Getting credit
A beginner’s guide
Introduction
This resource has been designed to provide a range of teaching materials and activities to help explain the process of applying for credit and the role of credit reference agencies in that process. To apply for credit, a variety of English, maths, ICT and financial skills are needed. The five one-and-a-half-hour sessions have been designed to help support the teaching of these skills.

Who is the resource for?
“Getting Credit” was first published in 2006, when it was mapped against a range of skill levels in schools and in adult education from the age of 14 upwards. Since then there have been significant changes in the world of school education, of adult learning and personal finance. The aim of this revision has been to update the resource and clarify some areas to make them easier for tutors to use at the same time as keeping the essential core of the content. One change that is happening in 2014 and that will have a major positive impact for many who use credit facilities is the introduction of rent payment histories into credit records. This is explained in more detail in the Tutor Information section.

Judging that Getting Credit is most useful for adults, who are aiming to get to grips with the nitty-gritty of applying for credit, the current version is mapped against the Functional Skills in English, Maths and ICT.

What is included?
1. Tutor information containing
   - Background information on the credit journey
   - Additional financial literacy resources
   - Mapping to the Functional Skills Curriculum for:
     - English
     - Maths
     - ICT
2. Five session packs each containing
   - Tutor information on the session
   - A one-and-a-half-hour session plan
   - Resources required for the sessions (including hand-outs)
   - Ideas for further sessions
3. Additional resources that are needed to deliver the sessions such as:
   - Glossary of terms used
   - Activity booklet
   - Example credit report
   - Game board and game cards for ‘Pass the credit test’
   - Credit journey map

What do the sessions cover?
The sessions follow the journey people usually undertake applying for and managing credit. The three stages of the journey are:

<table>
<thead>
<tr>
<th>Stage</th>
<th>Title of Session</th>
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</tr>
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<tbody>
<tr>
<td>Thinking it through</td>
<td>1. What is Credit</td>
<td>English Maths ICT</td>
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<td></td>
<td>2. Shopping Around</td>
<td>English Maths ICT</td>
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<tr>
<td>Applying for credit</td>
<td>3. Credit Scoring</td>
<td>English Maths</td>
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<td>4. Credit Decisions</td>
<td>English</td>
</tr>
<tr>
<td>When help is needed</td>
<td>5. Credit Crossroads</td>
<td>English</td>
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</table>
Getting credit

It is intended that you use the sessions as starting points. You are likely to need to adapt them to suit the group you are working with. Background information has been provided in the tutor information pack.

What skills, knowledge and understanding are covered?

**English skills:**
- Reading and understanding a range of texts
- Completing application forms
- Understanding key words
- Taking part in discussions

**Maths skills:**
- Applying maths to solve problems - percentages
- Interpreting information

**ICT Skills**
- Finding and selecting information
- Developing and presenting information

**Financial skills:**
- Understanding the key words ‘credit’ and ‘debt’
- Knowing how to compare interest rates
- Understanding how to use budgets to plan and control personal spending
- Knowing about official financial records/Understanding loan/credit financing documents
- Understanding the difference between long and short-term financial commitments
- Understanding of a range of generic financial products in the short, medium and long term
- Assessing ‘best buy’ in a variety of circumstances
- Understanding that both saving and borrowing are offered on differing terms and interest rates that vary over time
- Understanding different sources of advice
- Understanding the role of financial organisations and the role of regulation and consumer protection
- Understanding the wider implications of personal financial decisions
Tutor information
Getting credit

Tutor Information

Summary
This section gives you more background information on the how to approach the topic, session plans, skills addressed and resources within “Getting Credit: A beginner’s guide”. It also provides the mapping of the sessions to Curricula, Frameworks and Guidance for England, which should also provide a straightforward basis for adapting to frameworks in other parts of the UK and wider afield.

The credit journey
The credit journey is about making purchases responsibly and safely when you need to use someone else’s money to help you make those purchases. This learning resource, Getting Credit, aims to help people make appropriate and responsible borrowing decisions and then to manage them effectively and confidently.

Many people find the whole business of managing money to be confusing and worrying. There are many reasons for this: the words we use to talk about money are not always clear and unambiguous, we often have deep-seated biases and attitudes about money that are not always logical and that are frequently contradictory. People’s financial decisions often appear to be taken on a “load, fire, take aim” basis where the rationale is generated after the event. In addition, many people struggle with the maths that is involved and few adults have had any financial education when younger – these are just a few of the reasons!

Getting Credit aims to tackle these concerns in several ways. Firstly, we acknowledge that the words used in financial circles often have different but related meanings when used in everyday life (the word “credit” is an obvious example). We encourage tutors to explore the ranges of meanings with learners but, at the same time, be clear about their meanings when used in “official” finance contexts. Secondly, we provide information to help tutors discuss the participants in the purchasing/lending/borrowing relationships and their requirements. We also aim to demystify some of the maths involved in this aspect of personal finance. Lastly, we set this all in the context of a personal “journey” by fictional but real-world Mark Watson as he and his family set out to purchase a new car.

“Communication and relationships are a core element of personal finance and we aim to encourage learning through real-life settings.”
Getting Credit can be followed in a linear sequence of sessions but life is rarely that linear! Tutors will be able to pick out particular topics and move them around or deal with them out of sequence if this meets the needs of their learners. One area where this is particularly encouraged is with the approach to establishing uses and meanings of words. Tutors are provided with a separate list of some of the key words with their “official” meanings along with suggestions for how classes might set these in the context of other uses and meanings through discussion, research and establishing their own lists. In Getting Credit these words are introduced at different stages in the credit journey as they become relevant to the journey but tutors may want to be able to respond if learners refer to them earlier.

To be eligible to obtain credit without the backing of an adult, you need to be aged 18 or over. Getting Credit is designed particularly for educators working with adults, although it will clearly be of use to younger learners as they approach this age.

Skills involved
In order to manage finances effectively you need a range of skills. Obviously some maths skills are helpful such as understanding the basic concept of percentages but fortunately there are plenty of tools to help with calculations. There is a lot of information to understand so it is really important to be able to read and understand leaflets, forms and websites. Writing skills are useful although there is more help available now to help with filling in forms. It’s worth developing good writing skills as there are times when it helps to be able to write a clear and concise letter for example if you need to appeal decisions. As more and more information and services are provided electronically it has also become important to know how to use ICT to access and provide information safely. Finally although it’s sometimes taken for granted speaking and listening skills are crucial to enable people to check and clarify understanding.

Getting Credit incorporates opportunities to develop some of the relevant skills if required. Learners with limited speaking, listening and reading skills (below Entry 3) would benefit either from additional support or from developing their skills before attempting the course.

The story behind the credit journey
The sessions follow the journey Mark Watson embarks upon in order to get credit. Mark needs a new car. His old car keeps breaking down and recently he has been late for work far too many times. Mark is in his early fifties and works for the ambulance service. He is married and has three children. We are going to help Mark find the car and, more importantly, the credit agreement that is right for him and his circumstances. Each of the sessions refers back to Mark’s journey and many of the activities relate to his personal story.

The credit journey that Mark Watson takes incorporates the following topics:

- What is credit?
- Shopping around and looking for the best deal
- Credit scoring and how it works
- Credit decisions and what to do if you are refused credit
- Reaching a ‘Credit Crossroads’ and getting help when it is needed

The journey has been split into three stages; Thinking it through, Applying for credit and When help is needed.
The session plans have been designed as guidelines for sessions that follow the credit journey that Mark Watson makes. All the resources you need are included in each of the session packs. Ideas for additional activities are also provided. Each session has an accompanying fact sheet for learners that provide a summary of the important points for that session.

**Please note:** The session timings are to be used as a guideline only. The time required for activities will very much depend on the level of your group of learners and their previous knowledge of this subject. The sessions should be adapted to suit the needs of the learners wherever necessary.

**Use of words: technical and everyday speech**

In order to get started, learners will need to establish a vocabulary. The financial services industry uses words in a technical way but many of these words are also in use in everyday speech. Sometimes, these changes that occur over time in everyday speech lead to different meanings from their technical meanings. As an example, it is not uncommon to hear the word “lend” used where we might perhaps expect to use the word “borrow” as in “I asked my sister if I could lend her dress”. Learners need to know that the financial services industry still uses the word “borrow”!

All of the important words used in the course are included in the Glossary but expanded explanations of new words needed for Sessions 1 and 2 are also included as Key Words sheets that also include some suggestions for discussion and activities (which are not included in the Glossary).
Rental Exchange

Part of the credit scoring that lenders undertake before offering credit relies on information about how applicants have managed other borrowing commitments. (This will be covered in more detail in Sessions 3 and 4.) If they have maintained regular loan or credit card repayments over a number of years, this has been taken as evidence to support their ability to handle further credit in the future. For many people, the mortgage that they use to help them buy their home is the longest credit commitment they make so this has figured strongly in credit scoring. However, tenants with excellent records of rent payment, perhaps sustained over many years, had no mechanism by which this could positively influence their credit history.

Experian will soon be introducing Rental Exchange, a system by which landlords in the private and social housing markets will be able to record their tenants’ rent payments with their credit history. This will have benefits for tenants, landlords and credit providers.

- Tenants with good records of regular rent payment will be able to have this taken into account when applying for new tenancies or applying for credit. This will give them access to better credit deals, such as lower interest rates.
- Landlords will have better quality information about prospective tenants, giving them greater confidence in offering new tenancies.
- Credit providers will be able to offer credit to borrowers who previously might not have been able to demonstrate their ability to manage regular financial commitments.

As this edition of Getting Credit is published, Rental Exchange is still being rolled out so for now we have based all the information and exercises on the way credit scoring is undertaken under the previous system. However, we have made reference to it in Sessions 3: Factsheet 3 and tutors may wish to discuss this with learners as an example of forward thinking and financial planning, showing how maintaining their rent payments on a regular basis can help to build a positive credit record for them in the future when the scheme is more fully implemented.

Leaflets and Further Resources

The leaflets that are referred to within the session plans can be found on either the Experian website (http://www.experian.co.uk/consumer/resources.html) or the other websites referred to in hand-outs, session plans and in Session 5: When help is needed.
# Session 1: What is Credit?

<table>
<thead>
<tr>
<th>Relevant standards and level</th>
<th>Specific skills</th>
<th>Comments</th>
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</thead>
<tbody>
<tr>
<td><strong>English</strong></td>
<td></td>
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</tr>
<tr>
<td>Speaking, listening and communication Level 1</td>
<td>• Make relevant and extended contributions to discussions, allowing for and responding to others’ input; • Prepare for and contribute to the formal discussion of ideas and opinions; • Make different kinds of contributions to discussions; • Present information/points of view clearly and in appropriate language.</td>
<td>All discussions throughout the session</td>
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<tr>
<td>Take full part in formal and informal discussions and exchanges that include unfamiliar subjects</td>
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<tr>
<td><strong>Reading Entry 3</strong></td>
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<tr>
<td>Read and understand the purpose and content of straightforward texts that explain, inform and recount information</td>
<td>• Understand the main points of texts. • Obtain specific information through detailed reading; • Use organisational features to locate information; • Read and understand texts in different formats using strategies/techniques appropriate to the task.</td>
<td>Reading handouts and flashcards. Using dictionary to find definitions. Reading tables and additional information.</td>
</tr>
<tr>
<td><strong>Suggested additional activities also provide the following opportunities.</strong></td>
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<tr>
<td><strong>Maths</strong></td>
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<tr>
<td>Apply mathematics in an organised way to find solutions to straightforward practical problems for different purposes. Level 1</td>
<td>• Collect and record discrete data and organise and represent information in different ways; • Solve problems requiring calculation with common measures, including money, time, length, weight, capacity and temperature</td>
<td>Planning a budget</td>
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<td></td>
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<td>Choosing items from a catalogue to value of £100, £1,000 and £10,000</td>
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<td><strong>ICT</strong></td>
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<tr>
<td>Developing, presenting and communicating information</td>
<td>• Enter, edit and format information, including text, graphics, numbers or other digital content, to achieve the required outcome; • Process numbers to meet needs.</td>
<td>Producing a budget either with a spreadsheet or using online calculator</td>
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<tr>
<td>Relevant standards and level</td>
<td>Specific skills</td>
<td>Comments</td>
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<tr>
<td><strong>English</strong></td>
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<tr>
<td>Speaking, listening and</td>
<td>• Make relevant and extended contributions to discussions, allowing for and responding to others' input;</td>
<td>All discussions throughout the session</td>
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<tr>
<td>communication Level 1</td>
<td>• Prepare for and contribute to the formal discussion of ideas and opinions;</td>
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<td>Take full part in formal</td>
<td>• Make different kinds of contributions to discussions;</td>
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<td>and informal discussions</td>
<td>• Present information/points of view clearly and in appropriate language.</td>
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<td>and exchanges that include</td>
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<td>unfamiliar subjects</td>
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<tr>
<td><strong>Reading Level 1</strong></td>
<td></td>
<td>Reading hand outs and leaflets</td>
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<tr>
<td>Read and understand a range</td>
<td>• Identify the main points and ideas and how they are presented in a variety of texts;</td>
<td>Reading tables and additional information.</td>
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<tr>
<td>of straightforward texts.</td>
<td>• Read and understand texts in detail;</td>
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<td></td>
<td>• Utilise information contained in texts;</td>
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<td>• Identify suitable responses to texts;</td>
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<td>• In more than one type of text.</td>
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<tr>
<td><strong>Write short texts with</strong></td>
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<td>Completing application form</td>
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<tr>
<td><strong>Maths</strong></td>
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<td></td>
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<tr>
<td>Apply mathematics in an</td>
<td>• Understand and use equivalences between common fractions, decimals and percentages;</td>
<td>Find costs of loans at different APR using either the online calculator or paper based tables.</td>
</tr>
<tr>
<td>organised way to find</td>
<td>• Extract and interpret information from tables, diagrams, charts and graphs;</td>
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<tr>
<td>solutions to straightforward</td>
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<td>practical problems for</td>
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<td>different purposes. Level</td>
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<tr>
<td>Interpret and communicate</td>
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<td>solutions to practical</td>
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<td>problems, drawing simple</td>
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<td>conclusions and giving</td>
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<tr>
<td>explanations. Level 1</td>
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Getting credit

