PILLAR 3

Money Smarts

Money Smarts Challenge
Credit & Debt

Bank of Ireland

Welcome

Financial Wellbeing is about what you do with your pot of money, not the size of it. It’s about making sure you can cover day-to-day expenses, plan for the future and manage the unexpected. This presentation covers credit and debt and outlines the many different types of options available, from loans to credit cards.

Credit & Debt is the third of six pillars of Financial Wellbeing. The following information shows your students the difference between money available to be borrowed (credit) and money that has been borrowed (debt). The content is designed to give you a flavour of what you can expect your students to be quizzed on as part of the Money Smarts Challenge.


6
PILLARS OF
FINANCIAL
WELLBEING
Bank of Ireland
Spending and Saving
Earning and Income
Credit and Debt
Investing
Financial Decision Making
Risk and Protection

BORROWING AND CREDIT

In Ireland, you may be able to borrow money from any of the regulated firms once you turn age 18, but borrowing requires responsibility.

Borrowing allows you to quickly make purchases without having to save for them. This may include paying for your education, a holiday, a laptop, a car or even a house.

While borrowing money presents you with a great opportunity, it also makes you legally obligated to repay those loans according to the terms and conditions of the loan.

TYPES OF CREDIT

There are many types of loans available. Here's a quick overview of some of them. When comparing the cost of each loan option, you should use the Annual Percentage Rate (APR)* as the true cost of borrowing.

Type	Cost of Credit *(the rate of interest charged)*
Loan *(Personal, Student, Overdraft, Car, Mortgage, Business)*	3% - 12% (maybe a lot more)
Credit Card	18% (can be higher and in some cases, lower)
Moneylenders	200% or more!
Buy Now Pay Later	Up to 20% or more

*The APR is the annual rate of interest you will be charged on a loan. It takes account of all the costs involved over the term of the loan, such as any set-up charges and the interest rate.

CREDIT and DEBT

When you borrow, you are actually using other people's money. Borrowing money costs money including interest and maybe even other charges too.

SOME QUICK DEFINITIONS

Credit = the amount of money available to you to borrow

Debt = the amount of money you have borrowed and thus owed by you to the lender

Debit = taking money from your account (such as a current account)

Consider a new phone. If you saved €100 but then borrowed €800 to buy a €900 phone, you have two primary borrowing options:

1. Get a Term Loan for €800 (1-year term / simple interest at 7%)
2. Use a Credit Card to buy the phone (revolving credit / compound interest)

TYPES OF INTEREST

Simple Interest

There are two primary types of interest charges on loans - Simple and Compound.

Simple Interest (€800, 1-year, 7% interest).

Monthly repayments:	€69.22	
Total repaid	€830.66	(€69.22 X 12)
Total cost of phone	€930.66 (€830.66 + €100 saved already)	

The phone cost **€930.66** using a simple interest loan.

The repayments are calculated using a financial calculator.

TYPES OF INTEREST

Compound Interest

Credit Card - cost of credit example:

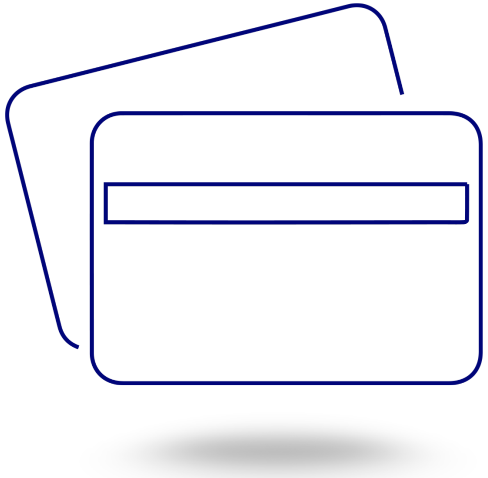
The phone costs €900 - €100 deposit plus €800 paid with a credit card

Credit card interest rate of 18%

Minimum repayments of 2.5% or €5
Interest charges: €821

Time to repay: It will take 15 years to repay the amount

Total Cost:
The phone cost a final total of **€1,721**



Credit cards are more complex. Interest is charged using what is referred to as compound interest.

So, if you do not pay off your credit card balance in full each month, interest charges accumulate very quickly. In other words, they compound - interest is charged on the interest.

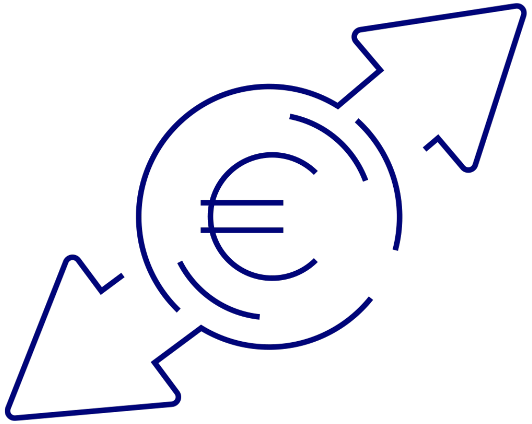
If you repay a credit card bill in full and on time every month, you don't pay interest on purchases. However, interest can be charged on cash advances (when you withdraw cash from your credit card account and the account does not have enough money in credit to cover the withdrawal) and outstanding credit card balances.

Before applying for a credit card, it's crucial you understand the fees and charges that apply to that particular card.

GROUP WORK

In small groups, ask your students to consider the following scenario before presenting their answer back to the class.

When do you feel is an appropriate time to use credit and debt?



Money Smarts Challenge Sample Quiz Questions

To view sample questions from last year's quiz, visit boi.com/moneysmarts and click on the Money Smarts Challenge Sample Quiz Questions PDF.

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