for personal items, £1,524 for travel and £1,310 for leisure).

Our 'average' student's income from loans and funding each academic year is £14,370, so you might need to find £7,819 on average every academic year to cover the shortfall between your expenditure and income from loans and funding, as well as funding to cover the long vacation.

## International students

If you're an international student considering study in the UK, take a look at the international student calculator to help you work out how to manage your money and build a budget for living and studying in the UK. It's important for you to ensure you have sufficient funds before leaving home.

Find out more, download a copy of the 2012/2013 NUS/Unipol Accommodation Costs Survey here:

http://www.nus.org.uk/Global/Campaigns/Accommodation%20Costs%20Survey%20V6%20WEB.pdf

http://www.nus.org.uk/en/advice/money-and-funding/average-costs-of-living-and-study/

## Your annual budget

If you have not already done so, estimate your annual budget by listing all your expected income, including any savings you will bring with you to university.

See how this compares with your anticipated expenditure in the hope that the balance sheet almost balances or, better still, that you are left with spare cash in the bank for doing what you've always wanted to do!

Budgeting accurately is never an easy process, and we have constructed this simple but realistic annual income and expenditure summary to make monitoring and controlling your finances easier.

It can be difficult to predict accurately some variable expenses such as entertainment. Start by identifying bills which must be paid and include in this a small contingency fund. This will leave you with the 'flexible' part of your income to take weekly from the bank. Don't be too optimistic in your first budget, and do be aware of how much you actually spend (try writing down everything you spend over a week or so).

Budget for university gigs and balls, birthdays and parties, or you may find yourself missing out on the best social events of the year. If there is a big gap between planned budget and actual expenditure, perhaps your spending habits need attention rather than your budgeting.

Consider having two bank accounts – one for essentials such as rent and food (your budget will tell you how much you need for these), the other for non-essentials like going out, entertainment, and holidays.

Transfer a set amount into the second account each week or month. This should ensure that you don't overspend and run out of cash for your rent, and will help you keep a grip on your day-to-day spending, where it's easy to overspend.

Your patterns of expenditure will differ significantly between term-time and vacations, and you'll need to budget for this.

There are useful budgetting apps to download, most of them free. They can help you keep track of your day-to-day spending, and your bank balance.

Above all, remember to keep a check on your finances so that money worries do not detract from your studying and from enjoying life at university!

| **Income** | **£** |
|---|---|
| Tuition Fee Loan | 8,507 |
| Maintenance Loan | 3,823 |
| Maintenance Grant | 3,354 |
| Term time/vacation work | 3,000 |
| Total income | 18,684 |

| **Expenditure** | **£** |
|---|---|
| Tuition fee | 8,507 |
| Rent* | 3,960 |
| Electricity, gas, water | 260 |
| Mobile/internet | 390 |
| Insurance | 110 |
| Food and drink | 1,600 |
| Toiletries | 260 |
| Laundry | 160 |
| Books and stationery | 370 |
| Course costs | 210 |
| Clothes and shoes | 470 |
| Travel and transport | 420 |
| Going out | 620 |
| Home entertainment | 260 |
| Sports and leisure | 210 |
| Holidays and presents | 420 |
| Emergencies | 520 |
| Total expenses | 18,747 |
| (Deficit) | (-63) |

* This is for room only, shared bathroom accommodation in university residences. For an ensuite room you can expect to pay over £4,000 per year.

In this example, we have assumed that you come from England and:

- are studying in England;
- not living at home;
- you have a Tuition Fee Loan to cover tuition fees of £8,507;
- you are eligible for the maximum Maintenance Grant of £3,354;
- you receive a Maintenance Loan of £3,823.

We have not taken into account any possible National Scholarship Programme monies, nor any bursaries or scholarships you may be eligible for.

http://www.thecompleteuniversityguide.co.uk/university-tuition-fees/managing-your-money/budgeting/

## Money: Budgeting

Learning how to budget is crucial if you want to stay in control of your money. By creating a budget, you can ensure that your outgoings don't exceed your incomings.

Budgeting allows you to organise your finances and achieve your money goals, whether they're as basic as having money left at the end of the month or being able to save for a deposit on a flat or a new car.

More importantly, it prevents you from living beyond your means, which could result in mounting debts. If done correctly, a budget makes it easier to see areas of your life where you could potentially make or save money.

## How do I create a budget?

The best way to create a budget is to keep a record of everything so that you know where every penny goes.

Sometimes it helps to have two records, one that shows your weekly outgoings, and another that shows your monthly outgoings. Try out the different types to decide what suits you best, just don't mix the two together...

To change weekly figures to monthly figures

Weekly figure x 52 (weeks) divided by 12 (months)

To change monthly figures to weekly figures

Monthly figure x 12 (months) divided by 52 (weeks)

To change four-weekly figures to monthly figures

Four weekly figure x 13 (payments) divided by 12 (months)

## Tips for budgeting

**Spread your money** - If you receive a loan, spread it across a period of time rather than spending it all at once.

**Prioritise** - Always make sure bills are paid first. You can change the date you pay your bills so that they leave your account soon after payday. Allow at least three working days in case payday or your bills fall on a weekend.

**Be disciplined** - Cut out luxury spending by not giving in to impulse buys.

**Stick to it** - At first it might seem hard, but budgeting will soon become second nature.

**Be realistic** - Allow for coffee breaks and nights out. Don't forget to factor in unforeseen costs like birthdays, Christmas and unexpected travel home. If you have a car, be mindful of the cost of petrol and repairs.

**Increase your earnings** - Check that your tax code is correct and that you are claiming any tax credits and benefits you are due. Information about entitlement can be obtained from your local Citizens Advice Bureau or local authority welfare rights office. Information about how to claim can be found at GOV.UK - Benefits .

**Maximise your income** - Providing all assignments are done, consider doing overtime at work, especially in the Christmas and summer holidays.

http://www.nus.org.uk/en/advice/money-and-funding/money-budgeting-/?load=6&top=984

Source: http://nus.org.uk 07/04/14

# Supplementing income at university

## Part-time work

As university fees rise and funding becomes increasingly sparse, more students have no choice but to take on part-time work to support themselves throughout their studies

Part-time and casual work has obvious benefits:

- it helps to get your bank balance back into the black;
- boosts your transferable skills such as time management, organisational and teamwork abilities; and
- gives you a taster of day-to-day working life.