<table>
<thead>
<tr>
<th>ICT</th>
<th>Interact with ICT for a purpose. Entry 2</th>
<th>• Use computer hardware; Use computer to access online loan calculator</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Find specified information from ICT-based sources. Entry 2</td>
<td>• Use simple search facilities. Find online loan calculator</td>
</tr>
<tr>
<td></td>
<td>Enter and develop different types of information to meet given needs. Entry 3</td>
<td>• Enter, edit and format information, including text, graphics, numbers or other digital content, to achieve the required outcome Use online loan calculator</td>
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The suggested additional activities could provide opportunities to extend reading, maths and ICT work to higher levels.

Session 3: Credit scoring

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<td>All discussions throughout the session</td>
</tr>
<tr>
<td>Reading Level 1</td>
<td>• Identify the main points and ideas and how they are presented in a variety of texts; • Read and understand texts in detail; • Utilise information contained in texts; • Identify suitable responses to texts; • In more than one type of Maths</td>
<td></td>
</tr>
<tr>
<td>Write short texts with some awareness of the intended audience. Entry 2</td>
<td>• Use written words and phrases to record and present information; • Spell correctly all high frequency words and words with common spelling patterns.</td>
<td>Completing application form</td>
</tr>
</tbody>
</table>
Apply mathematics to obtain answers to simple given practical problems that are clear and routine. Entry 3

Interpret and communicate solutions to practical problems in familiar contexts and situations. Entry 3

• Add and subtract using three-digit numbers;
• Extract, use and compare information from lists, tables, simple charts and simple graphs.

Suggested additional activities also provide the following opportunities.

ICT
Finding and selecting information. Use search techniques to locate and select relevant information. Level 1

• Use of search engines to (answer) queries.

Research information given by different companies on credit scoring

The suggested additional activities also provide opportunities for further reading work.

Session 4: Credit decisions

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<td>All discussions throughout the session</td>
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<tr>
<td>Reading Level 1</td>
<td>• Identify the main points and ideas and how they are presented in a variety of texts; • Read and understand texts in detail; • Utilise information contained in texts; • Identify suitable responses to texts; • In more than one type of text.</td>
<td>Reading letter, handouts and credit report.</td>
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Suggested additional activities also provide the following opportunities.

<table>
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<th>English</th>
<th>Writing</th>
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</table>
| Write a range of texts to communicate information, ideas and opinions, using formats and styles suitable for their purpose and audience. Level 1 | • Write clearly and coherently, including an appropriate level of detail;  
• Present information in a logical sequence;  
• Use language, format and structure suitable for purpose and audience;  

Compile a credit report using a made up name and address |

Additional activities could also be used to extend speaking and listening work to higher levels through use of role play and to extend reading skills to higher levels.

**Session 5: When help is needed**

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<tbody>
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</tbody>
</table>
| Speaking, listening and communication Level 1 | • Make relevant and extended contributions to discussions, allowing for and responding to others' input;  
• Prepare for and contribute to the formal discussion of ideas and opinions;  
• Make different kinds of contributions to discussions;  
• Present information/points of view clearly and in appropriate language. | All discussions throughout the session |
| Take full part in formal and informal discussions and exchanges that include unfamiliar subjects | | |
| Reading Level 1             |                |          |
| Read and understand a range of straightforward texts. | • Identify the main points and ideas and how they are presented in a variety of texts;  
• Read and understand texts in detail;  
• Utilise information contained in texts;  
• Identify suitable responses to texts;  
• In more than one type of text. | Reading letter, handouts and credit report. |

Suggested additional activities also provide the following opportunities.

| ICT | Follow and demonstrate understanding of the need for safety and security practices. Level 1 | • Demonstrate how to create, use and maintain secure passwords;  
• Demonstrate how to minimise the risk of computer viruses. | Discuss ways of keeping personal information secure. |
Thinking it through
Session 1: What is credit?
Getting credit

Tutor Information

Summary
This first session introduces us to Mark Watson and his family and their wish to purchase a new car. As they do not have enough cash available for this they will need to borrow. The session sets the scene, explains obtaining credit in terms of a “journey” and introduces some of the key words and concepts. All of the words needed to introduce the main concepts around credit are included in Key Words: Session 1.

Using credit as part of a financial plan
Credit is a valuable tool in smoothing out the ups and downs of our financial lives. Many people find that they need credit at certain times in their lives, particularly for large purchases, for example, when planning a wedding, buying a house or a car. So you can use credit to invest in your future. Credit also helps people manage their money on a day-to-day basis and smooth the peaks and troughs in their income and expenditure. Types of credit include:

<table>
<thead>
<tr>
<th>Suitable for buying:</th>
<th>Type of Credit:</th>
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<tbody>
<tr>
<td>Houses</td>
<td>Mortgage</td>
</tr>
<tr>
<td>Cars</td>
<td>Personal loan/hire purchase</td>
</tr>
<tr>
<td>Furniture and kitchen appliances</td>
<td>Hire purchase/ credit card / store card / mail order</td>
</tr>
<tr>
<td>Clothes</td>
<td>Credit card/ store card/ mail order</td>
</tr>
</tbody>
</table>

However, it is essential to approach credit as part of an organised and planned approach to your personal finances. Financial Planners explain this as a process involving the following steps:

• Setting objectives for things in your life that involve money. These may be in the short-term, medium-term or long-term.

• Assessing where you are at the present time to see how far you are towards achieving your objectives

• Drawing up plans for how you will bridge any gaps between where you are at the present time and where you need to be to achieve your objectives

• Putting the plans into action!

• Reviewing your plans on a regular basis and making any changes that may be required.

Many people’s plans will involve a mix of saving and borrowing and both have their uses. While it may be entirely sensible to borrow money to purchase an essential item, such as a washing machine, it would probably not be sensible to wait until your retirement date and then borrow all the money you need in order to meet your living requirements in retirement! For retirement it is a better plan to save up money over a long period of time.

An important part of any financial plan is budgeting - making a list of all the money coming in (income) and going out (expenditure) every month. This needs to be done before applying for any credit so that you know exactly how much money you can afford to spend repaying any new credit each month.
Session 1: Key Words:
The words are not in alphabetical order but more in an order that tutors are likely to use for introducing the words.

**Borrow (Borrowing, Borrowed, Borrower)**
To use something that does not belong to you but with the agreement of the owner.

**Lend (Lending, Lent, Lender)**
To allow another person to use something you own.

The owner is called the lender ("I lent a dress to my flatmate") and the user is called the borrower. When the borrower has finished using it, he or she returns it to the lender. The thing that is borrowed can be money ("I borrowed five pounds from my friend") or it could be an object ("I borrowed a screwdriver from my next door neighbour")

**Student Activity:**
- Make up more sentences using these words
- In pairs, act a scene where one person is a borrower and the other person is a friend who lends them something.

**Student Discussions:**
- How do we feel about borrowing from people we know?
- What are the worries we might have about lending things we own?
- Taking care of things we have borrowed.
- Do we lend things that we might need to use?

**Loan (Loaning, Loaned)**
Another name for the act of lending ("The bank made a loan to its customer") but it can also be used by the borrower to describe the situation ("My sister loaned me her car for the day"). It may also be used where there is a formal agreement but not necessarily involving money ("I have three books on loan from the library").
Debt (Indebted, Indebtedness, Debtor)
This word is only used after a loan has been made and it describes what the borrower owes to the lender. (“The total debt that I owe is £200.”) The word debt is generally only used in formal, serious settings, such as where money is owed rather than informal loans of objects between friends. A debtor is another word for a borrower but is mainly used after the borrowing has taken place.

Student Discussions:
• What have left out of the diagram? (The return process)
• How would you describe the difference between a loan and a gift?

Student Activity:
• Make up more sentences using these words from the viewpoint of lender and borrower
• Draw a diagram that shows what goes on between lender, lending, loan, borrowing, borrower (Keep these for later use)

Suggestion:

Student Discussions:
• Although the words debt and debtor may mean the same as loan and lender, would we always use them in the same conversations? Would you feel differently if you heard that someone was in debt or if you heard they had a loan?
• You may have heard people talk about ‘a debt of honour’. Does this mean that someone has lent some honour to another person? What does this tell you about meanings of debt?
• People sometimes use the terms “good debt” and “bad debt”. What do you think these mean and what would be examples of each? (Suggestion: good debt could be seen as any borrowing that is an affordable and planned investment in your future as part of your overall financial planning while bad debt is borrowing taken out on the spur of the moment, or when you cannot afford it or as a way of attempting to shore up an unstable financial position.)
Owe (Owing, Owes, Owed)
This word is used when someone is obliged to make an agreed payment. It can be used of loans (“I owe the bank nearly £300”) and other forms of payment such as earnings (“I was owed two weeks wages”) or even actions (“Thanks for helping, I owe you a favour now”).

Credit (Credited, Creditor)
This word has several uses that are related to each other. In the world of financial services, it refers to when you have been allowed to purchase something with money lent to you by a lender (“I bought this dress on credit”). It can also refer to the act of lending (The lender credited the account of the borrower with the money”). The word creditor is used to describe someone is owed money by a borrower. It is mostly used in situations where there are problems over repayment of money that has been loaned (“The creditors held a meeting to discuss how they could recover their money”).

Credit Agreement
Before you can buy something on credit, you must have agreed with the lender that they are happy for you to do that. This will usually involve a written document, called a credit agreement. This sets out all the rules and conditions the lender requires you to keep until you have paid back the money.

Student Activity:
Write down the questions you would ask and the conditions you would make if someone you knew asked if you could lend them some money.

Student Discussions:
- Which of these would you find it easier to lend to: a family member, a close friend or a workmate? Would you rather not lend to any of them? Why?
- Can you think of other ways that we use the word credit? Do you think they are related to the meanings above? (Example: “You have to give him credit; he really knows what he is doing.”)

Financial Planning
A process of planning for the present and the future to help you meet your objectives that involve money. It starts with setting objectives for the things that are important to you. This is followed by budgeting to show you intend to use the money you have available in order to help you meet those objectives. Then you have to actually follow the budget. It is also very important to review your financial plan on a regular basis. This means checking to see if you are still following the plan.

Budget (Budgeting)
A budget is an important part of your financial planning. It is a list of the items of your income and spending that shows how you intend to plan your finances to meet your objectives. For most people, their first objective is usually to make sure they have enough income to meet their planned spending. Another way of saying the same thing is to avoid spending more than they have in income. (“I have made a budget to help me plan my spending”. “I am going to budget so that I can afford a holiday”. “I find that budgeting helps me avoid spending too much”).

Afford (Affording, Affordability)
To have enough money to be able to spend on the things that are in your plan and still keep to your budget. (“Because I had saved up enough money, I could afford to go on holiday”. “I could not afford to buy a new car just with my own money but I could afford the repayments on a loan for one”).
Session 1: What is credit?

Session plan

Aims of session:
• To introduce key words relating to credit
• To introduce concepts of budgeting and financial planning
• To introduce concept of affordability

Learning outcomes – learners will be able to:
• Identify which type of credit is appropriate in given situations
• Explain key words relating to credit
• Explain the concept of budgeting

What this session covers:
• The credit journey
• What is credit?
• When is credit needed?
• Different types of credit
• Checking for affordability
• Financial planning

Resources
• Credit journey map
• Flipchart or whiteboard
• Dictionaries
• A to Z glossaries
• Sticky notes
• Paper
• Pens
• Hand-outs (Note – hand-out 1a needs cutting up into sections)
• Fact sheet
• Home budget planner (Money Advice Service website)
• Access to Internet

Possible additional activities:
• Compiling and completing a personal budget (if appropriate). The Home Budget planner from the Money Advice Service could be used either online (www.moneyadvice-service.org.uk/en/categories/budget-planner) or on paper to work out how much an individual can afford to repay on a loan.
• Learners could make their own budget spreadsheet.
• Using mail order catalogues, set the group the task of finding goods to the value of £100, £1,000 and £10,000. Be specific about how many goods are allowed.
### Suggested session outline for Session 1: What is credit?

