Managing your debt

BARCLAYS | LifeSkills

Module overview

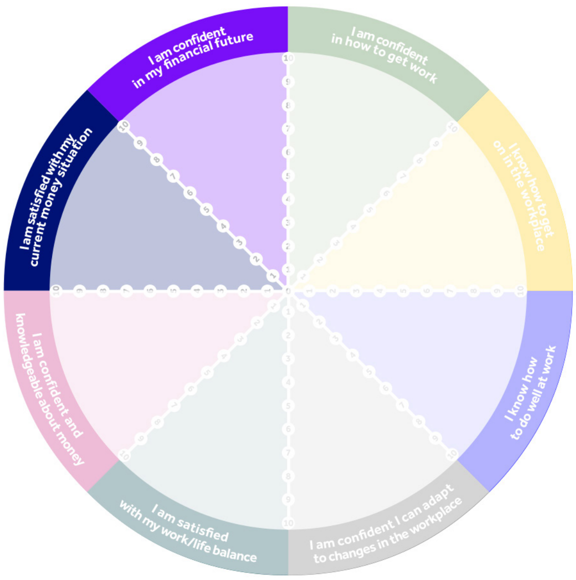
This module helps learners to identify bills they need to pay, looks at how we get into debt and how to prioritise repaying bills.

Time	Key learning outcomes	Which will lead to
30 mins	By the end of the module, learners will be able to: • Identify bills they may need to pay and when to pay them • Recognise the impact of poor money management (how we get into debt) • Prioritise repaying bills • Demonstrate an understanding of effective budgeting (linked to Planning your personal budget module)	• Improved financial capability and money management You could consider working through modules **Taking control of your income**, **Planning your personal budget** or **How to save more money** to support the knowledge and skills developed in this session

Important

Introduce the activity and theme and remind your learner of the coaching-based approach. Agree the desired outcome of the session with your learner.

Throughout the activity, we have included **'do now'**, **'do soon'** and **'do later'** actions which may help your learner to think about the next steps they could take. Alternatively, you could use the 'do now', 'do soon' and 'do later' headings to help your learner come up with their own actions.



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Introduction

Time	Educator guidance	Expected outcome
2-3 mins	Refer back to their LifeSkills wheel and discuss how they scored themselves in relation to the module. Discuss what they need to know/do to be able to increase how they rate their satisfaction with this area. It is important to gauge your learner's attitude towards discussing money, whether they are 'open' or 'head in the sand'.	• Learners are reminded of where they are now and what they need to do to reach a higher satisfaction score in this area

Core activity one

What is debt?

Time	Educator guidance	Expected outcome
3-5 mins	Start by asking your learner to come up with a definition of what debt is and their attitude to debt. **Prompt questions could include:** **What is the definition of debt?** **What does debt mean to you?** **How do you feel about debt?** Share this definition before moving on – Debt: money that you owe to a person or a company. **If your learner feels comfortable discussing their sources of income with you, use prompt questions such as:** **Are you able to pay off your bills when they are due?** **What, if any, barriers do you face to paying on time?** **What events in the future might affect your ability to pay bills or avoid debt?** Explain to your learner that as this module is all about debt management, they will be able to reassess these barriers and find practical ways to manage their money and know where to get help, if required.	• Learners have an understanding of what debt is and what it means to them

Core activity two

Ways to prevent getting into debt

Time	Educator guidance	Expected outcome
3-5 mins	**Ask your learner:** **How do you think we can reduce our chances of getting in to debt?** Try to guide your learner into an answer that includes getting/being organised. **Ask your learner:** **How can we get organised with our bills?** **Why would being organised be beneficial?** With your learner create a mind map of all the methods that can help with organising payment of bills, before discussion and feedback, for example • Organising bills into a folder (physical or digital) • Changing direct debits to closer to payday • Checking bills (including credit card statements) regularly • Making and sticking to a budget **Do now:** Organise your bills into a folder (physical or digital) **Do soon:** Review your direct debits **Do later:** Sit with another person from your household (or a friend you trust if you live alone) and consider together additional ways to keep track of your spending, try one of them Explain that we can manage debt and/or reduce existing debts by prioritising paying/repaying bills. Paying regular bills is a challenge but is an essential skill to learn to avoid unmanageable debt. **Ask your learner to make a list of all the bills they need to pay. Once completed, cross check this against the Bills and outgoings handout.** **Are there any they have missed?**	• Learners should understand that getting organised assists with preventing getting into debt and should be encouraged to explore what this means to them • Learners to have an understanding of the different outgoings they must include/ consider