## Can I study while working part time?

Almost half of all postgraduate students - 278,705 out of 588,720 - study part time, according to figures for 2010/11

from the Higher Education Statistics Agency (HESA). This extra time allows many students to take on part-time or even full-time work. Most universities acknowledge the fact that many students need to undertake some paid work during their studies, but recommend a limit of 10 to 15 hours a week during term time. However, not every institution permits it, so it is advisable to check with your university before seeking a part-time job.

If you are not a UK or EEA-domiciled student, there may be restrictions on the number of hours you are allowed to work. For more information, visit UKCISA: UK Council for International Student Affairs - Working in the UK during your studies or your careers service.

Think carefully before you decide to take on part-time work and, if it is necessary, consider how many hours you need to do and try to stick to this. Too much work while studying can have a negative effect on your academic work.

Part-time jobs can be carried out during the day when you are free from lectures, in the evenings or at weekends. If you are choosing to return to study after having worked full time, it may be an idea to ask your current employer whether you are able to keep your job but reduce your hours - particularly if your chosen

http://www.prospects.ac.uk/work_experience_part_time_casual_work.htm

Source: http://prospects.ac.uk 04/04/14

## Student current accounts

One of the most important bits of business to take care of before setting sail for university is opening a student current account. A good piece of advice for savvy students and parents is to remember that a top-notch interest-free overdraft is far more valuable in the long-run than any special offers.

Specialist student accounts, though, come with a free overdraft as standard. The limit in the first year of study is typically around £1,000, but it depends on the bank. Some start at £200 and ask students to request increases if they need more. At most banks the limit rises in a student's second and third year of study, typically reaching around £3,000 in year three.

An interest-free overdraft can be very cheap borrowing and almost every student dips in during their degree.

http://www.thisismoney.co.uk/money/studentfinance/article-2022922/How-best-student-current-account.html#ixzz2yDQbg7SN

Source: http://thisismoney.co.uk 04/04/14

## Planning a gap year

A gap year can be a very productive way of spending your time if it is well thought out and adds valuable skills and achievements to your CV.

## Before your gap year

- **Goals** - set yourself specific things to achieve or skills to gain.
- **Time frame** - how long can you be away? When can you leave? Do you need to be available on any specific dates in the future, particularly if taking a gap year before you go to university? If you are in the middle of your studies, make necessary arrangements with your institution and check when you need to be back.
- **Decisions** - UK or abroad? Are you going to travel, work or volunteer or a combination of these? Are you going to organise it yourself or use a gap year provider? Will you travel alone or with others?
- **Fundraising** - how much can you afford and/or how long do you need to raise more money?
- **Research** - what visas, vaccinations, etc, do you need for the countries you plan to visit? For more details, see working abroad and check the Foreign and Commonwealth Office (FCO) website.
- **Language skills** - do you need to learn or develop a language before travelling to your chosen country?
- **Think about your return** - prepare in advance for any relevant opportunities, e.g. graduate training schemes.

## During your gap year

- **Evaluate whether you are meeting your goals.**

- **Record your experiences** - think about the skills you are developing, lessons you have learned and any challenges you have overcome. This can provide great evidence of what you have gained from a gap year for prospective employers.
- **If unexpected opportunities come up** - look ahead and revise your plans.
- **Keep an eye on your finances** - make sure you are not going to run out of money while travelling.

### After your gap year

Employers value time out but only if it has been well thought through and structured so that you can sell it in a relevant way. They look for candidates who can demonstrate they have set goals, achieved them, learned from mistakes and gained experience relevant to their career plans.

You need to be able to articulate what you have gained from a gap year and how this might have benefits in the workplace.

Relevant attributes you may gain from your gap year include:

- **confidence, maturity, determination** - many 'returners' speak of being stretched beyond their expectations and finding they could rise to a situation or challenge;
- **adaptability, self-reliance, independence** - you may have travelled independently or had to change your travel plans to avoid a conflict zone or you may have applied your skills in a variety of ways through volunteering at home or abroad;
- **organisational skills** - are vital for all aspects of taking time out, from making applications and raising money, through to ensuring you have adequate accommodation along the way;
- **communication skills** - may have been developed, depending on your gap activities, such as communicating with people off the tourist trail or in remote communities;
- **problem-solving** - making decisions, often under pressure, can become a reality when you face situations such as accommodation not being available, your passport being lost or stolen, or projects that do not work out as you planned. Record examples of how you overcame setbacks to provide evidence of your initiative and resilience;
- **teamwork skills** - gained from working with other people to achieve a bigger goal;
- **global business skills** - international contacts or an understanding of different business models in other countries will be attractive to employers.

http://www.nus.org.uk/en/advice/careers/gap-year-plan-your-gap-year/?load=6&top=360

Source: http://www.nus.org.uk 07/04/14

# How to prioritise spending and saving

## Remortgaging and equity release

### Remortgaging

If you're a homeowner remortgaging can, if the right mortgage is found, improve your situation.

A remortgage is when you replace your existing mortgage with a new one. It can mean changing products with your existing lender, or switching to another mortgage lender completely. You should always get free expert debt advice before going ahead with a remortgage.

There are 2 main ways that remortgaging can improve your situation:

- You can release the equity that's in your property in a lump sum and use this to repay your debts
- It might reduce your monthly payment, freeing up money on a monthly basis to repay your debts

### How remortgaging works

A mortgage lender will base your application on a number of things including:

- Your credit file
- The value of your house
- How much you want to borrow

If you're in arrears with your mortgage or any other debts, your credit rating will be affected and it's unlikely that you'll get a good mortgage offer.

If you're currently on a mortgage deal that hasn't ended, for example a fixed term for 3 years, there will probably be an early redemption fee to pay if you remortgage.