<table>
<thead>
<tr>
<th>Time</th>
<th>Topic</th>
<th>Activity</th>
<th>Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 mins</td>
<td>The credit journey</td>
<td>Introduce session by explaining the credit journey concept and Mr Watson’s involvement in the journey.</td>
<td>Credit journey map</td>
</tr>
<tr>
<td>15 mins</td>
<td>What is credit?</td>
<td>Open a discussion on the meanings of credit and other words using discussions topics/activities contained in the Section 1 of Key Words: Session 1 sheet. Look them up in the dictionary. Draw up a list of strategies for finding out meanings of words that you are unsure of. Introduce A to Z glossaries to the group. How do the definitions vary – why might this be?</td>
<td>Flipchart/whiteboard Dictionaries if wanted A to Z glossaries Sticky notes</td>
</tr>
<tr>
<td>15 mins</td>
<td>When is credit needed?</td>
<td>Gather situations in which credit is needed and record on flipchart/whiteboard. Go through the list and discuss what type of credit is usually associated with each situation. Give out hand-out 1a. Ask learners to match up types of credit with life situations. The short, medium and long-term cards are not needed at this point. Go through results as a group. Discuss why learners might have cards in different piles.</td>
<td>Whiteboard/flipchart, paper, pens Hand-out 1a: Types of credit (you will need enough sets to share one between two and will need to cut them up beforehand)</td>
</tr>
<tr>
<td>15 mins</td>
<td>Short, medium and long-term loans/different types of credit</td>
<td>Define short, medium and long term with regard to finance. In the same groups, ask learners to put card pairs (situation and credit type together) into piles of short, medium and long-term credit commitments. Discuss why learners might have cards in different piles.</td>
<td>Remainder of Hand-out 1a: Types of credit</td>
</tr>
<tr>
<td>15 mins</td>
<td>Checking for affordability</td>
<td>Refer to Mark Watson. What type of credit will he need to get his new car? Introduce concepts of financial planning and budgeting. Outline how you can check what you can afford to pay using the Home Budget Planner. Is anything missing? How will Mark know if he can afford to take on a loan?</td>
<td>See Money Advice Service Budget Planner (see above in Session Plan)</td>
</tr>
<tr>
<td>20 mins</td>
<td>Financial planning</td>
<td>Introduce the loan planning chart using the worked example on Hand-out 1b (Page one). Discuss when would be a good time for Mark Watson to take out a new loan and why. Individuals to complete chart on Page two using the information on the hand-out. Discuss results as a group.</td>
<td>Hand-out 1b: Loan planning chart</td>
</tr>
<tr>
<td>5 mins</td>
<td>Stage 1 of the Credit Journey</td>
<td>Recap session by linking work with stage 1 of the Credit Journey: Thinking It Through. Go through Fact Sheet 1. Recap on Mark’s position.</td>
<td>Fact Sheet 1</td>
</tr>
</tbody>
</table>

The following resources are required for session one:

- Flipchart/whiteboard
- Dictionaries
- A to Z glossaries
- Sticky notes
- Whiteboard/flipchart, paper, pens
- Hand-out 1a: Types of credit
- See Money Advice Service Budget Planner
- Hand-out 1b: Loan planning chart
- Fact Sheet 1
Getting credit
Hand-out 1a: Types of credit

These will require cutting up beforehand

<table>
<thead>
<tr>
<th>Short term: Less than 5 years</th>
<th>Medium term: From 5 to 10 years</th>
<th>Long term: More than 10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>booking a holiday</td>
<td>going to university</td>
<td>buying a house</td>
</tr>
<tr>
<td>getting a new car</td>
<td>new washing machine</td>
<td>clothes shopping</td>
</tr>
<tr>
<td>brand new kitchen</td>
<td>presents</td>
<td>paying off debts</td>
</tr>
<tr>
<td>planning a wedding</td>
<td>emergency</td>
<td>decorating a room</td>
</tr>
<tr>
<td>mortgage</td>
<td>loan for £1,000</td>
<td>loan for £5,000</td>
</tr>
<tr>
<td>store card</td>
<td>credit card</td>
<td>student loan</td>
</tr>
<tr>
<td>hire purchase</td>
<td>catalogue</td>
<td>overdraft</td>
</tr>
<tr>
<td>consolidation loan</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Spaces have been left for additional types of credit that the group might suggest.

Suggested answers (these are open to interpretation):

<table>
<thead>
<tr>
<th>Activity</th>
<th>Amount</th>
<th>Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Booking a holiday</td>
<td>Loan for £1,000</td>
<td>Short term</td>
</tr>
<tr>
<td>Going to University</td>
<td>Student loan</td>
<td>Medium term</td>
</tr>
<tr>
<td>Buying a house</td>
<td>Mortgage</td>
<td>Long term</td>
</tr>
<tr>
<td>Getting a new car</td>
<td>Loan for £5,000</td>
<td>Medium term</td>
</tr>
<tr>
<td>New washing machine</td>
<td>Hire purchase</td>
<td>Short term</td>
</tr>
<tr>
<td>Clothes shopping</td>
<td>Catalogue or credit card</td>
<td>Short term</td>
</tr>
<tr>
<td>Brand new kitchen</td>
<td>Loan for £5,000</td>
<td>Medium term</td>
</tr>
<tr>
<td>Christmas presents</td>
<td>Overdraft</td>
<td>Short term</td>
</tr>
<tr>
<td>Paying off debts</td>
<td>Consolidation loan</td>
<td>Medium term</td>
</tr>
<tr>
<td>Planning a wedding</td>
<td>Loan for £5,000</td>
<td>Medium term</td>
</tr>
<tr>
<td>Emergency</td>
<td>Credit card</td>
<td>Short term</td>
</tr>
<tr>
<td>Decorating a room</td>
<td>Credit card</td>
<td>Short term</td>
</tr>
</tbody>
</table>
### Loan planning chart for Mark Watson (Example)

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Start Date</th>
<th>Finish Date</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage</td>
<td>Sept 2003</td>
<td>Sept 2028</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank Personal Loan</td>
<td>Apr 2012</td>
<td>Apr 2014</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hire Purchase</td>
<td>Dec 2013</td>
<td>Apr 2014</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

When would be a good time to apply for a loan?
Hand-out 1b: Mark Watson’s loan planning chart

Complete the chart below using the information at the bottom of the page:

<table>
<thead>
<tr>
<th>Loan planning chart</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sept/Oct</td>
<td>Nov/Dec</td>
<td>Jan/Feb</td>
</tr>
</tbody>
</table>

Mark Watson has three major financial commitments. They are:

1. A mortgage that started in September 2013. He pays £410 per month and is due to finish in 2038.
2. A £2,000 loan over 4 years for a new boiler that started in June 2010. The repayments are £55 a month.
3. In December 2013 Mark used his credit card to pay £1,000 for a holiday and is paying it off at £200 per month. He will have finished this by the end of May 2014.

Mark wants to buy a new car. When would be a good time to take out a new loan?

What do you think could happen if Mark took on too many financial commitments at once?
Session 1: Fact Sheet 1

The credit journey
There are three stages to our credit journey. They are:

• Thinking it through – What type of credit is best? Can I afford it? Is this a good deal?
• Applying for credit – How is my application handled? Who decides if I get the credit?
• When help is needed – Who can I turn to for advice?

What is credit?
If you obtain goods or services ‘on credit’ it means that someone, for example, a bank or credit institution, has lent you the money, usually to enable you to buy something. The money has been credited to you on a temporary basis and you must pay it back.

<table>
<thead>
<tr>
<th>Suitable for buying:</th>
<th>Type of Credit:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Houses</td>
<td>Mortgage</td>
</tr>
<tr>
<td>Cars</td>
<td>Personal loan/hire purchase</td>
</tr>
<tr>
<td>Furniture and kitchen appliances</td>
<td>Hire purchase/ credit card / store card /mail order</td>
</tr>
<tr>
<td>Clothes</td>
<td>Credit card/ store card/ mail order</td>
</tr>
</tbody>
</table>

Paying it back
When you have decided which type of credit is the most suitable for your situation, you need to consider how you are going to pay it back. Can you afford to borrow the money?

To find this out, you need to work out what your weekly or monthly budget is. This is a list of all the money coming in to your household and all the money going out. The money that is left after all your spending is the money that you could possibly use to repay any money that you borrow.

By budgeting, you are also able to work out when would be a good time to take on the responsibility of a loan. Over-commitment (or having too much credit at once) is often a reason for being refused credit. Keeping track of your borrowing allows you to know whether you can really afford to take on a loan or credit card. If you cannot afford extra repayments, further credit is likely to get you into financial difficulties.
Thinking it through
Session 2: Shopping around
Tutor Information

Interest
Interest is an important concept in understanding credit. In financial arrangements interest is a payment received for letting someone else have the use of your money. More detail is provided in Session 2: Key Words. Credit providers lend money as a business and charge interest in order to make a return on their money by allowing other people to use it. Interest is generally calculated as a percentage of the money that is lent/borrowed. Learners will need to have at least a basic understanding of the concept of percentages. In credit agreements, the borrower pays interest to the lender.

What is APR?
APR stands for Annual Percentage Rate. It is a standardised way of expressing the total cost of borrowing, that is to say, the total amount of interest you will pay. Using APRs to help you compare products is straightforward: the higher the APR, the more expensive the borrowing. For example, a three-year loan with an APR of 15% will cost more in total than one with an APR of 10%.

If you borrow £1,000 for 3 years at 15% you will pay back £1,232
If you borrow £1,000 for 3 years at 10% you will pay back £1,155
A difference of £77

Understanding APR is important and helps you get the best deal. Organisations are obliged to clearly show the APR on their advertising so that you can work out the true cost of borrowing money from them and compare it to other lenders. It is only possible to truly compare rates if the terms of the loan are the same. Special introductory rates may only be for a short period and not cover the full term of the credit agreement. This is particularly the case with credit card companies who may offer 0% APR for a short period.
The Money Advice Service website offers a ‘loan calculator’ which calculates the cost of borrowing for a loan.

For more details see

Many organisations will show in their adverts a ‘Representative APR’ which is often their most competitive rate. By law, organisations must base this advertised rate on what they would expect to offer to at least half of their customers who respond to the advert. However, you may not come into that group and the rate that you are offered may be different so you should always check the APR you are actually being offered.

Shopping around
Shopping around for the best deal is something we all do when buying clothes, food or household goods. Shopping for credit should be no different. Sometimes this might mean enquiring about loans with a number of organisations before choosing which one suits you best. It might mean you visiting a number of mortgage lenders to compare deals and decide who would give you the lowest monthly repayments.

When shopping around, some lenders might need to check your credit report before giving you a quote. This is because these lenders link the APR you will pay to the risk of you defaulting on your repayments. Generally speaking, the higher a credit risk you are, the higher the APR the company will ‘offer’ you. This is known as risk-based pricing.

Credit applications
Every credit check is recorded by the Credit Reference Agency and leaves a “footprint”. Having a number of credit application footprints can cause you problems because it can look as though you are desperate for credit or even a that you are a victim of identity fraud. As a result, it is wise to only agree for a credit application check to be carried out once you have decided which deal is the best. By law, you should always be told when a company is going to run a credit check on you.

Some lenders are able to carry out a quotation search of your credit report. This will allow you to get more information on the credit deals available without harming your credit history. Check with the lender that this is the type of credit check they are doing if you do not want to commit yourself.

For more information on quotation searches, visit
www.experian.co.uk/consumer
Relevant credit legislation

**Consumer Credit Act 1974**

The Consumer Credit Act sets the rules by which all types of credit, including credit cards, store cards, hire purchase, personal loans etc can be offered and advertised. A new Consumer Credit Bill is currently being considered by the House of Lords.

**Consumer Credit (Agreements) (Amendments) Regulations 2004**

The regulations decide the layout and form of the information. A lender must give you the following key financial information before you sign an application form to borrow money:

<table>
<thead>
<tr>
<th>Key Financial Information</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>A Amount of credit</td>
<td>££</td>
</tr>
<tr>
<td>B Term of agreement</td>
<td>Months</td>
</tr>
<tr>
<td>C Total amount repayable</td>
<td>££</td>
</tr>
<tr>
<td>D Repayments</td>
<td>££ and dates</td>
</tr>
<tr>
<td>E APR</td>
<td>%</td>
</tr>
</tbody>
</table>

**Data Protection Act 1998**

An application form for credit must include a clause setting out how the lender and the credit reference agencies will use your information. You must sign to say that you are happy for the lender to give your personal information to a credit reference agency to check your credit history. You also sign to agree that information about your application and any account you open may be shared with other lenders to promote responsible lending and to help fight fraud.

