

MADE OF MONEY

SESSION 2: Credit

Questions to ask before taking out credit take home exercise

Using credit is a way of borrowing money. It costs money to borrow money so it is important that you think carefully about using credit before signing up. Here are some questions you and your family might ask before taking out credit.

Discuss these with a friend, neighbour or family member. Are they practical? Can you think of more?

- How much is it going to cost?
- When and how do I have to make repayments?
- Can I afford the repayments?
- Will I, or my family, have to make any sacrifices to meet repayments?
- Do I really need the item that I'm taking out credit to pay for?
- Will the benefits of owning this item outweigh the extra costs of buying it with credit?
- Is there anything I could sell to raise the money for this good?
- Could I qualify for an interest free budgeting loan from DWP (or a community support payment from my local authority)
- Am I prepared to wait to buy this item and to save up for it instead?
- How much will the credit cost compared with other similar deals?
- Where else could I borrow the money and how much would it cost?
- Is the interest rate is fixed or will change over the course of your loan? *(a rise in interest rate will mean that you repayments might rise or that you will have to pay over a longer period of time.)*
- Would the loan be any cheaper if I were to pay more each month for a shorter amount of time?
- Are there extra charges if I repay the debt early?
- Is my home being used as security?
- What happens if I miss a payment?
- Do I really need Payment protection insurance (PPI)?