## Things to think about before remortgaging

Remortgaging is something you need to consider carefully. It's important to get as much information as possible before you make a decision. Some areas to consider are:

- What will the interest rate be?
- What term do I want?
- What will the new monthly payment be?
- What type of mortgage is best for me, fixed or variable?
- How much am I going to pay on fees for a remortgage?
- How will this improve my situation?

http://www.stepchange.org/Debtinformationandadvice/Debtsolutions/Remortgaging.aspx

Source: http://www.stepchange.org 07/04/14

## The Equity Release

Equity release means releasing money from the value of your home, either as a lump sum or as a new monthly income. This is done by retaining the use of your home but using its value to generate a new source of earnings. With house prices rising and retirement income diminishing, it can be a tempting notion for those who wish to boost their income later in their life.

It can be especially appealing for those who are asset-rich but cash-poor, as it essentially involves converting your highest-value asset – your home – into a new source of regular income. However, equity release schemes are notoriously complicated, sometimes do not offer value for money, and usually come with many hidden costs and risks. Therefore equity release is not for everyone.

We look at the potential benefits and drawbacks of releasing equity from your home.

## How does it work?

When you release equity from your home you will take part in an equity release scheme. There are numerous different schemes available on the market so you will have to seek professional financial advice before deciding which one you'd like to go with.

With most equity release schemes you will be borrowing money against the value of your home, with this money being repaid when your house is sold – usually when you die or move to a care home. These schemes work on the principle that you will be lent part of your home's value in return for a share of the proceeds when your home is sold.

## What equity release schemes are available?

There are 2 main equity release schemes on the market at the moment.

### Home reversion schemes

If you take part in this kind of scheme you will sell your home (or a share of it) to a home reversion company, in return for a lump sum or a regular monthly income. If you decide to sell the entire value of your home you technically become a tenant, but have the right to live in your home rent-free for the rest of your life.

The home reversion company gets a payout either when you die or when the property is sold. If you sell your whole

property to the reversion company, you'll typically get between 30% and 50% of its value, the maximum usually being about 60%. Older people will get more than younger people, and men will get more than women, because of differences in life expectancy.

The benefits of releasing equity in this way are that you won't have any ongoing repayments to make, and you'll know at the outset what share of your home you'll be leaving to your family (as long as you only sell a share of your property to the reversion company).

You also may get a bigger payout if you are a smoker or suffering from a serious illness as, rather morbidly, you're likely to have a shorter life expectancy. However, reversion companies can be quite selective about the houses they take on, so there is a chance your home may not be eligible for a scheme of this sort.

### Lifetime mortgages

These work by securing a loan on your property, either as a lump sum, monthly income, or both. You don't have to pay anything in the loan term as the interest is 'rolled-up' into the price of the loan. Your lender is repaid the loan amount plus interest from the sale proceeds when your home is sold.

The older you are, the higher the percentage of your property value you can borrow. Lifetime mortgages of this nature can also be an appealing option because there is no interest payable while you are alive, and most loans come with fixed interest which reduces risk. They can also sometimes be available to people as young as 55 whereas most equity release schemes are only eligible for those aged 60 and over.

However, although usually set at a fixed rate, interest payments can quickly mount up – thus reducing the amount eventually paid out to your family when the house is sold.

## Who would equity release schemes be suitable for?

Usually you will have to be over 60 years old, have no outstanding mortgage to pay, and own a property in a reasonable condition to be eligible for equity release. Therefore it will suit those who are later on in life, usually retired, and need some extra income to supplement their pension or other income.

Benefits of equity release include the obvious appeal of receiving a lump sum or generating a new monthly income – or both. What's more, the money that is released from the value of your property is usually tax-free, unless you go on to invest that money – in which case you will have to pay tax on any growth.

The extra income generated from equity release may also be used to legitimately take the sting out of inheritance tax, or help to pay for care bills.

## What are the risks of equity release?

Equity release plans can potentially cut the amount of money your family will inherit when you die. What's more, members of your family may be anticipating moving into your property when you have moved out, or keeping it in the family for sentimental value, among other countless reasons. However if you release equity on your property you will not be able to leave it to your family. Therefore it is important to discuss your intentions with your family before going ahead.

If you receive means-tested benefits, these might be reduced or stopped completely if you decide to release equity. So remember to check if you will still be entitled to benefits upon releasing equity, or you could find that you are earning less than before. Most equity release plans involve paying valuation and legal fees, and you'll usually be charged for the surveying of your property. You will also still be responsible for maintaining and repairing your home, and will still have to pay Council Tax. Equity release schemes calculate how much money you'll get based on your average life expectancy. Men therefore will generally be granted a higher percentage of the value of their property than women, as their average life expectancy is shorter. However it is of course impossible to predict how long you will live, so any projection will only be based on rough (and often unsubstantiated) statistics.

## What are the alternatives?

Equity release will not suit everyone, and there may be other viable ways of generating extra income using your existing assets. For example it may be a good idea to move to a less expensive property, thereby releasing some of the money that is currently tied up in your home.

Alternatively you could secure a normal loan against your existing property that does not carry so many risks and still allows you to own your home outright – thereby allowing you to leave your home to your family when you die.

## What else should I consider?

If you do decide to go ahead with equity release, look for schemes carrying the SHIP logo (Safe Home Income Plans). This means you'll be given several guarantees: the right to live in your property for life, the freedom to move to another property without penalties, and you'll never owe more than the value of your home.

If you are concerned about the legitimacy of an equity release company, you can make sure that they are regulated by the FCA (Financial Conduct Authority) by checking their register. This contains a public record of financial bodies that fall under the FCA's jurisdiction, so if an equity release scheme is listed on here, you'll know you can trust them.

You are likely to get a better deal on equity release the older you are. So if you've only just retired, it might be worth waiting a few more years before releasing equity. Also remember to check whether any plan you are considering has penalties in place if you move or sell your home before death.

If you are going for a lifetime mortgage, don't just be seduced by the headline rates – look at the overall picture of how much you'll be paying.

Finally, and very importantly, you must seek independent financial advice before proceeding with anything. As there are so many different equity release plans on the market and such a variety of risks and expenses involved, you'll have to be as well-informed as possible. An Independent Financial Advisor (IFA) will be able to look at your overall finances and help you decide if it is the best course of action for you.