Completing forms

People sometimes find completing application forms difficult but many lenders offer help to customers who need it. Here are some tips for filling in application forms.

1. Always read through the form before starting to fill it in.
2. Check that the form is the right one.
3. Check if you need to complete the form in black/blue pen or in BLOCK CAPITALS.
4. Make a photocopy of the form and fill the copy in first; or complete the form in pencil first, then re-do it in pen.
5. Use a dictionary to check any words you do not understand or for spellings you are unsure of.
6. Read the small print e.g. any terms and conditions.
7. Read the separate Data Protection Notice, which should be prominently displayed and explains how your personal information will be stored, shared and processed.
8. If you are unsure of any section ask someone else.
9. Remember to sign the form, if you need to.
10. Ask someone to read through the form to check for mistakes before you send it off.
11. Photocopy the completed form in case it gets lost and you need to fill it again or you need to refer to your answers at a later date.
Session 2: Key Words

Interest
In financial arrangements interest is a reward received for letting someone else have the use of your money. When a lender makes a loan to a borrower, the lender will charge interest. This is money that is added to the amount lent that the borrower must pay back in addition. The amount borrowed is divided up into instalments to be paid at regular intervals over the term of the loan and the interest is also divided up and added to each repayment.

Although interest is a central part of credit agreements in western European banking, some religious beliefs, notably Islam, do not approve of it. This means that followers of Islam may not be able to make use of some types of credit arrangements described in this resource. If you need further information on this, you may need to talk to an expert from your own faith.

When you keep money in a bank account you may also receive interest from the bank. This is because you are actually lending your money to the bank. The bank lends your money to other people so that they can buy things and these borrowers pay interest to the bank. The bank pays some of this interest to you in return for having the use of your money.

Student Activity:
Using the diagram from Session 1: Key Words, include the word interest showing what happens to it

There are two main ways in which interest is calculated: “simple” interest (sometimes called “flat rate” interest) and “compound” interest.

Simple Interest
Simple interest is only calculated on the principal amount (the amount of money borrowed) and does not take into account the “time value of money”. This means that the amount of interest is calculated at one point in time and does not reflect the length of time the money has been in use or what has happened to it over that time. An example may help!

A loan of £1,500 is taken out over a 5 year period at a simple rate of interest of 7% p.a.

£1,500 x 7% = £105 and as this for 5 years

£105 x 5 = £525 which is added to the loan to give £2,025

Monthly repayments would be £2,025 / 60 = £33.75
Compound Interest
In the previous example, no account has been taken of the fact that the amount of money owed is reducing year by year. Each year the borrower pays back 1/5th of the principal amount (i.e. £300) plus £105 interest (7% of the principal). So at the start of year 2, the amount borrowed has reduced to £1,200 but the interest of 7% is still being charged on £1,500. If the interest were being calculated by compounding, it would be based on the amount outstanding at the start of year 2. This would be:

\[ £1,200 \times 7\% = £84 \]

and each following year it would reduce further.

In practice, most loans based on compound interest where repayments are monthly also calculate the interest on the balance of the principal amount outstanding each month.

Annual Percentage Rate (APR)
APR is a way of telling you in one figure the full costs of a loan. It takes into account the interest you pay, any other charges included and when the payments fall due. It converts all these into one rate of interest that would apply to the reducing balance of the principal amount across the term of the loan. APR uses a compound rate of interest. This means that you can use the APR figure to compare the overall costs of loans from different providers. A loan with an APR of 15% would be more expensive than a loan with an APR of 10%.

In the example above, interest has been calculated on the assumption of a level principal amount. However, it is in fact reducing every month. This means that, if it were calculated as compound interest, the “real” rate of interest you would have paid would be higher than 7%. In fact, it would be around 12.5% p.a.!

Term
Term is the word used to describe the period of time that is set for the repayment of a loan. (“This loan has a three year term.”)
Getting credit

Session 2: Shopping around

Session plan

Aims of session:
• To explain the use of annual percentage rates (APRs)
• To look at the completion of application forms

Learning outcomes – to be able to:
• Describe interest and what an APR is
• Compare the cost of loans by using APRs
• Complete an application form
• Describe tips for filling in forms

What this session covers
• The credit journey
• Shopping around for a loan
• Interest and APRs
• Filling in application forms

Resources
• Credit journey map
• Whiteboard or flipchart
• Pens
• Advertisements or leaflets for loans (including some with application forms)
• Hand-outs
• Fact sheet
• A to Z glossaries

Possible additional activities:
• From a selection of leaflets or online adverts, find out the cheapest way to borrow £1,000. Use the ready reckoner to work out how much the monthly repayments will be and over what period. Also work out how much the credit is costing – how much extra are you paying to borrow the money?

• Sometimes adverts can be misleading. Ask learners to come up with their own misleading adverts for credit. Swap adverts and try to identify why they are misleading.

• From a selection of leaflets (or the Internet) pick a company that Mark will apply to for his loan. Using the OFT leaflet ‘Shop for credit’, answer the questions on behalf of Mark. Provide a summary to give to Mark explaining the true cost of the loan and the risks associated with borrowing money.
<table>
<thead>
<tr>
<th>Time</th>
<th>Topic</th>
<th>Activity</th>
<th>Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>10 mins</td>
<td>The credit journey</td>
<td>Refer back to Mark Watson and the credit journey. Recap on session one: different types of credit and budgeting.</td>
<td>Credit journey map</td>
</tr>
<tr>
<td>10 mins</td>
<td>Shopping around</td>
<td>After finding out whether he can afford a loan, Mark needs to find the best deal. Discuss 'shopping around'. What does it mean in the context of credit? How do you 'shop around'? Discuss different ways of finding out where to get the best deal.</td>
<td>Whiteboard or flipchart and pen</td>
</tr>
<tr>
<td>10 mins</td>
<td>Interest and APR</td>
<td>Explain interest and APR using Session 2: Key Words. Individuals then to use the loan ready reckoner either paper based (hand-out 2a) or online (at <a href="http://www.moneyadviceservice.org.uk/en/tools/loan-calculator">www.moneyadviceservice.org.uk/en/tools/loan-calculator</a> to find out how much it would cost to borrow £1,000 for different APRs and for different lengths of loans.</td>
<td>Ready reckoner (hand-out 2a) or Money Advice Service Loan Calculator</td>
</tr>
<tr>
<td>15 mins</td>
<td>APR</td>
<td>Use a selection of leaflets/adverts advertising loans to highlight why you might not necessarily go for the company who offers the lowest APR. For example, the reputation of the company or its the ethics might be more important to you. You might not want to pay interest for a loan for religious reasons (See Session 2: Key Words on interest), extra charges. Choose a company for Mark to apply to for his car loan. What are the reasons for this choice? Refer back to affordability and over-commitment.</td>
<td>Selection of leaflets/adverts for loans</td>
</tr>
<tr>
<td>5 mins</td>
<td></td>
<td>Hand out the fact sheet and reiterate points.</td>
<td>Fact Sheet 2</td>
</tr>
<tr>
<td>15 mins</td>
<td>Filling in an application form</td>
<td>Discuss different ways of applying for credit (phone, post, in a store or bank, or over the Internet). Which do you prefer? Why? What sort of problems might people have filling in application forms? Give out Hand-out 2b. Discuss the Ten Top Tips for filling in forms. Can you add any more tips to this list?</td>
<td>Hand-out 2b: Completing applications</td>
</tr>
<tr>
<td>20 mins</td>
<td>Filling in an application form</td>
<td>Read through Mark Watson's details on hand-out 2c. Individuals to use Mark’s details to complete the application form on hand-out 2d. Alternatively, complete the forms within the leaflets. Refer back to Top Ten Tips and ask group to identify any words or phrases unsure of. Add these to the glossaries. If suitable for the group ask learners to swap forms to check completed the form correctly. Discuss forms. Did the tips help? How could forms be made easier?</td>
<td>Hand-outs 2c and 2d: an application form. Leaflets</td>
</tr>
<tr>
<td>5 mins</td>
<td>The credit journey</td>
<td>Recap session by linking work undertaken in session with the credit journey.</td>
<td>Credit journey map</td>
</tr>
</tbody>
</table>

The following resources are required for session one:
Hand-out 2a: loan ready reckoner
Use these tables to see how much you will actually pay back when you take out a loan of £1,000 or £100. Find the APR on the left-hand side and follow it across to the number of years of the loan.

For example if you borrow £1,000 at an APR of 25% for 5 years you’ll pay back £1,675 (an extra £675 in interest).

If you borrow £100 at an APR of 30% for 3 years you’ll pay back £146 (an extra £46 on top of the loan).

Remember - the lower the APR the less you’ll pay in interest.

<table>
<thead>
<tr>
<th>APR</th>
<th>1 year</th>
<th>3 years</th>
<th>5 years</th>
<th>10 years</th>
<th>15 years</th>
<th>20 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>5%</td>
<td>£1027</td>
<td>£1077</td>
<td>£1129</td>
<td>£1266</td>
<td>£1413</td>
<td>£1569</td>
</tr>
<tr>
<td>10%</td>
<td>£1052</td>
<td>£1154</td>
<td>£1262</td>
<td>£1557</td>
<td>£1887</td>
<td>£2248</td>
</tr>
<tr>
<td>15%</td>
<td>£1078</td>
<td>£1231</td>
<td>£1398</td>
<td>£1867</td>
<td>£2404</td>
<td>£2995</td>
</tr>
<tr>
<td>20%</td>
<td>£1102</td>
<td>£1308</td>
<td>£1536</td>
<td>£2191</td>
<td>£2947</td>
<td>£3773</td>
</tr>
<tr>
<td>25%</td>
<td>£1126</td>
<td>£1385</td>
<td>£1675</td>
<td>£2523</td>
<td>£3502</td>
<td>£4557</td>
</tr>
<tr>
<td>30%</td>
<td>£1149</td>
<td>£1461</td>
<td>£1815</td>
<td>£2860</td>
<td>£4058</td>
<td>£5333</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>APR</th>
<th>1 year</th>
<th>3 years</th>
<th>5 years</th>
<th>10 years</th>
<th>15 years</th>
<th>20 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>5%</td>
<td>£103</td>
<td>£108</td>
<td>£113</td>
<td>£127</td>
<td>£141</td>
<td>£157</td>
</tr>
<tr>
<td>10%</td>
<td>£105</td>
<td>£115</td>
<td>£126</td>
<td>£156</td>
<td>£189</td>
<td>£225</td>
</tr>
<tr>
<td>15%</td>
<td>£108</td>
<td>£123</td>
<td>£140</td>
<td>£187</td>
<td>£240</td>
<td>£299</td>
</tr>
<tr>
<td>20%</td>
<td>£110</td>
<td>£131</td>
<td>£154</td>
<td>£219</td>
<td>£295</td>
<td>£377</td>
</tr>
<tr>
<td>25%</td>
<td>£113</td>
<td>£131</td>
<td>£168</td>
<td>£252</td>
<td>£350</td>
<td>£456</td>
</tr>
<tr>
<td>30%</td>
<td>£115</td>
<td>£146</td>
<td>£182</td>
<td>£286</td>
<td>£406</td>
<td>£533</td>
</tr>
</tbody>
</table>

A payment calculator is available on the website of the Money Advice Service to work out the cost of loans of different amounts. Look in the Tools and Resources section at: www.moneyadviceservice.org.uk
Session 2: Fact Sheet 1- Shopping around

Shopping around for the best deal is something we would normally do when buying clothes, food or household goods. Shopping for credit should be no different. Most of us will try to find the cheapest deal. There are a number of ways you can search for the best deal, including:

- asking friends and family
- looking in a newspaper or on the internet
- visiting banks and building societies
- asking a financial advisor

You should take care when shopping around for credit. Some lenders might need to check your credit report before giving you a quote. This is because some lenders link the amount of interest you will pay to the risk of you defaulting on your repayments. Generally speaking, the higher a credit risk you are, the higher the interest rate the company will offer you. This is known as risk-based pricing.

Every credit check leaves a footprint on your credit report and lots of credit application footprints can cause you problems. This is because it can look as though you are desperate for credit. As a result, it is wise to only agree for a credit application check to be carried out once you have decided which deal is the best. If you are just looking for a quote and the lender needs to check your credit report to provide this, ask them to carry out a quotation search. By law, you should always be told when a company is going to run a credit check on you.

What is APR?

APR is the Annual Percentage Rate. This helps you to work out the cost of a loan, taking into account the interest you pay, any other charges, and when the payments fall due. The interest rate is shown as an APR so you can easily compare the cost of one loan with another. Generally, the higher the APR, the more you have to pay to borrow the money.

