

# ASK THE EXPERTS

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Family finances: Supporting your  
children beyond school years



LLOYDS BANK

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

Which? University

[gov.uk](https://www.which.university.gov.uk)

The Money Charity

[NUS](https://www.nus.org.uk)

Complete University Guide

[Prospects](https://www.prospects.ac.uk)

[thisismoney.co.uk](https://www.thisismoney.co.uk)

[Money Advice Service](https://www.moneyadviceservice.org.uk)

[Saga](https://www.saga.co.uk)

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# Higher Education & Gap Years

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

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### 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.

<b>Full-time student</b>	<b>Tuition Fee Loan</b>
Full-time	Up to £9,000
Full-time at a private university or college	Up to £6,000
<b>Part-time student</b>	<b>Tuition Fee Loan</b>
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

<b>Full-time student</b>	<b>Loan for courses from September 2013</b>	<b>Loan for courses from September 2014</b>
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](http://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](http://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 an online 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 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 budgeting 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!

<b>Income</b>	<b>£</b>
Tuition Fee Loan	8,507
Maintenance Loan	3,823
Maintenance Grant	3,354
Term time/vacation work	3,000
Total income	18,684

<b>Expenditure</b>	<b>£</b>
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://www.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](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

## Giving your children financial advice

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### 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.moneyadvice.service.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.moneyadvice.service.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.moneyadvice.service.org.uk/en/articles/good-debt-versus-bad-debt>

Source: <http://www.moneyadvice.service.org.uk> 07/04/14