Read more: http://www.money.co.uk/article/1003979-what-is-equity-release.htm#ixzz2yDimuyLw

Source: http://www.money.co.uk 04/04/14

# How to get your children on the property ladder

According to research, first-time buyers now need to save for an average of eight years to have enough for a deposit, compared with just a year's worth of savings back in the 1990s. Londoners must wait even longer, and even though wages tend to be higher in the capital property prices are proportionally still higher, meaning they must save for an average of ten years before they can buy their first home.

Nowadays around 60 per cent of first-time buyers get help from parents to buy their first home - and it can make a lot of sense for everyone concerned.

## Buy a house for your children to live in

Parents with money to spare can always buy a second home and allow their children to live in it, or they could become joint owners of a house or flat with their children. However the aim of many older people is to see their children become financially independent and they would prefer them to take responsibility for their own accommodation – perhaps with a little financial assistance – rather than having an on-going involvement.

## Give your child the money to buy a house

The obvious thing to do – albeit not necessarily the most desirable or even possible – is simply give the child as much money as possible. Even if the child can theoretically meet a mortgage lender's requirements, the larger the deposit that the would-be housebuyer can put down, the better the mortgage rate that he or she will be offered.

If the child's house purchase coincides with parents or grandparents downsizing from the family home to somewhere smaller, the older generation can pass excess wealth over and above what they need to live on in retirement to younger family members with less risk of tax than if they waited to leave the cash as an inheritance. As long as the donor lives seven years after making a gift there will be no inheritance tax on the gift, not matter how big the donor's estate and no matter how much money has been transferred.

Of course, not many retirees are in the fortunate position of having so much spare cash that they can afford to give it away, so they may be tempted to use their assets to benefit their younger relatives in other ways. This can be a good idea, too, but

older family members need to be sure they are not putting their own security and retirement comfort at risk.

There are several ways that parents can use their assets to help their child buy a house without actually parting with those assets.

## Mortgage your own home

If parents or grandparents have a large amount of equity in their home, or own it outright, it may be possible to mortgage it and give the money released to the first-time buyers. There will be restrictions on older people getting an ordinary mortgage, particularly if they are no longer in employment. There are, however, a couple of specialist lenders who will lend on an interest-only basis to older borrowers, and there may also be the option of equity release (where you borrow money against the value of your home but it does not have to be paid back during your lifetime).

You will need to do the sums carefully because the interest rates you could end up paying to achieve this type of manoeuvre are likely to be considerably higher than a high street mortgage, and there will be arrangement fees to take into account as well. It is not something to be undertaken without specialist advice but, as with a straight gift of money, could be used as an inheritance planning move, which could make it more worthwhile.

## Guarantee the first-time buyer's loan

The homebuyers may be able to borrow more than they normally would be allowed to if a family member "guarantees" the loan. There are several ways of doing this, including having parental income taken into account when the amount that can be borrowed is assessed; allowing a charge to be placed on your property or depositing cash with the bank in a savings account as security. All have their benefits and drawbacks, and you need to be clear in your mind about how you could be affected if things go wrong.

## Guarantee vs shared ownership

The main advantage of providing a guarantee rather than opting for shared ownership is that the property and the loan are at all times in the name of the young buyer. There are therefore no concerns about remortgaging at a later date or capital gains tax worries for the parent on eventual sale, as there would be if you were a joint buyer and did not live in the property. After a certain period, or when the young person's income increases or they have managed to reduce some of the capital outstanding, you will be released from the guarantee.

A guarantee loan could be particularly suitable where the buyer can "afford" higher mortgage payments, perhaps from employment bonus payments, but the lender will only lend a lower amount because these bonuses are not a guaranteed part of the borrower's salary.

However, the fact that you don't have a stake in the property could also be a disadvantage if the borrower defaults – for instance if the child's salary bonuses dry up and you are called on to make up the difference. You need to be absolutely clear about how much you are guaranteeing and what the risks are. With some guarantee loans the guarantee is for the entire amount borrowed, even if the borrower only needs a modest top-up above the income level up to which the lender will normally lend. With other lenders you just guarantee the surplus. Be particularly careful if you own home could be put at risk.

## A guarantor mortgage using parental income

This type of loan may be suitable if the parents are still earning and have a small mortgage or no mortgage themselves. Their income is used to boost the borrowing capacity of the homebuyer.

A first-time buyer earning £30,000 income could usually borrow up to about £120,000. If their parent earning £45,000 stood as guarantor, this figure could be boosted to £180,000. The child pays the mortgage (unless the parent wishes to contribute voluntarily, of course) and none of the parent's money changes hands unless the child defaults, when the parent will be asked to step in and make the payments.

## A mortgage guaranteed via a charge on the parental home

Under this scheme the borrower can access a loan of 100% of the value of the property being purchased. This too involves no parental money changing hands, but a charge is made against the parental home, so that if the borrower

defaults on payments the lender can recover the money, in the worst case by forcing a sale of the parent's house to pay the child's debts. If you are considering one of these loans be sure that the amount of guarantee is capped, meaning the guarantor's liability cannot exceed the original agreed amount

## A mortgage guaranteed with a savings account deposit

Under this scheme the borrower can access as much as 95% of the value of the property being purchased as long as the guarantors - the parents or other relatives - deposit a sum of money in a savings account with the bank. Interest is paid on the savings to the parent, whose money it remains, but the cash in the savings account could be forfeit in the event of a default by the borrower.

## Family offset mortgage

This type of loan does not necessarily allow the child to borrow more at the outset under income multiple rules, but interest on savings placed in an account parallel with the mortgage reduces the amount of interest due on the loan and can reduce monthly payments or shorten the lending term, thereby making repayment easier for the child.