For example, a loan with an APR of 15% will cost more in total than one with an APR of 10%.

If you borrow £1,000 for 3 years at 15% you will pay back £1,232

If you borrow £1,000 for 3 years at 10% you will pay back £1,155

A difference of £77

Following a law, passed in 2004, a lender must now give you certain key financial information before you sign an application form to borrow money. This must be clear so that you know what you are agreeing to before you sign. The information should be displayed in a summary box and includes:

<table>
<thead>
<tr>
<th>Key Financial Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>A  Amount of credit</td>
</tr>
<tr>
<td>B  Term of agreement</td>
</tr>
<tr>
<td>C  Total amount repayable</td>
</tr>
<tr>
<td>D  Repayments</td>
</tr>
<tr>
<td>E  APR</td>
</tr>
</tbody>
</table>
Hand-out 2b – Completing applications
Filling in forms can often be confusing. Here are some tips for filling in credit application forms

Ten tips for filling in forms
• Always read through the form before starting to fill it in.
• Check that the form is the right one.
• Check if you need to complete the form in black/blue pen or in BLOCK CAPITALS.
• Make a photocopy of the form and fill the copy in first; or complete the form in pencil first, then re-do it in pen.
• Use a dictionary to check any words you do not understand or for spellings you are unsure of.
• Read the small print e.g. any terms and conditions.
• Read the separate Data Protection Notice, which should be prominently displayed and explains how your personal information will be stored, shared and processed.
• If you are unsure of anything on the form, ask someone for help.
• Remember to sign the form, if you need to.
• Ask someone to read through the form to check for mistakes before you send it off.
• Photocopy the completed form in case it gets lost and you need to fill it in again or you need to refer to your answers at a later date.

Can you think of any more tips?
Hand-out 2c: Activity - Mark’s application details
Use these details to complete an application form. Ask someone to check you have completed the form correctly. You can make up any extra details you might need.

• Mark Watson lives at 23 Green Street, Forest Glade RR9 5AQ.

• He was born on February 23rd 1961.

• He is married and has three children.

• He works for Forest Glade Ambulance Service, Emerald Lane, Forest Glade RR8 3SD and has been there for 16 years. He earns £25,000 a year before tax.

• Home phone number: 0123 498 7564

• Daytime phone number: 0123 475 6498

• National Insurance No. AA 01 23 45 B

• He is a home owner with a mortgage and has been at his current address for two years. Before that, he lived at 4 Arnott Drive, Manchester M26 9AG.

• His e-mail address is j.penney@coolmail.co.uk

• His bank account details are:

• Sort code 02-82-03

• Current Account Number: 47492444
Hand-out 2d: Mark Watson’s Loan Application Form Details
This is an example of the personal details Mark Watson would complete in applying for the loan to purchase his car. Please complete the form using the information in Hand-out 2c

Personal details
Title (Mr/Mrs/Miss/Ms/Dr): __________
First name: ______________ Middle name: ______________ Surname: ______________
Date of birth: ____ / ____ / ____ (DD/MM/YYYY)
Your full address: __________________________________________________________
_________________________________ Postcode:___________
Time at current address: _____Years _____ Months

Residential status (please tick one):
□ Homeowner  □ Private tenant  □ Council tenant  □ Living with parents  □ Other

Telephone number (daytime):_____________ Telephone number (evening):_____________ Mobile number: ______________    E-mail address:________________________

Employment and financial information

Employment status (please tick one):
□ Employed  □ Self-employed  □ Retired  □ Homemaker  □ Student  □ Unemployed  □ Other
Occupation:_______________________  Employer’s name:______________________________
Employer’s address:
______________________________ Postcode: __________ Telephone number: _____________________
Employed by above for:  ____ Years ____ Months
Your gross annual income: £___________ Other household income: £___________
Your bank account details: Sort code ____/____/_____ Account number: _______________
Time with bank/building society: ___ Years _____ Months
The information below would also be included in the application form. It describes how the lender will deal with the information that Mark has provided.

We would like to keep you informed about products and services that we offer and other companies which we believe would be of interest to you. We may also give your information to those other companies for the same purpose.

If you do not wish to benefit from this information, please tick this box □

CREDIT CARD AGREEMENT REGULATED BY THE CONSUMER CREDIT ACT 1974

Data Protection Notice
I confirm that all the information I have given is true and complete. I understand that this information will be checked with fraud prevention agencies and if I give false or inaccurate information and fraud is suspected, this will be recorded. I authorise Lendu Money Limited to search the files of any credit reference agency for my application and to help manage my account. The credit reference agencies will record details of Lendu Money Limited’s search and my application. Information held about me by the credit reference agencies may already be linked to records relating to one or more people with whom I have a financial association. For any searches Lendu Money Limited makes I may be treated as linked to them and I will be assessed with reference to their records. Lendu Money Limited may also add to my record with credit reference agencies details of how I conduct my Lendu Money Limited account (including defaults).

Lendu Money Limited and other organisations may use and search these records about me and those to whom I am financially linked to:

- help make decisions about credit and credit-related services such as insurance for me or members of my household,
- trace debtors, recover debt, prevent fraud and to manage my accounts,
- check my identity to prevent money laundering, unless they are satisfied about my identity.

Fraud prevention agency records will also be shared with other organisations to manage insurance policies and help make decisions on motor, household, credit, life and other insurance proposals and insurance claims for me and members of my household. The credit reference agencies and fraud prevention agencies will also use the records for statistical analysis about credit and fraud. I have read the terms and conditions setting out the agreement with Lendu Money Limited and, if my application is accepted, I agree to be bound by these terms and conditions, as amended from time to time. I am over 18 years of age.
Applying for Credit
Session 3: Credit Scoring
What is a credit check?
When you apply for credit, lenders have to make sure that you are who you say you are and live where you say you live. They also want to make sure that you are likely to be able to keep up the repayments. They will look at the information you give them when you apply, such as your job and income. They will also look at the information the credit reference agency holds about your credit history, which is sometimes referred to as your credit report. The lending decision diagram provided in this resource pack shows exactly how the decision-making process works.

What is a credit reference agency?
Credit reference agencies help lenders to make quick, responsible lending decisions. They hold details about you and your credit record including how you have handled credit agreements and other obligations such as rent payments in the past and what current commitments you have. This information helps the lender to decide if you can afford to borrow money and whether you are likely to pay it back on time. Credit reference agencies keep information on almost every adult in the UK. They do not keep blacklists or give opinions about whether or not you should be given credit. They simply provide factual information to lenders.

It is the lender who decides whether you are an acceptable risk. The credit reference agency will help to confirm the identity of the applicant and the accuracy of the address or addresses lived at over the previous six years by providing details from the electoral roll. They will also provide information about any court judgments and bankruptcy orders that have been made. If you have given your permission, they may give the lender access to details of other loans, credit cards and mortgages you have, showing how much you owe and whether you have made your repayments on time. They may also give details of how many applications you have made for credit recently. All of this information is valuable in assessing a person's ability to manage their finances and repay any money that is lent. The information provided is based on the applicant only. Lenders no longer see or take account of information about other members of your family. If you are financially linked to someone else, for example, through a joint account then their information may also be used. This will depend on the lender.

Credit reference agencies:
• do not make lending decisions, lenders make these
• do not know whether an application is successful so they cannot tell why someone has been refused credit
• do not hold a blacklist of people or properties
• do not decide your credit rating. Applications for credit are rated by the lenders and different lenders use different scoring methods
Who are the credit reference agencies?
The three credit reference agencies are:

**Experian:** 0844 481 8000
www.experian.co.uk

**Equifax:** 0844 335 0550
www.equifax.co.uk

**Callcredit:** 0845 366 0071
www.callcredit.co.uk

How is the lending decision actually made?
Lenders assess most credit applications using a system called ‘credit scoring’. They give points to the details you provide to them when you apply for credit and to the information held by the credit reference agency. If your application gains enough points you will usually be offered credit. The lender decides the total number of points you need to be offered credit and this will differ from one company to another and, sometimes, from product to product within the same company.

The information that is scored often includes income, length of time in a job, current commitments, how past credit agreements were conducted, what you owe on credit already, whether there have been recent applications for credit and if so how many. The lender will decide what kind of customer they want and compile their scorecards (the lists that determine how points are awarded) accordingly. They will also set the pass mark that an application has to reach to be accepted. Organisations often target certain groups of customers with products and this will be reflected in their scorecard. Most organisations will refuse credit if you have been made bankrupt in the past. Some will refuse you if you have a county court judgment. Other organisations will not refuse credit because of this but may charge you a higher rate of interest.

Some organisations will refuse credit if you are not recorded on the electoral roll. Other organisations may not refuse but will instead ask for other proof of your address. Being recorded on the electoral roll at your address means that the lender can check that you live where you say you live. The leaflet ‘Refused credit’ gives more information on possible reasons for being refused credit. This and more information on credit scoring can be found at www.experian.co.uk/consumer

Rent payments
Credit reference agencies use information about mortgage payments as part of their scoring. During 2014 Experian is introducing a new system where rent payments can be considered as well if your landlord has recorded these. This will benefit those in rented housing, who, until now, could not use evidence about how well they maintained their rent payments. Being able to demonstrate a successful record of regular rent payments means that tenants also will be able to use this to:

- improve their chances of successfully apply for credit
- improve the interest rates at which loans are offered to them
- improve their chances when applying for new tenancies
- more easily confirm their identity online.

As this system is still being rolled out, all the exercises in Getting Credit are based on the old system.
Session 3: Credit Scoring

Session plan

Aims of session:
• To discover what a credit reference agency is
• To explore how credit scoring is undertaken
• To credit score some applications

Learning outcomes – to be able to:
• Describe what a credit reference agency is
• Explain how credit scoring works
• Work out a credit score from own information or that of a case study

What this session covers:
• The credit journey
• Credit checks
• Credit reference agencies (CRAs)
• Credit scoring
• Working out credit scores

Possible additional activities:
• Hand-outs 3e and 3f can be used to extend the scoring activity further. 3e provides profiles of applications to be assessed in pairs. Results can be recorded as a group in tabular form on a whiteboard or flipchart. Did everyone agree? Why do you think some applications would be refused?

• Hand-out 3f contains information that a credit reference agency might hold. Using this information, do the groups want to change their lending decisions? Why? Discuss reasons for declining applications. Does everyone agree now?

• Using the Internet (or literature if gathered), research information given by different companies on credit scoring. Look at major banks and building societies. How does the information vary? What common points are there? Is it clear who makes the lending decision?

• Using the lending decision diagram, photocopy and cut up then ask groups or individuals to arrange the diagram in the right order.
### Suggested session outline for Session 3: Credit Scoring

<table>
<thead>
<tr>
<th>Time</th>
<th>Topic</th>
<th>Activity</th>
<th>Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 mins</td>
<td>Introduction</td>
<td>Recap on Mark’s progress so far. Refer to journey map. This is stage two – applying for credit.</td>
<td>Credit journey map</td>
</tr>
<tr>
<td>5 mins</td>
<td>Credit decisions</td>
<td>After finding out whether he can afford a loan, Mark needs to find the best deal. Discuss ‘shopping around’. What does it mean in the context of credit? How do you ‘shop around’? Discuss different ways of finding out where to get the best deal.</td>
<td>Flipchart</td>
</tr>
<tr>
<td>15 mins</td>
<td>Credit checks CRAs</td>
<td>How is a credit decision made? What different ways would there be for companies to decide? Note these on flipchart or whiteboard.</td>
<td>Lending decision diagram – hand-out 3a Fact Sheet 3</td>
</tr>
<tr>
<td>15 mins</td>
<td>Credit scoring</td>
<td>Ask group to imagine they had £1,000 to lend to someone they didn’t know. Give out hand-out and go through questions. How would the answer to these questions affect your decision to lend the money? [Note: Can do as a role play in groups or as a class.]</td>
<td>Hand-out 3b</td>
</tr>
<tr>
<td>15 mins</td>
<td>Comparing numbers</td>
<td>Think of a number: Tutor thinks of a three figure number or writes it down and the group have to guess what the number is. After each guess they are told whether they are too high or too low. Discuss ranges of numbers including the terms more than and less than. Introduce &gt; &lt; symbols.</td>
<td></td>
</tr>
<tr>
<td>10 mins</td>
<td>Credit scoring</td>
<td>Explain credit scoring activity and draw ranges on the whiteboard. Learners to complete activity. Stress privacy element.</td>
<td>Hand-out 3c Calculators</td>
</tr>
<tr>
<td>20 mins</td>
<td>Credit scoring</td>
<td>Repeat scoring activity but using Mark Watson’s profile. Will Mark have his application accepted? [Note: Mark’s score should be 450]</td>
<td>Hand-out 3d – Mark’s application</td>
</tr>
<tr>
<td>5 mins</td>
<td>The credit journey</td>
<td>Summarise session. Refer back to Mark. What happens now?</td>
<td>Credit journey map</td>
</tr>
</tbody>
</table>

**Tutor note:** The scoring activity is based upon generic credit scoring principles. Points are awarded where the answer indicates you would be less of a credit risk (i.e. a good customer) and points are taken away where the answer indicates you would be more of a credit risk (i.e. possibly a bad payer).