Core activity three

How to prioritise bills and spending

Time	Educator guidance	Expected outcome
7-10 mins	Pose a challenge to your learner: You need to pay a telephone bill this week but another unexpected bill comes in at the same time. What steps can you take? Discuss the challenge with your learner and then provide some suggested answers, for example: • Work out which is a priority • Decide who to call to discuss options like a payment plan • Create a budget to see where you could reduce spending	• Learners should be able to identify priority bills/spending and be able to recognise where they might be able to make adjustments for unexpected bills

Core activity four

What does it mean to borrow money?

Time	Educator guidance	Expected outcome
5-7mins	Discuss that sometimes we might need to borrow to tide ourselves over or help with a big purchase, but it's important to keep up with the repayments otherwise we can get into debt/ further into debt. **Prompt questions could include:** **What are the benefits of borrowing?** **What are the risks?** **Where might you borrow money?** **Is there such a thing as good debt and bad debt?** Risks with borrowing include high interest on repayments, becoming unable to keep up with repayments, impact on credit rating, unable to pay for emergency costs as no savings. **Use the finance glossary handout to discuss each option and the risks involved in each one:** • Bank loan • Student loan • Credit card • Payday lender • Loan shark • Mortgage • Overdraft	• Learners should understand that borrowing comes with some risks • Learners should understand different borrowing options and associated risks • Learners should understand that they are able to get help if they are struggling with their debts

Core activity four

What does it mean to borrow money? (cont'd)

Time	Educator guidance	Expected outcome
	Ask your learner if they know where to get help if they really cannot manage their debts themselves. As appropriate, signpost to debt advice services: • **Citizens Advice** • **StepChange Debt Charity** • **National Debtline** • **Christians Against Poverty** • **PayPlan** • **Debt Advice Foundation**	

Wrap up

Time	Educator guidance	Expected outcome
5-7 mins	**Ask your learner:** **Thinking about what you have covered in this session, what steps can you take next to move forward in this area?** Agree an action or next step that your learner can take to consolidate what has been covered in the session. e.g. • Review budget to address areas of overspending to reduce debt • Creating payment plans Discuss any gaps that your learner feels they have in knowledge, skills or confidence in taking control of their income and agree how these might be addressed. Reflect on the score that your learner gave themselves on the LifeSkills wheel in relation to the module — do they feel closer to improving their score on the wheel now that they have an understanding of debt management? Why or why not? Learners to take away **Finance glossary**.	• Learners are able to identify an action or next step to move forward in this area • Learners should feel more confident in discussing gaps in their knowledge when it comes to debt management, and have a plan to address this

Optional extension

Time	Educator guidance	Expected outcome
10-20 mins	**Ask your learner:** **Do you know what credit scores/ratings are and how they work?** Explain that a credit score is a number that lenders use to help them decide how likely it is that a person will repay on time if they give them a loan or a credit card. Your personal credit score is built on your credit history. Discuss what might happen in the future as a consequence of not paying their bills, such as having a poor credit rating or a County Court Judgement (CCJ) on your credit record. Look at the **Priority vs non-priority debts** handout and ask your learner to sort them in to priority debts and non-priority debts. Check the answers against the sheet. **Are there any that they are surprised about?** Ensure that learners understand that priority debts are those that have the most serious consequences, and should be dealt with before non-priority debts. For example, missing mortgage repayments could result in you losing your home, whereas mobile phone or water bill payments could affect your credit rating and result in a County Court Judgement (CCJ). **Credit basics** handout can be shared as a takeaway.	• Learners have an understanding of what credit scores are and why they are important/useful • Learners are able to identify priority and nonpriority debts and the possible outcomes of not paying each type

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Bills and outgoings

List of possible bills/outgoings – regular and unexpected	
Rent/Mortgage	Contents insurance
Council Tax	TV subscriptions
Water bills	Broadband bill
Gas	Mobile phone
Electricity	Food
Service charges	Clothes
TV licence	Travel/car insurance
Landline phone bill	Childcare/maintenance
Gym/hobbies/nights out	Loans or credit card repayments
Car costs - petrol, tax, insurance, maintenance	Christmas
Birthdays	Pet costs - insurance, vet fees, food, vaccinations
Haircuts	Emergency fund
Travel costs	Toiletries/cosmetics