The capital in the savings account belongs to the depositor at all times and only the interest is used to assist the child.

http://www.saga.co.uk/money/experts/how-to-get-your-children-on-the-property-ladder.aspx

Source: http://www.saga.co.uk 07/04/14

# Savings Types

## Top tips for choosing a savings account

**Tip 1 – Set a savings goal**

You can use different accounts for different goals. For example, use an instant access account to save for an emergency fund while using a fixed-rate account to save up for a deposit on a house

What do you want to get from your savings? How much do you need to save? When do you need the money? You might want to save a set amount by a target date or save up for a specific thing like a special day out or a new car. Your savings goal will help determine which account is best for you. If you have more than one goal you could use different accounts for each one.

**Tip 2 – Know yourself when comparing rates**

How hands on are you likely to be with your savings? Some accounts offer a high bonus rate which is designed to tempt you in – but bonuses drop off after a certain period.

- If you have time to shop around and don't mind switching to get the best deals, set a reminder to switch at the end of any initial bonus rate.
- If you don't have time to keep switching, avoid accounts offering bonus rates and look for a rate that's been more stable historically – you'll find this info on the comparison sites.

**Tip 3 – Use regular savings accounts or fixed term deposits**

Beware of structured products that look like cash bonds offering a high interest rate, these are risky investments and not suitable for cash savings. Can you set up a standing order to your savings account or tie up your money for a year or more? If so, you could earn a bit more interest with a regular savings account or a fixed-term deposit or savings bond. But remember, with a fixed term account you may not be able to access your money immediately (or even not until the end of the term) – and there could be a hefty withdrawal fee.

**Tip 4 – Be tax-wise**

Make sure your savings are covered by the Financial Services Compensation Scheme. Don't keep more than £85,000 with one banking group.

Do you pay income tax? If not, ask to have your account interest paid gross – otherwise tax will be automatically deducted. If you are a tax payer you can earn interest tax-free in a cash ISA. But be sure you're getting a good interest rate so the tax benefit isn't cancelled out by lower returns.

**Tip 5 – Don't keep more than £85,000 with one banking group**

Cash you put into authorised UK banks or building societies is protected by the Financial Services Compensation Scheme.

Up to £85,000 per person in any one authorised firm is safe even if the firm collapses. This compensation limit applies per authorised firm, not by brand. Some banking brands are actually part of a single authorised firm. Check if any of your banks are part of the same authorised firm and make sure your combined balances don't go over £85,000.

https://www.moneyadviceservice.org.uk/en/articles/top-tips-for-choosing-savings-accounts

Source: http://www.moneyadviceservice.org.uk 07/04/14

## Types of cash savings account

**Instant and easy access accounts -** The place for your emergency savings. They may pay more interest than a normal current account, and the money is on hand when you need it.

**Regular savings accounts -** For saving a monthly chunk of your income. There are rules about how much you can put in and take out, but you get a slightly higher interest rate.

**Fixed-term deposit accounts -** For setting money aside for a set length of time. A fixed rate of interest is set in advance, so you know exactly how much you'll end up with.

**Index-linked accounts -** Like fixed-term deposits, but the interest rate changes in line with inflation – you can't be quite sure what you'll get at the end of the term.

**Cash ISAs (tax-free) -** Tax-free savings. You get an annual allowance – so make the most of it! A Cash ISA is usually a simple savings or deposit account. You can get a Cash ISA from the age of 16, or a Junior ISA for under 18s.

https://www.moneyadviceservice.org.uk/en/articles/cash-savings-at-a-glance

## Savings Types

Whether you are a great fan of DIY, or have a house full of wonky shelves, you will know how important it is to have the right tool for the job. Well the same applies when selecting a savings account to keep your hard-earned cash in. Choosing the right account for your money is essential for looking after your investment and achieving your aspirations; which is why we are here to lend a helping a hand! Once you have decided what you are saving for (your big day in a year's time, or just to know that you have enough money to retire), it should be easier to work out whether you will need the money in the short, medium or long term.

So to help you decide on the right savings tool for the job, here is an introductory guide to choosing the account best suited to your situation...

## Short-Term Savings

If you are investing money that you will shortly need to access (typically up to five years) then you need an account that will let you do just that.

Different accounts have different notice periods (or times for which you will need to wait for your cash):

- Instant or easy access accounts will typically allow you to immediately get your hands on the money if you need it – and are therefore often a good idea for any emergency stash you might have built up.
- Fixed-term deposit accounts mean that you have agreed to leave your money in for a particular amount of time and will be penalised if you try and take it out before then. This could be for a year or more depending on the product. These work well if you know you have money that you can lock away for a certain amount of time; if you are given a gift from parents to put towards a deposit on a house for example.
- Regular savings accounts work on the principle that you agree to contribute a certain amount each month, normally for a fixed time period. If you are saving for say a wedding in a year's time and know you can afford to save a fixed amount each month, then this might be a good option.

As a general rule of thumb, the longer you are prepared to lock your money away or commit to regular saving, the better

interest rate you will get.

Just as important, if not more so, is tax treatment. If you pay tax (particularly if it is at the higher rate) then it is nearly always a good idea to use your tax-free allowance first. This means looking at a cash ISA (or Individual Savings Account). These allow you to save up to a certain limit (£5760 in the tax year 2013/14) without paying any tax on the interest you earn. Just like a regular savings account, there are a range of these available (instant access, fixed term, regular savings etc). The key differences being you can save tax-free, but there is a maximum amount you can save, and if you are up to the limit and then remove your cash, you cannot reinvest it in the same tax–year.

### Medium-Term Savings (two to five years)

If you know you are able to keep your savings tied up for a minimum of two to five years, it is likely that you can achieve slightly higher interest rates than those offered for easy access accounts. In which case, you may decide to look at fixed-rate bonds, as well as considering longer term notice periods on savings accounts.

Normally, the money in a fixed-rate bond account will pay better interest than a savings account, but you need to be aware of the potential downside; you may find that they are inflexible. For example, some don't allow you to make additional deposits, withdrawals or close the account during the fixed term. Also, the provider may offer the higher interest rate only if, for example, you also open a current account.

You should always consider whether or not you have used up your cash ISA limit first, and whether or not you can get a better deal through using that. Obviously this depends on the interest rates available at the time, but (particularly if you are a 40% tax payer) you are unlikely to be able to better a tax-free rate. So shop around and make the comparisons.