The following resources are required for session three:
Mr Watson applies for a loan

The lender then looks at the following information

- Mr Watson’s application form
- Lender’s own customer records
- Credit reference agency report

Does Mr Watson meet the lender’s general criteria?

- DECLINE (For example, salary too low or bankrupt)

Decision based on credit score

- DECLINE
- ACCEPT
- REFER

Credit scoring (to establish credit risk)
Who decides if you get credit?
Once you have applied for credit, the lender will decide whether to lend you the money. As part of the application (usually in the small print) you will probably give the lender permission to carry out a credit check through a credit reference agency. It is the lender who decides whether a credit application is approved. The information the credit reference agency provides may help the lender to decide.

What is a credit check?
When you apply for credit, lenders have to make sure that you are who you say you are and you do live where you say you live. They also want to make sure that you are likely to be able to keep up the repayments. They will look at the information you give them when you apply (such as details of your job and income). They will also carry out a credit check by contacting a credit reference agency and looking at the information they hold about you. This is known as your credit report.

What is a credit reference agency?
Credit reference agencies help lenders to make quick, responsible lending decisions. They hold details about you and your credit record, including how you have handled credit agreements in the past and what current commitments you have. This information helps the lender to decide if you can afford to borrow money and whether you are likely to pay it back in full and on time.

Credit reference agencies:
• do not make lending decisions, lenders make these
• do not know whether an application is successful so they cannot tell why someone has been refused credit
• do not hold a blacklist of people or properties
• do not decide your credit rating. Lenders score credit applications and different lenders use different scoring methods

Who are the credit reference agencies?
The three credit reference agencies are:

**Experian**: 0844 481 8000
www.experian.co.uk

**Equifax**: 0844 335 0550
www.equifax.co.uk

**Callcredit**: 0845 366 0071
www.callcredit.co.uk

What is credit scoring?
Most credit applications are assessed using a system called ‘credit scoring’. Points are awarded to the details you provided to the company when you applied for credit and the information held by the credit reference agency. Credit reference agencies base this scoring on their past experience of who is likely to manage their borrowing effectively. The decision to offer the credit to the customer is given if they get enough points. The lender decides how points are awarded and the total number of points your application needs to reach for you to be offered credit. This will differ from one company to another and, sometimes, from product to product within the same company.
Rent payments
Credit reference agencies use information about mortgage payments as part of their scoring. During 2014 Experian is introducing a new system where rent payments can be considered as well if your landlord has recorded these. This will benefit those in rented housing, who, until now, could not use evidence about how well they maintained their rent payments. Being able to demonstrate a successful record of regular rent payments means that tenants also will be able to use this to:

- improve their chances of successfully apply for credit
- improve the interest rates at which loans are offered to them
- improve their chances when applying for new tenancies
- have their identity quickly confirmed online (using their credit report)

As this system is still being rolled out, all the exercises in Getting Credit are based on the old system.
Hand-out 3b: Would you lend?
Scoring systems will vary from company to company. You are not scored on your race, religion or beliefs. You are scored on the following kinds of information:

- Are you married or single? Do you have to support anyone else financially?
- What do you do for a living and how much do you earn?
- Do you own your home or are you renting?
- How long have you been in your current job?
- Have you registered to vote on the electoral roll?
- Have you been taken to court recently for not paying a debt?
- How many financial commitments do you already have?
- What is the combined balance on your existing accounts? How much do you owe?
- Do you usually make all your payments on time or are you a late payer?
- How many other places have you applied to for credit recently?

Activity
Go through the list above. How would the answers to these questions affect your decision to lend someone money?

What other questions would you want to ask someone before lending them money?
Hand-out 3c - What’s your credit score?
This is a made-up scorecard. Real scorecards are much more complex and vary from company to company. The details of the points given to each piece of information remain private to each company. This is to stop people making false applications and committing fraud.

In this example, you start with 500 points. Read each of the questions carefully and then add or take away points according to the answer you have given. You can mark the answers on the sheet and add up the points at the end or do the sums as you go along. You do not have to tell anyone your score.

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do you have a mortgage?</td>
<td>add 100 points</td>
<td>take away 100 points</td>
</tr>
<tr>
<td>(If you do have a mortgage, you should now be on 600 points, if you do not have a mortgage you will be on 400 points).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>How old are you?</td>
<td>add 50 points</td>
<td>take away 50 points</td>
</tr>
<tr>
<td>Under 50 years old</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Over 50 years old</td>
<td></td>
<td></td>
</tr>
<tr>
<td>How many applications for credit have you made in the last year?</td>
<td>add 150 points</td>
<td>take away 150 points</td>
</tr>
<tr>
<td>Fewer than five</td>
<td></td>
<td></td>
</tr>
<tr>
<td>More than five</td>
<td></td>
<td></td>
</tr>
<tr>
<td>How many credit cards or store cards do you currently have?</td>
<td>add 100 points</td>
<td>take away 100 points</td>
</tr>
<tr>
<td>Fewer than three</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Three or more</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Are you registered to vote on the electoral roll at your current address?</td>
<td>add 200 points</td>
<td>take away 200 points</td>
</tr>
<tr>
<td>Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Have you been late making payments on any of your accounts?</td>
<td>take away 50 points</td>
<td>add 50 points</td>
</tr>
<tr>
<td>Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Have you been taken to court recently for not paying on a credit agreement?</td>
<td>take away 100</td>
<td>add 100 points</td>
</tr>
<tr>
<td>Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Do you have a steady income?</td>
<td>add 100 points</td>
<td>take away 100 points</td>
</tr>
<tr>
<td>Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Do you have a personal loan at the moment?</td>
<td>take away 100 points</td>
<td>add 100 points</td>
</tr>
<tr>
<td>Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Add up your score. Use the space below to work out the total.

Write your score in this box if you want to record it.
Using the table below, find out whether your application has been accepted.

**Lendu Money Ltd**

**What is your final score?**

> 1000 – you can have the loan

Between 500 and 1000 – we will ask you some more questions before deciding

< 500 – sorry but we cannot give you a loan at the moment
Hand-out 3d: Mark’s credit score

Mark has filled in an application form for a loan to buy his new car. You are now going to score Mark’s application. Some of the details given on an application are checked by the lender in other ways (for example his home telephone number or national insurance number). The details that we will need for the credit scoring system are set out below.

Mark’s application form information:
• Date of birth February 23rd 1961.
• Married with three children
• Works for Forest Glade Ambulance Service and has done for 16 years.
• Earns £25,000 a year.
• Home owner with a mortgage. Been at his current address for two years.
• He has a credit card with a limit of £3,000.
• He would like a loan of £4,000.

Mark’s credit reference agency information:
• He was registered on the electoral roll at his previous address but not his current address.
• His credit card has an outstanding balance of £1,126.
• He also has another loan with Boodles Bank that has a balance of £550 on it.
• He has made no late payments on his credit card in the last three years.
• He has a loan with a monthly payment of £160.
• Recently Mark he fell behind on his phone rental payments and the company eventually took him to court to recover the money.
• He has made two applications for credit in the past year.

Activity

Using all this information, score Mark’s application using hand-out 3c. Remember to start with 500 points.

What is Mark’s score?
Will his application be accepted?
Hand-out 3e: You are a banker!
Imagine that you work for Boodles Bank. In pairs, look at each of these applicants.
Based on the limited information that you have here, would Boodles Bank lend them £5,000? You can answer Yes, No or Maybe.

Will his application be accepted?

Profile A
- Male, aged 28 and divorced
- No children
- Worker with same firm for six years
- Earns £15,000 a year
- Tenant in an unfurnished flat
- Lived there for ten months
- Has a bank account, one credit card, one store card

Profile B
- Male, aged 49
- Married, one child, owns own home
- Semi-skilled worker
- Worked for the same company for two years
- Earns £26,000 a year
- Has lived there for 15 years
- Has a bank account, two credit cards and a hire purchase agreement on his car

Profile C
- Female, aged 19 and is single
- Still lives at home
- Has no children
- Unskilled worker, working for 15 months
- Earns £9,000 a year
- Has Post Office account
Profile D
- Female, aged 52
- Divorced
- Has two children
- Has worked in the same business for 20 years and is at a professional level
- Earns £40,000 a year
- Homeowner
- Has two bank accounts, three credit cards, two store cards and a loan on her car

Profile E
- Female, aged 35
- Married
- Three children
- Live mortgage-free
- Is self employed
- Earns £30,000 a year
- Has a bank account, two store cards and a credit card

Profile F
- Male, aged 30
- Married
- Two children
- Rents unfurnished flat
- Is unemployed
- Has Post Office account
Hand-out 3f: Credit reference agency information

Look back at hand-out 3e and the decisions you made about whether to lend those people £5,000. You have now consulted a credit reference agency and have some more information on the applicants. Look at the details below. Does any of this information change your mind about wanting to lend them the money? Why?

**Profile A**
- Recorded on electoral roll at current and previous addresses
- One or two late payments on a credit card which has a balance of £1,438
- Lots of late payments on a store card with a balance of £200

**Profile B**
- Recorded on electoral roll
- One credit card has many late payments on it and a balance of £5,721
- Second credit card has late payments made on it and a balance of £3,286
- The hire purchase agreement on the car started 03/04/00 and the monthly payments are £483. Some payments have been late

**Profile C**
- Recorded on the electoral roll
- No debts outstanding
Profile D
• Recorded on electoral roll
• Three credit cards
  • One has a balance of £0 with no late payments
  • One has a balance of £500 with a couple of late payments
  • One has a balance of £1,000 with no late payments
• Two store cards. Late payments on one, but not the other and a balance of £0 on one card and £300 on the other
• Car loan started 02/11/98, balance £9,210 and monthly payments of £365

Profile E
• Recorded on electoral roll
• Credit card balance of £126 and no late payments made
• Store card 1 has a balance of £95
• Store card 2 has a balance of £180
• No late payments on either store card

Profile F
• Recorded on electoral roll and current and previous addresses
• No debts outstanding
Applying for Credit
Session 4: Credit Decisions
Getting credit

How is a credit decision made?

The lending decision diagram (used in Session 3 - Hand-out 3a) explains how organisations usually make decisions about credit applications. Lenders will have some basic criteria for applications before putting them through a credit scoring system. These criteria might include income or age. For example, many organisations will not lend money to someone who does not have a job as they do not have any money coming in to help pay off the loan. Age is also an important factor. Credit should not be given to anyone under the age of 14 in this country; 14 to 18 year olds usually have to have a guarantor who will enter into a credit agreement with them. Some organisations will not give mortgages to elderly people as these loans often have a long period over which the money is repaid.

As long as you meet the company’s general criteria, your application will be put through a credit scoring system. This will establish the risk of you not repaying any money you borrow. It will answer the question: How likely are you to pay the money back in full and on time?

Tutor Information

Summary

Session 4 follows on from Mark’s application for a loan and looks at the decision made by the lender on whether they can offer the loan to Mark. Alas, Mark has had his application declined, a decision that was based on his credit report. Until he checked his credit report he was not aware that his county court judgment was recorded there. He was also unaware that not having registered on the electoral roll would be recorded and would have an impact on any credit applications. Learners can look in detail at how lenders make decisions based on credit reports. The resource materials include the letter from the lender communicating their decision and Mark’s credit report, which contains indications of why he might have been declined. This credit report is a simplified example but it contains a representative sample of what would be found in a full report. An example of a more detailed report (this one is for “Jessica Somebody” – not Mark) can be found at http://www.experian.co.uk/consumer/resources.html where you can also find a download of the leaflet “Your Credit Report Explained” which learners will need to help them answer the questions about Mark’s credit report.

The Session can be concluded with some Q&A exercises to reinforce the importance of being proactive about keeping one’s credit history as clean as possible and also steps you can take to repair it, should the need arise.
Getting credit

What happens next?
If your application is accepted, the credit will be granted and you will receive a copy of the credit agreement. You will usually be asked to sign and return this to the lender within a certain time.

If an application is referred, this means that someone will look at your application in more detail. These people are normally called underwriters and may ask you to provide more information before they reach a decision about your application.

If you are refused credit (lenders use the term 'decline'), the lender should give you a principle reason for the decision. This means that they should tell you if it was their company policy or the information held by the credit reference agency that led them to decide not to give you credit. You will usually have to ask for this information. They should tell you which part of the policy or what credit report information caused them to 'decline' your application.

Lenders are obliged to tell you which credit reference agency they used to help them make the decision. This does not necessarily mean that the information the credit reference agency holds was the reason you were refused. Being refused by one company does not mean you will automatically be turned down by another.