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Finance glossary

Term	Definition
Adverse credit	This term refers to your credit history. Also known as a poor credit history or bad credit record, it can be affected by CCJs, house repossession orders, IVAs or repayment arrears.
Agreement	Another term for 'contract', an agreement is a legal document that makes a loan official. The agreement confirms the terms of the loan between you and the lender. When you sign a loan or credit agreement, you are accepting that you are legally responsible for paying back the money borrowed, and any interest and fees applicable. **APR:** APR stands for Annual Percentage Rate, and represents the cost of borrowing per year as a percentage of the amount borrowed. APR is a complicated calculation that takes into account interest payable on the amount borrowed, other fees that are applied, and a number of other factors. APR isn't always the most accurate way of representing the cost of borrowing, but can be useful when comparing loans or credit cards with similar terms.
Arrears	Arrears is a term that means money that is owed, that should have been paid earlier. If you've missed or only partially paid a repayment on a bill or loan, then your account will be in arrears until you get back up to date. Having accounts in arrears too often or for too long can make it more difficult to get credit in the future. Late and missed payments are recorded on your credit report, which lenders often check and use to help them make a decision about whether to lend money to you, or not.
Bounced cheque	A cheque 'bounces' when your bank account doesn't have enough money in it to cover payment of the amount the cheque is for. If this happens, the bank will normally return the cheque to the payee, marked 'unpaid'. Most banks will also usually charge a fee for this.
CCJs	A County Court Judgement (CCJ) is issued by a County Court for failing to repay a loan or outstanding debt. A CCJ will affect your credit rating and may affect your ability to get a loan or mortgage. CCJs can be enforced by bailiffs.
Charges	In finance, charges and fees are usually the same thing, and are applied to your account by your bank or lender in line with the type of account or loan you have. Banks and lenders provide a number of services to their customers, and some come with charges attached. These can include interest, transmission fees, service charges, and for some credit cards, annual card fees. If a service is misused or the terms of an agreement are broken, then that's where things like overdraft charges and late payment charges come in.
Credit	Credit is money borrowed from a bank or credit provider on the condition that it's paid back in accordance with the agreement. Types of credit include loans, both secured and unsecured, credit cards and pawnbroking. Credit limit: A credit limit is the maximum amount of money that you can borrow on a credit card, or from a particular lender, and will be determined by the lender based on a number of factors.
Credit Reference Agency	A Credit Reference Agency, or CRA, is an agency that collects data from various sources and provides information on learner consumers to form their credit report. The three main agencies in the UK are Experian, Call Credit and Equifax.

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Finance glossary (cont'd)

Term	Definition
Credit report	This document, compiled and held by Credit Reference Agencies, gives a summary of your credit history and financial behaviour. It includes your personal details such as your address and date of birth, information on your borrowing and payment histories, the length of your credit history, information on the total credit you have available to you and how much of that you've used. Some of the things that are not included in your credit report are your salary and details of savings accounts you hold. Under the Consumer Credit Act, you have the right to see the file held on you by credit reference agencies for £2.
Credit score	Your credit score is a number between 300 and 1000, calculated from the information held in your credit report, which indicates the probability of a borrower being able to pay back the loan. The higher the number, the higher the probability that the borrower will repay. In the UK, the average credit score is 700. 800 is thought to be a good score, while a score over 850 is considered excellent.
Debt consolidation	Debt consolidation means to take out one loan to pay off a number of other loans or debts. A consolidation loan can usually secure a lower fixed rate of interest and gives the security of more manageable monthly payments.
Debt Management Plan	A Debt Management Plan (DMP) is a repayment scheme offered by a debt management company. They will negotiate your repayments over a number of years to enable you to make payments to your creditors more affordable.
Early repayment	An early repayment means paying back a loan before the balance is due. Some lenders may charge a fee for doing this.
Interest	The extra money that is paid to you by a building society or a bank, when you save your money with them. Or the extra money you have to pay back when you have borrowed money. Interest can also be money you pay to borrow money, and is usually expressed as a percentage of the amount borrowed. Interest is normally included in the total cost of borrowing.
Loan	Money that is lent to someone else or you borrow, but it has to be paid back (often with interest). A personal loan – otherwise known as an unsecured loan – is taken out by an learner over a fixed term. This type of loan is available from a bank, building society or other financial institution without security. They are covered by the terms of the Consumer Credit Act. A lump sum will be loaned in return for you agreeing to make regular repayments, usually by direct debit. Personal loans are usually available from £500 up to £25,000 (security will often be needed for larger loan amounts) and are repayable over a set period of time, usually between six months and 10 years.
Loan period/loan term	The loan period, or loan term, is the length of time you've agreed to borrow money for. It can last from a few days to a number of years depending on the terms of your agreement and the type of loan you are taking. In most cases, interest will accrue throughout the term of the loan.
Loan shark	A moneylender who charges extremely high rates of interest, typically under illegal conditions.