### Long-Term Savings

You may be saving for a big purchase in the future, possibly the kids' university fees or your retirement. Alternatively, you may not have a specific goal in mind and have just decided to start making positive steps to securing your future income. In either case, the way you choose to save will depend on how safe you want your money to be and how much risk you are willing to take.

With longer-term savings (typically for at least five years) you can still choose any of the options set out above. Saving your money in this way is the safest and most secure way to ensure your future. But, for those of us who are prepared to take more of a risk, investing (rather than saving) might be worth considering.

Investing is a much riskier way to save because it is possible to lose money, rather than make it. And the golden rule is that you should NEVER invest money that you can't afford to lose, or at least make a loss on. As with savings, investment products range hugely, both in terms of complexity and risk.

If you want to (and can afford to) dip your toe in the water, a stocks and shares ISA might be an option. This is similar to the cash ISA in that it allows you to keep the returns you make tax-free, but the crucial difference is that your cash is invested in stocks and shares rather than in a bank account. This means you could lose some or even all of your money. Some companies provide packaged stocks and shares ISAs meaning that the decisions on where to invest are taken for you. This could mean that this is less risky than you just taking a punt yourself, but there is still no guarantee. If in doubt, take professional advice.

Other investments include basic stocks and shares, but also Unit Trusts, Open-Ended Investment Companies, Investment Trusts and Venture Capital Trusts and many more. In all cases, if you are thinking of venturing into this more complex market, we suggest that you seek unbiased, whole of market advice.

http://themoneycharity.org.uk/advice-information/choosing-savings-account/

Visit http://themoneycharity.org.uk/advice-information/saving/ for more info.

## Should you save, or pay off loans and cards?

You will rarely be able to earn more on your savings, than you will pay on your borrowings. So, as a rule of thumb plan to pay off your debts before you start to save.

### Paying off your debt

If you are paying more for your borrowing than you are getting on your savings, then it makes sense to pay off your loans - so long as you can access funds in an emergency (see more on this below) and provided you will not incur high penalties for repaying your loan. Once you've cleared your debts you are freed up to save more and faster. If you have several debts to clear, aim to clear the most expensive ones first.

These are the most common examples:

- Most credit card debt.
- Store card debts.
- Unauthorised overdraft.
- Catalogue shopping.
- Pay-day loans.
- Door-to-door lending (home credit).

### When to start saving

Generally it's fine to save and have some debt as long as:

- you're keeping up with your mortgage payments
- you're paying off your credit card bill each month
- you don't have other loans or credit commitments that are costing you more in interest than you could earn on your savings

### Long-Term Savings

Regular saving is really important. Make it easy by setting up a standing order or Direct Debit to move money into a savings account regularly so you don't spend it or forget to put it aside. After a while, you won't even miss it.

And, to save even faster, why not set a savings goal so you know:

- how much you are going to save
- how long it will take you to reach your goal

You'll probably want to start by thinking about tax efficient savings, like making the most of your ISA allowance. Follow the links below to find out more, including when and why it's important to start saving into a pension.

https://www.moneyadviceservice.org.uk/en/articles/should-i-save-or-pay-off-debt

Source: http://www.moneyadviceservice.org.uk 07/04/14

## Assessing the performance of your savings and investments

See how well your savings and investments are doing. Set up an email alert to ensure you make this a regular habit, at least once a year.

### How to check performance

Whether your investments are shares, property, or bonds, you can use the same checks to compare them and decide if you need to move any money around. For cash on deposit simply compare your current rates against the alternatives available.

### Step 1 – Work out your total real return on each investment

Information you'll need to hand:

- The paperwork showing how much your investment is worth now and how much it was worth at the beginning of the period you're looking at.

- A note of any income you've received from the investment or asset during this time (eg dividends, rent, bonuses or interest).
- The rate of inflation (retail price index) over the period.

### How to do your calculation

1. Start with the current value.
2. Take off the value at the beginning of the time period you're assessing.
3. Add any income or dividends paid out in that time, as long as they aren't already included in the current value.
4. Take off any fees, trading costs, administration or legal charges and any withdrawals you made and adjust for any payments that you have made during the period – this gives you the actual return.
5. Divide the actual return by the value at the start of the period and multiply by 100% – this gives you the% rate of return.
6. Then deduct the rate of inflation over the time period – this gives you a quick figure close to the total real return from the investment over the period.

### Step 2 – Check your returns against a benchmark

Benchmarks are standards you can use to measure your investment and put its performance in context.

Has your investment made any money after inflation?

This benchmark is suitable for cash deposits and low-risk fixed interest assets such as cash bonds and fixed interest securities. It tells you whether your investment has kept its value against inflation.

- If your rate of total real return is more than zero, it has beaten the zero return benchmark and you've made a real gain after inflation.
- If it's less than zero, it hasn't beaten the benchmark and the value of your investment has fallen in real terms.

Compare against the 'risk-free' benchmark

The risk-free benchmark is how much you could have earned on an investment with no risk. The high street banks' interest rates on basic deposit accounts are a good risk-free benchmark.

If you're taking more risk than this, you should expect to see a higher return.

- Deduct the risk-free rate from your rate of total real return to see if your riskier assets are generating extra returns.
- The greater the risk you're taking, the more your return should exceed the risk-free rate.

If your return is lower than the risk-free rate, you might want to move your money to cash investments. Look at performance across previous years as well so your judgement isn't too influenced by what's happening in the short term.

### Step 3 – Compare performance against the markets

You can put the performance of your investment in context by comparing it to other similar investments. For example, if you have invested in different stocks, you will notice that the value of some will have increased, or decreased, more than others.

https://www.moneyadviceservice.org.uk/en/articles/assessing-the-performance-of-your-savings-and-investments

## Should you transfer your credit card balance?

Balance transfers can help you to lower the cost of your credit card borrowings and consolidate multiple debts. They could potentially help you lower your outgoings as well.

What is a balance transfer?

Transferring your balance means moving all or part of a debt from one financial provider to another. People often use them to take advantage of lower interest rates.

