



pwc

Financial Literacy Curriculum

Lesson 1: Credit and Debt



Agenda/Contents

Let's get started

1. Getting Started

- What is the difference between credit and debt?

2. Credit & Debt

- Choosing a bank account
- What is credit?
- Types of debt and its consequences
- Student Debt, University Costs & Gap Years

3. Wrap up and reflection

Session overview

You will think about the different types of credit and how easy it can be to fall into debt. You will then discover ways to avoid these high debt pitfalls. You will also consider the different costs that may be required after finishing school/college.

Objectives

You will be able to:

- Look at types of bank accounts and how to obtain credit
- Understand different types of debt
- Discuss consequences of debt
- Understand how student loans work and dispel common myths

Bank Accounts



Your choice is now important!

- We rarely change our bank accounts so choosing your first account could be a choice that lasts you a lifetime.
- Your bank can also be a gateway to a range of services including:
 - Car loans and credit cards
 - Holiday money
 - Insurance and mortgages
- One of the easiest ways to keep control over your money is by choosing a bank that provides internet or mobile phone banking.
- The first £85,000 of your cash is protected by the Financial Services Compensation Scheme (FSCS) in the event that a UK bank or Building Society goes bust.

Bank Accounts



How to choose

- Use the **internet** to shop around and source information direct by going to the bank or Building Society website.
- **Talk** to friends/family and find out about their experiences.
- Look at the **perks**:
 - Many accounts come with **extras** such as mobile phone or travel insurance or a cheap or even free overdraft.
 - Students can often get **interest free overdrafts**, with the amount varying by bank.
 - If you're lucky, you may be eligible for a **student rail card**.
 - Interest charges on unplanned overdrafts can be high, whilst other banks will not allow unapproved overdrafts and so if you don't have enough money in the bank will simply not make any payments due which may affect your credit rating.
 - Check out **what's important to you**, compare all the benefits that you can use and then see if it's worth the charges that apply to that account.

**In pairs, work through the handout on choosing a bank account.
(5 minutes)**

Credit

What is credit?

Credit is basically when we receive a good or service at the moment and make a **promise to pay** for it later.

Debt essentially means that you **owe** someone or you owe a company. When you buy lots of things on credit, you run the risk of accumulating a lot of debt. One way to avoid this is to understand credit and to monitor your borrowing.

It is important to have good credit which means you are trusted by banks and lenders to repay them what you borrow. This means that you can set up contracts for things such as a phone and also will allow you to borrow large sums of money for buying a house (mortgage).



Credit

How do you get good credit?

How you borrow money, and the type of borrowing (and whether you can pay it back) will impact your credit. If you borrow more than you can afford to repay on time your credit score will go down.

- **Credit card** - borrowing money off a lender
- **Secured loan** - the loan is “secured” with an item like the car or home you are going to use the loan to buy
- **Payday loan** - often a loan with high interest rates with the intention of repaying quickly
- **Personal loan** - You usually do what you like with the money
- **Overdraft** - Overdrafts are a way of borrowing money but through your bank account

**In pairs, work through the handout on credit
(5 minutes)**

Debt

What is debt and how can you get into debt?

A reminder of the types of debt:

- **Credit card** - borrowing money off a lender
- **Secured loan** - the loan is “secured” with an item like the car or home you are going to use the loan to buy
- **Payday loan** - often a loan with high interest rates with the intention of repaying quickly
- **Personal loan** - You usually do what you like with the money
- **Overdraft** - Overdrafts are a way of borrowing money but through your bank account

Discuss what the debt is and how it differs to the others as well as its pros and cons. (3 minutes)

Debt

The consequences of debt

Credit is **not** free money and failure to comply with the terms set can have a **long term impact** on your ability to get credit in the future or worse. Always be aware of the costs involved in having credit and always spend within your means.

In pairs, work through the handout and match the 'error made' to the initial and severe consequences. (3 minutes)



Costs after school

Going to university and gap years

There are many costs involved in whatever choice you make once you finish school or college, often ones you wouldn't think of straight away.

- What do you think could cause you problems financially in these cases?
- What common problems do you think you could face financially as a university student or on a gap year?



Student Loans - debt or tax?



Wrap up and Reflection



What employability skills have you developed in this session?

Leadership

- Teamwork
- Problem solving
- Decision making

Business minded

- Quality in everything you do
- Improvement
- Thinking commercially

Technical capabilities

- Your knowledge of potential jobs you could apply for
- What have you done you are proud of
- Ability to learn

Global acumen

- Seeking new perspectives
- Sharing ideas
- Coping with change
- Open minded

Relationships

- Communication skills
- Building relationships
- Working with others

Thank you

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