The leaflet 'Refused Credit' gives more information on what to do when credit is refused.
What is a credit report?
Your credit report is a copy of the information that the credit reference agency holds about you. Your credit report will change over time as you make payments on existing agreements and apply for new ones. You can have a look at your credit report at any time by applying to the credit reference agency for a copy. They will send you a copy and you can ask them for help with understanding the information or changing it if you think something is wrong. The leaflet ‘Your credit report explained’ gives much more detailed information about what is on a credit report.

Understanding your credit report
It is important you understand the information on your credit report. Your credit report must also be up to date, because it helps lenders check your name and address, how you have managed credit in the past and how you are managing credit and other financial obligations at the moment. If your report shows that you repay credit on time and are regular with any rent payments, this will usually help you get credit. It will also help you get the best credit deals.

Being proactive
If Mark had checked his credit report before he applied for the loan, the decision could have been different:

• He could have applied to be on the electoral register at his new address

• He could have applied to the credit reference agency to have “Notices of Correction” entered in his report in respect of the late payments on his bank loan (C4 in the report) and his county court judgment (J1 in the report). An example of a Notice of Correction has been included in the credit report – Mark added this one after the loan had been refused.

However, even after his application has been turned down, there are things he can do. If he thought there were good reasons, he could go back to the lender and ask them to reconsider their decision. In fact, the Data Protection Act stipulates that, if you were refused simply because of your overall credit score you have a legal right to demand a manual review.
### Suggested session outline for Session 4: Credit Decisions

<table>
<thead>
<tr>
<th>Time</th>
<th>Topic</th>
<th>Activity</th>
<th>Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 mins</td>
<td>The credit journey</td>
<td>Recap on Mark’s progress so far. Refer to journey map. What stage is Mark at now?</td>
<td>Credit journey map</td>
</tr>
</tbody>
</table>
| 10 mins| Credit decisions       | Refer back to the lending decision diagram and reiterate how the process works. Remember that Mark was refused credit. Distribute and read out example decline letter to group. Is the letter easy to understand? If not, why? Discuss how it would feel to be refused credit. What should Mark do now? | Hand-out 3a – Lending decision diagram  
Mark’s decline letter – Hand-out 4a                                                        |
| 15 mins| Credit reports         | Has anyone had a copy of their credit report? What information does the group expect to be on the report? Make a list as a group. Refer back to information used in previous session.                                                                                                                                                  | Whiteboard/ flipchart  
Pens                                                                                                         |
| 15 mins| Credit reports         | Mark has got a copy of his credit report from a credit reference agency. Look through his credit report using the explanatory leaflet to help understand the codes and terminology used within the report. Discuss why you think information is included.  
Refer back to the list the group made as you look through the credit report. Are there any surprises? Why do you think certain information is not on there? | Mark’s credit report (in Resources)  
Fact Sheet 4  
A to Z glossaries  
Your Credit Report Explained leaflet                                                                   |
| 20 mins| Credit reports         | Give out Hand-out 4b and explain activity. Learners are to use leaflet and Mark’s report to answer the questions. Go through as a group once completed.                                                                                                                                                                           | Hand-out 4b and  
“Your Credit Report Explained” leaflet.  
Mark’s credit report (in Resources).                                                               |
| 5 mins | Querying your report   | Discuss what to do if you think information on your report is wrong. (Note: this information is found on the report and in the leaflet.)                                                                                                                                                                                               | Your credit report explained leaflet.  
Mark’s credit report (in Resources)                                                                    |
| 15 mins| Improving your credit report | Give out hand-out 4c and explain activity. Learners should have the do’s and don’ts sheet and a pile of tips/advice. They must assign each tip to either the ‘do’ or the ‘don’t’ pile. Go through answers as a group afterwards. (Note: The ‘Your Credit Report Explained’ leaflet holds the answers to these so leaflets should be put to one side during this activity.)  
Distribute Hand-out 4e – Improving your credit report and go through points. Do you have any suggestions for Mark (register on electoral roll, contact lenders about late payments)? | Hand-outs 4c and 4d (Page One should be cut up into strips)  
Hand-out 4e (answers)                                                                             |
| 5 mins | Credit journey         | Recap session and refer back to Mark’s journey                                                                                                                                                                                                                                                                                             | Credit journey map                                                                         |

The following resources are required for session four:

- Credit journey map
- Hand-out 3a – Lending decision diagram
- Mark’s decline letter – Hand-out 4a
- Whiteboard/ flipchart
- Pens
- Mark’s credit report (in Resources)
- Fact Sheet 4
- A to Z glossaries
- Your Credit Report Explained leaflet
- Hand-out 4b
- “Your Credit Report Explained” leaflet
- Hand-out 4d
- Hand-out 4e (answers)
- Hand-outs 4c and 4d (Page One should be cut up into strips)
- Hand-out 4e (answers)
Dear Mr. Mark Watson,

Thank you for your application for a Lendu Money Ltd loan. I regret that we are unable to grant your request on this occasion, as your circumstances did not meet our lending criteria.

We assessed your application by taking account of the following:

• The information on your application form
• Any information we already hold about you (if you have been a customer before)
• Information provided by a credit reference agency

We assess this information using a combination of rules and credit scoring. Our credit scoring system gives points to each piece of relevant information and adds these up to produce an overall score. Unfortunately your application did not reach a high enough score for us to be able to give you a loan.

If you would like to see what information the credit reference agency we used holds about you, their contact details are below. If you apply for your credit report in writing, you need to provide your full name, date of birth and addresses over the past six years.

Experian Ltd
PO Box 8000
Nottingham
NG80 1WF
0844 481 8000
www.experian.co.uk

If you have additional information to support your application and would like us to reconsider your application, please let us know within 28 days of receiving this letter.

Thank you once again for your interest in a Lendu Money Ltd loan.

Yours sincerely,
Lending manager
Fact sheet 4: Why have I been refused credit?
There are a number of reasons why an application for credit can be refused. Only the lender who made the decision can explain why they refused an application. Lenders may tell you that they used the information held by a credit reference agency to help them make their decision. This information is called a credit report (or credit file). You can get a copy of your credit report from a credit reference agency at any time for a small fee. It is a good idea to check your credit report from time to time to make sure the information on it is accurate and up to date.

What is a credit report?
Your credit report is a copy of the information that the credit reference agency holds about you. It will show your electoral roll details and details of your current and past credit agreements. Your credit report will change over time as you make payments on existing agreements and apply for new ones. You can have a look at your credit report at any time by applying to the credit reference agency for a copy. They will send you a copy and you can ask them for help with understanding the information or changing it, if you think something is wrong.

How do I get my credit report?
You can order a copy of your credit report online at www.experian.co.uk or by calling 0844 481 8000. The charge for a one-off ‘statutory’ credit report is £2. Reports can be obtained from the other agencies at:

**Equifax:** 0844 335 0550
www.equifax.co.uk

**Callcredit:** 0845 366 0071
www.callcredit.co.uk
Understanding your credit report

Each of the credit reference agencies will offer you help to understand the information held on your credit report. Your report may come with an explanatory leaflet. Experian’s leaflet is called ‘Your credit report explained’. Each of the agencies will hold different information on you so it is well worth getting a copy of your report from all three of them. Information relating to your family members or partner will not appear on your credit report. Your credit report will hold some or all of the following information:

<table>
<thead>
<tr>
<th>Information</th>
<th>What it means</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electoral roll</td>
<td>A record of whether you are registered to vote from your address</td>
</tr>
<tr>
<td>Aliases and Financial associates</td>
<td>A record of other names you have been known by (e.g. maiden name) and a list of financial links between you and a partner (e.g. joint account/joint mortgage)</td>
</tr>
<tr>
<td>Judgments and bankruptcies</td>
<td>If you have been taken to court for a sum of money or made bankrupt</td>
</tr>
<tr>
<td>Credit account information</td>
<td>A list of your present accounts or credit agreements and those that have been open in the past six years</td>
</tr>
<tr>
<td>Previous searches</td>
<td>Any applications that you have made for credit recently</td>
</tr>
<tr>
<td>Financial associate searches</td>
<td>Applications that your partner has made where your information has been looked at by a lender</td>
</tr>
<tr>
<td>Linked addresses</td>
<td>Places that you have lived at before or transferred an account from/to</td>
</tr>
<tr>
<td>CIFAS information</td>
<td>The UK’s fraud prevention service. Fraud protection information</td>
</tr>
</tbody>
</table>

What you can do after the event

Mark has had his application turned down. However, even after his application has been turned down, there are things he can do. If he thought there were good reasons, he could go back to the lender and ask them to reconsider their decision. In fact, the Data Protection Act says that, if you were refused credit simply because of your overall credit score you have a legal right to demand a manual review. This means that an officer from the credit company has to take another look at your application to check if the points you have raised make a difference to their decision.
Hand-out 4b: Mark Watson’s credit report

Using Mark Watson’s credit report and the explanatory leaflet ‘Your credit report explained’, answer the following questions:

1. What is Mark’s date of birth?

2. Who is Mark Watson financially associated to?

3. What was Mark’s previous address?

4. When did Mark pay off his court judgment and how much was it for?

5. How much does Mark owe to Boodles Bank?

6. What does the code ‘D’ mean on a credit account?

7. Which company searched Mark’s credit report on 15th December 2013?

8. What does Mark say caused the court judgment on his report?

9. When will Mark’s defaulted account (C5) be removed from his report?

10. How many credit accounts does Mark have on his report?
Answers overleaf
Tutor’s answers to Hand-out 4b questions
Using Mark Watson’s credit report and the explanatory leaflet ‘Your credit report explained’, answer the following questions:

Answers to credit report questions

1. Mark’s date of birth is 23rd February 1961 (see page 2 of the report).

2. Mark Watson is financially associated to Sally Watson (see page 2 of the report).

3. Mark’s previous address was 4 Arnott Drive, Manchester M26 9AG (see page 2 of the report).

4. Mark’s judgment was ‘satisfied’ in May 2013 and was for £681 (see page 4 of the report).

5. Mark currently owes Boodles Bank £550 under his personal loan agreement with them. (See page 5 of the report)

6. The account code ‘D’ means that the account is not being used and nothing is owed (see page 5 of the report).

7. Hope, Bing and Lamour Ltd ‘searched’ Mark’s credit report on 15th December 2013 (see page 6 of the report).

8. In his Notice of Correction, Mark explains that his redundancy was the cause of his court judgment (see page 7 of the report).

9. Mark’s defaulted mobile phone account will be removed six years from the date the account was defaulted which was 06/10/2010 so it will stay on his report until 06/10/2016 (see page 5 of the report).

10. Mark has five credit accounts recorded on his report.
### Hand-out 4c - Improving your credit report

<table>
<thead>
<tr>
<th>Advice</th>
</tr>
</thead>
<tbody>
<tr>
<td>If you cannot pay your debts just ignore the demands from the organisations you owe money to.</td>
</tr>
<tr>
<td>Make sure you are on the electoral roll. This helps lenders to identify you at your address.</td>
</tr>
<tr>
<td>Answer an advert in the paper from a company which offers to clear your credit rating for a fee of £250.</td>
</tr>
<tr>
<td>Make your payments on time. If you cannot do this, contact the lender as soon as possible to discuss what options are available to you.</td>
</tr>
<tr>
<td>If you have paid a court judgment, make sure it is shown as paid on your credit report. If it is not, notify the court. If you want proof of payment, you can ask the court for a certificate of satisfaction. This will cost £15.</td>
</tr>
<tr>
<td>Keep on applying for credit if you keep getting refused. Sooner or later someone will accept your application.</td>
</tr>
<tr>
<td>Don’t bother registering on the electoral roll.</td>
</tr>
<tr>
<td>If a bankruptcy order has ended and this is not shown on your credit report, send a copy of your certificate of discharge or annulment to all credit reference agencies and ask for your report to be updated.</td>
</tr>
<tr>
<td>Assume that your credit report has ‘bad’ information on it.</td>
</tr>
<tr>
<td>If you have paid off a credit account but your report doesn’t show this, contact the organisation concerned and ask them to make the necessary changes. Or contact the credit reference agency and they will contact the relevant organisation for you.</td>
</tr>
<tr>
<td>Assume that if you have been refused credit once, you will be refused by everyone that you apply to.</td>
</tr>
<tr>
<td>Always check your credit report. It makes sense to get a copy of your credit report before you apply for credit or if you are refused credit as a result of information held by the credit reference agency.</td>
</tr>
</tbody>
</table>
Hand-out 4d: Improving your chances of getting credit

To improve your chances of getting credit

<table>
<thead>
<tr>
<th>Do</th>
<th>Don’t</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Getting credit

Hand-out 4e: Improving your credit report (“DOs and DON’Ts”)

These are some of the ways of improving your chances of getting credit: (“DOs”)

Make sure you are on the electoral roll. This helps lenders to identify you at your address.