Switching your debt to a card with a lower interest rate lets you:

- pay less interest on your existing debt, and/or
- organise your finances by consolidating multiple monthly payments into one

### What it costs

Banks and credit card companies often charge a fee for balance transfers. These fees usually depend on the size of the transfer and may also vary according to the length of the introductory period. Be sure to check the fee and take this into account when calculating potential savings.

Things to watch out for

- Interest rates: most balance transfers offer a better interest rate for a limited period. Once that finishes, the interest rate will usually go up. Check if the final rate is competitive with other cards.
- Transfer limits: you'll need to transfer an amount that's within the credit limit on your new card, minus the fee.
- Credit card providers often try and sell you fraud protection and lost card services. The benefits may not be that worthwhile as you are protected by law already to some extent.
- It's usually recommended not to make any purchases with a credit card to which you have made a balance transfer.

https://www.moneyadviceservice.org.uk/en/articles/deciding-whether-to-transfer-your-credit-card-balance

## ISAs

Make sure you don't pay more tax than you need to – make the most of tax-free savings and investments for you and your children or grandchildren. Check what's available and see if you could be saving money.

ISAs are tax-efficient savings and investment accounts. You can use them to save cash or invest in stocks and shares. The most you can put in to an ISA is £11,880 until 1 July when it rises to £15,000.

There are currently two kinds of ISA:

- Cash ISAs - The most you can put in a Cash ISA is £5,940.
- Stocks and shares ISAs - You can either pay your whole allowance of £11,880 into a Stocks and shares ISA, or you can pay up to £5,940 into a Cash ISA and the remainder into a Stocks and shares ISA.

From 1 July 2014, Cash ISAs and Stocks and shares ISAs are to be merged into a new single NISA, with a much higher limit of £15,000 per year.

You pay no Income Tax on the interest you receive from an ISA and any profits from investments are free of Capital Gains Tax. However, the equivalent of tax at 10% has already been paid on dividends (share income) which cannot be reclaimed.

https://www.moneyadviceservice.org.uk/en/articles/isas-and-other-tax-efficient-ways-to-save-or-invest

Source: http://www.moneyadviceservice.org.uk 07/04/14

## Debt consolidation loans

Consolidating all your debts into one loan might appear to make life easier, but more often than not it's a bad idea. If you miss repayments on a secured debt consolidation loan, you could lose your home.

### Get free debt advice first

If you're seriously considering a consolidation loan, you may already be struggling with debt.

You may feel you don't have many options, but there may be more than you think. There are several debt advice charities that can give you free advice to help you improve your debt situation.

### What are debt consolidation loans?

If you've got lots of different debts and you're struggling to keep up with repayments, you can merge these together into one loan as a way of potentially lowering your monthly payments. These loans are usually secured against your home

although some lenders do offer unsecured consolidation loans, but for smaller amounts.

With a consolidation loan (which can be secured or homeowner loans) you borrow enough money to pay off all your current debts and owe money to just one lender.

Be careful though, as consolidation loans can be dangerous and lead to more debt.

They were heavily marketed in the years leading up to the financial crisis, but are much less common now. Even if you decide you want one, you may struggle to find someone who will lend to you.

Debt consolidation only makes sense if you use it as an opportunity to cut your spending and get back on track, you can keep up the payments until the loan is repaid and you can afford to pay off any fees or charges to your old lender(s).

When getting a debt consolidation loan makes sense

Here's an example of when a debt consolidation loan would make sense:

Steve owes £10,000, made up of:

- £7,500 on a credit card that charges 17.9% interest
- £2,000 on an overdraft at 18.9% interest, and £20 monthly fee
- £500 on a pawnbroker debt of £500 charging 68.8% interest.

Steve pays a total of £435.83 in interest and fees each month. If he sticks with his current loans it will cost him £4,145.99 in interest and fees to pay off his debt. If Steve switched to a debt consolidation loan he would only pay 12.6% interest. It would cost him £3,529.30 in interest to pay off his debt, rather than £4,145.99. So Steve would save money by switching.

## When getting a debt consolidation loan doesn't make sense

A debt consolidation loan definitely doesn't make sense if:

- the interest rate means your monthly repayment will be more than what you're paying at the moment.
- you can't afford the new loan payments or don't clear all your debts with the loan
- your monthly repayments are lower but your loan will last much longer, as this means the total amount you will repay could be higher
- you can shift all your debts to a 0% or low-interest balance transfer credit card. This is the cheapest way to borrow if you repay within the 0% or low interest period and you won't be putting your home at risk. However, you need a good credit rating to get one of these cards.
- You could also consolidate your debts into an unsecured personal loan, which doesn't put your home at risk. Again, you will need a good credit score to get a low interest rate.

## If you do opt for a secured loan

- Make sure you shop around using comparison websites to find the best deal
- Don't just look at the interest rate, but compare the APR (the annual percentage rate) as this will include extra costs such as an arrangement fee
- Take advice if you don't know how to compare the different deals available.
- Beware of the high fees some companies charge for arranging the loan. Read the small print carefully for any extra fees or charges before you sign anything and make sure you check whether there are any fees for paying off the loan early. And avoid paying a fee for a company to arrange the loan on your behalf unless you are getting advice.
- Cut up your credit cards and cancel any overdrafts you have to avoid the temptation to spend again.

https://www.moneyadviceservice.org.uk/en/articles/debt-consolidation-loans

Source: http://www.moneyadviceservice.org.uk 07/04/14

# Giving your children financial advice

## Borrowing and credit basics

Nearly everyone will need to borrow money at some point in their life, whether it's for a student loan, a car, or to pay for a first home. We look at the range of borrowing products available to those aged 18 and over and explain how they are best used.

## Borrowing products - what's available from age 18

There's quite a range of borrowing products available to people aged 18 and over, and while it's illegal to lend money to anyone in the UK aged under 18, you can still easily get into debt.

All forms of borrowing charge interest, which must be displayed for each form of borrowing as an Annual Percentage Rate (APR). This is so people can compare the cost of different products.

