

What is Credit?

A loan, also called credit, is money lent to you by a bank or another lender. You always have to pay the money back. Credit can also take the form of goods or services that you receive now and pay for later, such as gas and electricity. The lender will usually ask you to pay the money back, plus interest, by an agreed date. This can be by instalments or regular payments. Because the lender charges interest on the amount you borrow, the amount you repay will always be higher. Some lenders charge very high levels of interest.

What is Interest?

You will usually have to pay back an additional amount, called interest, which is usually a percentage of what you borrowed. For example, if the interest charge is 10% then you pay back £1.10 for every £1 you borrowed.

This means you will pay back more than you borrowed in the first place.

You should make sure that anything you buy on credit will last longer than the repayments. A three-year loan might be a sensible way to buy a car, but it would not be a good way to pay for a holiday.

You have to pay back a loan for an item even if it wears out or breaks before you have finished paying back the instalments.

Credit Reference Agencies

Information about any credit you take out and how you manage it is registered centrally with companies called credit reference agencies. This allows banks and lenders to check your credit history before agreeing to give you more credit.

Fraud

Some people deliberately mislead a lender to try to get credit they shouldn't have. This is called fraud and can have serious consequences because it is against the law.

What is Debt?

If you owe money on credit, this is called being in debt.

If you have more debt than you can afford – perhaps because you've lost your job – this is often called bad debt. Several organisations offer free help to people in bad debt.

Further information for parents:
www.moneymadeclear.org.uk/hubs/home_cardsloans.html