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Finance glossary (cont'd)

Term	Definition
Maxed out	When a credit limit is reached or exceeded, it is said to be 'maxed out'. Many lenders will not allow further money to be taken against the credit limit until the account holder pays off enough of the balance to be under the limit again. In some circumstances, the creditor or lender may agree to extend the credit limit, or allow additional withdrawals or purchases, but might charge a fee for this.
Minimum payment	The least you can pay towards a loan or bill without incurring penalties.
Mortgage	A loan from a building society or a bank when someone wants to buy a house or flat.
Outstanding amount	The outstanding balance is the amount remaining on a debt that has not yet been repaid in full.
Overdraft	An amount of money that a building society or bank lets you 'borrow', in case you spend more money than you have. The 'borrowed money' is usually charged extra for.
Payday loan/ payday advance	A payday loan, or payday advance, is a type of short-term, unsecured loan, which is usually repayable on the borrower's next payday. Payday loans are usually for relatively small amounts of money, and are intended to be used only for unexpected expenses to cover a borrower's expenses until their next payday.
Penalty charges	Penalty charges are charges applied to your account with a bank or lender if the service is misused or the terms of your agreement with them are broken. Common penalty charges include late payment fees, over-limit fees and overdraft fees.
Rate	Rate refers to the level of interest charged by a lender, and is usually expressed as an Annual Percentage Rate (APR).
Repayments	The amounts of money you need to pay weekly or monthly until all the money you borrowed is paid back (and often with interest added).
Repayment date	The amounts of money you need to pay weekly or monthly until all the money you borrowed is paid back (and often with interest added).
Typical APR	Typical APR is a term lenders use to describe the APR offered to at least two thirds of their customers when they use risk-based pricing, and is intended as a guideline rather than a promise. The APR you are offered is based on a number of factors that help the lender decide how high-risk a borrower they think you will be, so it could be higher or lower than the Typical APR.
Underpayment	Underpayment is a payment less than the minimum amount required to avoid penalties.

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Priority vs non-priority debts

Priority debts - these are debts where serious action can be taken against a person, such as losing your home, going to prisonor energy supplies being disconnected.

Non-priority debts - you cannot be sent to prison for not paying non-priority debts. The creditors may take that person to court. If the debt is not paid when the court has ordered it, the creditors can take further action. For example, the creditors can get another court order which allows them to send bailiffs round to take items, such as washing machines, away. This will be sold to cover the debts.

Priority debts	Non-priority debts
Mortgage repayments	Credit cards and store cards
Secured Loans	Bank loans (unsecured)
Rent	Overdrafts
Council Tax	Catalogue repayments
Utility bills (not including water)	Money borrowed from friends and family
Court Fines	Water bills
Taxes	

(These are to be cut out and mixed up initially for your learner to sort)

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Credit basics

If you fall behind on payments to a creditor and cannot reach an agreement to pay the debt back, they may make a claim through the County Court to get a County Court Judgment (CCJ) against you.

When county-court action is taken against you, you will get court forms which you should reply to and say what you can afford to pay. The County Court should consider your circumstances and your income and outgoings before making a decision about how the debt should be paid back.

Unless you pay off a CCJ in full within 30 days of receiving the judgment, it will be entered on your credit record at the Register of Judgments, Orders and Fines. It'll remain there for six years.

This record can seriously affect your ability to get a mortgage, a credit card or even a bank account in the future. This is another reason it's important you don't ignore a County Court Judgment.

Non-priority creditors use the County Court. The following are some of the most common non-priority debts.

- Credit cards
- Store cards
- Unsecured loans
- Charge cards
- Catalogues
- Payday loans
- Doorstep-collected loans

For more information visit:

- **National Debt Line**
- **Money Advice Service**