Below are some of the most common forms of borrowing – we've arranged them in approximate order of the APR charged, with the lowest APR at the top and the highest at the bottom.

- Personal loan – This is usually a fixed amount, say £1,000, borrowed over an agreed period of time. The loan is repaid in monthly instalments until paid in full at the end of the period. This is one of the cheapest forms of borrowing.
- Overdraft – Your bank account provider allows you to take out more money from your account than you have in there. This is supposed to be a very short-term form of borrowing, as the next time money (income) is paid into your account it will reduce or even clear the overdraft. Some bank account providers offer interest-free overdrafts. Be aware that if you go overdrawn without the permission of the bank, the charges may be very high.
- Credit card – A card used to purchase items. The money doesn't come out of your bank account - instead you receive a statement of your borrowing at the end of each month. You then have the option to pay off the full balance on the card (i.e. the total of what you have spent), or as little as 5% of the balance. If you choose not to pay the whole balance, you'll be charged interest on the balance left on the card – this is then added to your statement for the end of the next month. If you only ever pay off 5% of the balance of a credit card it will take far longer and cost far more to repay.
- Credit unions – Small financial organisations set up by their members to support the local community. They offer small loans of typically £3,000 or less and are generally far cheaper than payday loans. By law the maximum interest rate a credit union can charge its members is 2% a month (26.8% APR).
- Store cards – These function in a very similar way to credit cards, with the key difference being that you can only use them in stores that belong to the same group. They're not as flexible as credit cards and tend to be more expensive because they usually have a higher APR.
- Payday loans – Very short-term loans, intended to provide you with money until your next payday. These loans have extremely high APRs and some equally high penalties for missed repayments. All other forms of borrowing should be looked at before considering a payday loan.

### When should you borrow?

There is a school of thought which argues that debt can be classed as either good debt or bad debt.

Good debt - any borrowing that enables you to make money or improve your prospects in the long term, such as buying a car so that you can travel to work, or a student loan, is classed as good debt, as long as it is manageable for you to make the repayments.

Bad debt - any borrowing that provides no return at all, such as borrowing to fund luxury items or expensive trips, is bad debt.

https://www.moneyadviceservice.org.uk/en/articles/borrowing-and-credit-basics

Source: http://www.saga.co.uk 07/04/14

# Good debt versus bad debt

Before you borrow money, it's worth knowing the difference between good debt and bad debt. Some things are worth going into debt for, others can leave you in a big financial mess. Here's how to tell the difference.

## What is good debt?

In simple terms, a good debt is one that is a sensible investment in your financial future, should leave you better off in the long-term and should not have a negative impact on your overall financial position.

You will have a clear and specific reason for taking it out, and a realistic plan for paying it back that allows you to clear the debt as quickly as possible, or in a series of regular and affordable payments (eg for a mortgage).

Someone with a good debt will also have identified the cheapest possible way of borrowing that money. They will have done this by finding the borrowing method, an interest rate, loan or credit amount, term and charges that are the most appropriate for them. In some cases it will mean a deal with the lowest possible interest rate, but in others it may not, for example if the lowest rate comes with the price of high charges or penalties.

### Examples of good debt

Here are some examples of how taking on debt could actually make you better off in the long run:

- Student loan. Taking out a student loan to pay for university will help you become a graduate. This is a good investment because university graduates typically get paid more than non-graduates and, more importantly, because the interest rate is relatively low and you only have to repay the loan once you're earning more than a certain amount.
- Mortgage. A mortgage can be a good debt, because it will enable you to purchase a home to live in. Once that mortgage is paid off, that home will be a big financial asset, which is likely to grow in value over time and the monthly mortgage payments could be cheaper than rent.
- Investing in your own business. A loan to help you develop your own business can also be a good debt, as long as you have a sensible and realistic business plan. If your business does well it will end up being worth far more than the loan you originally took out.
- Buying a car you can afford, if it is essential to enable you to get to work and earn a living. However it's important that you can afford the loan repayment costs and the running costs of the car out of your income.

## What is bad debt?

Bad debts are those that drain your wealth, are not affordable and offer no real prospect of 'paying for themselves' in the future.

Bad debts are also likely to have no realistic repayment plans, and are often run up when people make impulse purchases of items they don't really need, or borrow money to pay every day bills.

If you can't afford to borrow the money (for example, you aren't sure you'll be able to make the monthly repayments) it is definitely a bad debt.

### Examples of bad debt

Here are some examples of things you should think seriously about getting into debt for. If you can't pay the debt off in the very short term, it's probably better not spending the money.

- A luxury holiday you can't afford. A luxury holiday can be a trip of a lifetime, but is best avoided if it's accompanied by a lifetime of debt. Instead of getting into debt, try and save up first, if necessary reworking your plans so you can still take a holiday, but one you can afford.
- A brand new car you don't need. If you don't need to buy a new car, think twice about it. New cars always lose their value and if you lost your job for example and you couldn't keep up the repayments, you might end up with a loan for more than you could sell the car for. That means you'd have no car but an outstanding debt (and interest) to pay.

- Borrowing money to pay bills and or other credit commitments. If you are struggling to get to the end of the month you can get free confidential advice, which will help you get your finances back on track.

https://www.moneyadviceservice.org.uk/en/articles/good-debt-versus-bad-debt

## Tips to avoid bad debt

When considering borrowing money, ask yourself the following questions. If any of the answers are 'no', that debt is likely to be bad.

- Will borrowing this money improve my finances in the long run?
- Have I shopped around to get the best deal?
- Am I borrowing this money as cheaply as possible?
- Will I be able to cope should interest rates rise in the future?
- Will I comfortably be able to afford the monthly repayments?
- Do I understand all the terms and conditions associated with borrowing this money?
- Do I understand the risks and what could happen if things go wrong?

### How much should I borrow?

Once you have established that the money you want to borrow is a good debt, you need to work out exactly how much to borrow and how you are going to pay it back. Borrowing more than you need without a plan for paying it back, can swiftly turn a good debt bad.

https://www.moneyadviceservice.org.uk/en/articles/good-debt-versus-bad-debt

Source: http://www.moneyadviceservice.org.uk 07/04/14