Make your payments on time. If you cannot do this, contact the lender as soon as possible to discuss what options are available to you.

If you have paid a court judgment, make sure it is shown as paid on your credit report. If it is not, notify the court. If you want proof of payment, you can ask the court for a certificate of satisfaction. This will cost £15.

If a bankruptcy order has ended and this is not shown on your credit report, send a copy of your certificate of discharge or annulment to all credit reference agencies and ask for your report to be updated.

If you have paid off a credit account but your report doesn’t show this, contact the organisation concerned and ask them to make the necessary changes. Or contact the credit reference agency and they will contact the relevant organisation for you.

Always check your credit report. It makes sense to get a copy of your credit report before you apply for credit or if you are refused credit as a result of information held by the credit reference agency.

The misleading information is listed below along with an explanation of why it is not true. (“DON’Ts”)

Assume that if you have been refused once, you will be refused by everyone that you apply to. This is not true. Lenders have their own way of scoring an application and you may well be accepted by another lender.

Assume that your credit report has ‘bad’ information on it. The majority of the information held by credit reference agencies is ‘good’ and shows that most people make their payments on time. Your report may not tell you why you have been refused. The tips above can help you to make your report more attractive to lenders.

Keep on applying for credit if you keep getting refused. Sooner or later someone will accept your application. If you are refused, get a copy of your report just to check that everything is OK before you make another application.

Don’t bother registering on the electoral roll.

You are legally obliged to register on the electoral roll if you are eligible to vote. Lenders then use the electoral roll to check you live where you say you live.

If you cannot pay your debts just ignore the demands from the organisations you owe money to.

Keeping in contact with your lenders is very important. Most lenders will want to help and will come to an arrangement with you to make reduced payments if you are struggling.

Answer an advert in the paper from a company which offers to clear your credit rating for a fee of £250.

You can do everything you need to do for free with the help of the credit reference agency. Paying money for this is silly. Debts cannot be removed from a credit report if they are correct.
When help is needed
Session 5: Credit Crossroads
The best way to keep our financial lives on the rails is to have a plan, keep to a budget and keep things under review. It is always sensible to keep a “rainy day” pot of money to fall back on in difficult times. However, there may be times in your life when dealing with credit and debt is made more difficult or when more care is needed. For example, when moving home, when made redundant or when a partner suffers a serious illness. Knowing how to look after your personal finances in these circumstances can be invaluable. Experian’s Credit Crossroads leaflets offer detailed advice on how to protect yourself and your credit history during sometimes difficult life events.
Where to get help

The following contact details are organisations that can help with debt problems or credit report related queries.

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Phone</th>
<th>Website</th>
</tr>
</thead>
<tbody>
<tr>
<td>Citizens Advice</td>
<td>Search locally in libraries etc</td>
<td><a href="http://www.adviceguide.org.uk">www.adviceguide.org.uk</a></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Provides advice on a wide range of topics. Details of local offices can be found on the website</td>
</tr>
<tr>
<td>StepChange</td>
<td>0800 138 1111</td>
<td><a href="http://www.stepchange.org">www.stepchange.org</a></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Provides advice on all debt-related matters</td>
</tr>
<tr>
<td>National Debtline</td>
<td>0808 808 4000</td>
<td><a href="http://www.nationaldebttline.co.uk">www.nationaldebttline.co.uk</a></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Provides advice and help on debt-related matters</td>
</tr>
<tr>
<td>Money Advice Service</td>
<td>0300 500 5000</td>
<td><a href="http://www.moneyadviceservice.org.uk">www.moneyadviceservice.org.uk</a></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Provides information and advice on a very wide range of money-related topics</td>
</tr>
<tr>
<td>Mailing Preference Service</td>
<td>0207 291 3310</td>
<td><a href="http://www.mpsonline.org.uk">www.mpsonline.org.uk</a></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Advice on avoiding receiving mail that you do not want</td>
</tr>
<tr>
<td>Electoral Commission</td>
<td>020 7271 0500</td>
<td><a href="http://www.aboutmyvote.co.uk">www.aboutmyvote.co.uk</a></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Information on how to join your local electoral register</td>
</tr>
</tbody>
</table>

Take care when searching online for advice websites as a number of commercial companies have taken website addresses that are very similar to those of the genuine organisations. These companies often aim to present themselves as the real advice organisation but will try to get you to buy their own services. It would be useful to spend some time exploring strategies for safe use of the internet. This may also be a point to consider ways of keeping personal information secure when using internet services.
Session 5: When help is needed

Session plan

Aims of session:
• To explore how and where to get help with credit problems
• To look at techniques for getting information from text

Learning outcomes – to be able to:
• Know where to look for help with credit
• Practice getting information from text

What this session covers:
• The credit journey
• Getting information from text
• Credit problems in different situations
• Useful contacts
• How to cope/Advice on credit

Resources
• Credit journey map
• A to Z glossaries
• Whiteboard or flipchart
• Pens
• Hand-out 1a from the first session (tutor copy only)
• Highlighter pens
• Paper
• Internet access (if required)
• True/False cards. These work better if they are in plastic wallets. Put the two sheets in so that learners can just flip the sheet over to display either ‘true’ or ‘false’ in answer to the questions
• True or false question sheet
• Hand-outs
• Fact sheet
• Credit Crossroads leaflets. They are:
  – Bereavement and serious illness
  – Relationship breakdown
  – Moving home
  – Students and young people
  – Credit refused
  – Redundancy or reduction of income

Possible additional activities:
• What other Credit Crossroads might someone reach and need help with? What specific advice might they need? Do you have any suggestions for another Credit Crossroads leaflet?
• How would you check that online sources of advice were genuine and offering good advice? What information might you be asked for? What should you provide and what safeguards should you take? Discuss ways of keeping personal information secure.
## Suggested session outline for Session 5: Credit Crossroads

<table>
<thead>
<tr>
<th>Time</th>
<th>Topic</th>
<th>Activity</th>
<th>Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 mins</td>
<td>The credit journey</td>
<td>Recap on Mark’s progress so far. Refer to journey map. This is the third stage of the journey – when help is needed.</td>
<td>Credit journey map</td>
</tr>
<tr>
<td>10 mins</td>
<td>Credit problems in different situations</td>
<td>Discuss different groups of people who may apply for credit. Are there certain times in life when people are more likely to apply for credit? Make a list on the whiteboard/flipchart. Refer back to the first session and the different types of credit.</td>
<td>Whiteboard/flipchart, Pens, Hand-out 1a (for tutor)</td>
</tr>
<tr>
<td>10 mins</td>
<td>Getting information from text</td>
<td>Hand-out 5a. Discuss with the group useful ways of recording information. Does anyone have any others?</td>
<td>Hand-out 5a, Pens, Paper</td>
</tr>
<tr>
<td>25 mins</td>
<td>Credit issues for different situations</td>
<td>Distribute the Credit Crossroads leaflets as required (one or two per pair or small group). Ask learners to extract the key points from the leaflets and produce a list of five tips or hints for someone in that situation.</td>
<td>Credit Crossroads leaflets, Pens and paper (Note: Can look at leaflets online if appropriate at <a href="http://www.experian.co.uk">www.experian.co.uk</a>)</td>
</tr>
<tr>
<td>10 mins</td>
<td>Credit issues for different situations</td>
<td>Discuss as a group what has been learnt about credit issues for different situations. Collate hints sheets and produce a group booklet.</td>
<td></td>
</tr>
<tr>
<td>15 mins</td>
<td>How to cope/Advice on credit</td>
<td>Distribute the True/False cards to the group. Tutor requires ‘True or false’ statement sheet. Go through statements with learners holding up either true or false card.</td>
<td>Your credit report explained leaflet . True/False cards – one per person (in plastic wallets if possible), Statement wallets</td>
</tr>
<tr>
<td>10 mins</td>
<td>How to cope/Advice on credit</td>
<td>Give out Hand-out 5b and discuss points.</td>
<td>Hand-out 5b</td>
</tr>
<tr>
<td>5 mins</td>
<td>Credit journey</td>
<td>Recap on the session and on Mark’s journey so far. He has got his report and has read the advice you have provided for him.</td>
<td>Credit journey map</td>
</tr>
</tbody>
</table>

**Note:** The Credit Crossroads series of leaflets all have the same ‘How It Works’ section the content of which has been covered in previous sessions. The other leaflets offer advice that is appropriate for the following life stages: Students and young people, Moving home, Redundancy or reduction of income, Relationship breakdown, Bereavement or serious illness.

The following resources are required for session five:
Hand-out 5a: Getting information from text

Find it
Ways of getting information from text:

• Skimming
• Scanning
• Reading in depth

You may find a pencil or highlighter pen useful to mark where you have found key words and phrases.

Record it
Choose one of the formats below to record the information you want to remember:

<table>
<thead>
<tr>
<th>Activity</th>
</tr>
</thead>
</table>

Using one or more of the Credit Crossroads leaflets, imagine that Mark Watson or a member of his family has found themselves in that situation. Make a list of the key points from the leaflet. Record the information in a format that will help you remember the information.

<table>
<thead>
<tr>
<th>Bulletin Points</th>
</tr>
</thead>
</table>

• Ideas
  – Idea 1
  – Idea 2
• Facts
  – Fact 1

<table>
<thead>
<tr>
<th>Fact 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fact 2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>List of key words and expressions</th>
</tr>
</thead>
</table>

Credit report
Communicate with lenders

Once you have done this, produce a list of five important tips that could be given to Mark and his family to help them.
True
True or False? Tutor’s Answer sheet

The true or false cards should be held up by the learners after each statement. Either pick up on incorrect answers or nominate a correct answer to explain further. Make some ‘warm-up’ statements to ensure that learners understand the game. For example, ‘Today is Wednesday; True or false?’

These statements are based upon what has been learnt about credit scoring, credit decisions and specific advice on what to do in certain life situations. True or false?

1. You should panic if you are refused credit.
   FALSE: Credit can be refused for all sorts of reasons. It doesn’t necessarily mean that there is something wrong.

2. Credit scoring systems only use information held by a credit reference agency.
   FALSE: The information provided on an application form is also put through a credit scoring system along with any information the company might have on you if you are already a customer of theirs.

3. If you move house, get a copy of your credit report once you have moved.
   TRUE: This will help you to keep track of your credit commitments and ensure that your creditors know your new address.

4. Credit repair companies are value for money.
   FALSE: Credit repair companies charge lots of money but cannot do anything that you can’t do for yourself, for free.

5. It is the lender who decides whether or not to accept an application for credit.
   TRUE

6. Students and young people need to be wary of who they share a house with. Debts will affect everyone in the house.
   FALSE: Debts can only affect you if they are in your name, or you are financially linked to the person in debt. i.e. you have a joint account with them.

7. If you are made redundant, keep your fingers crossed that you will be able to cope with payments.
   FALSE: You could do this, but it would be more sensible to contact your lenders and let them know the situation. The sooner you do this, the more sympathetic they will be.

8. Closed credit accounts stay on a credit report for six years from the date they were closed.
   TRUE

9. You can get a copy of your credit report only once a year.
   FALSE: You can get your credit report whenever you like.

10. Once you are financially linked to someone, there is no escaping their debts even if you split up.
    FALSE: Once the financial link is broken (the joint account is closed), you are no longer connected to them for the purposes of credit applications. If this is the case, tell the credit reference agency, who will help you sort things out.
Hand-out 5b: Where to get help
The following contact details are organisations that can help with debt problems or credit report related queries.

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Phone</th>
<th>Website</th>
</tr>
</thead>
<tbody>
<tr>
<td>Citizens Advice</td>
<td>Search locally in libraries etc</td>
<td><a href="http://www.adviceguide.org.uk">www.adviceguide.org.uk</a></td>
</tr>
<tr>
<td>Provides advice on a wide range of topics. Details of local offices can be found on the website</td>
<td></td>
<td></td>
</tr>
<tr>
<td>StepChange</td>
<td>0800 138 1111</td>
<td><a href="http://www.stepchange.org">www.stepchange.org</a></td>
</tr>
<tr>
<td>Provides advice on all debt-related matters</td>
<td></td>
<td></td>
</tr>
<tr>
<td>National Debtline</td>
<td>0808 808 4000</td>
<td><a href="http://www.nationaldebtline.co.uk">www.nationaldebtline.co.uk</a></td>
</tr>
<tr>
<td>Provides advice and help on debt-related matters</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Money Advice Service</td>
<td>0300 500 5000</td>
<td><a href="http://www.moneyadviceservice.org.uk">www.moneyadviceservice.org.uk</a></td>
</tr>
<tr>
<td>Provides information and advice on a very wide range of money-related topics</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mailing Preference Service</td>
<td>0207 291 3310</td>
<td><a href="http://www.mpsonline.org.uk">www.mpsonline.org.uk</a></td>
</tr>
<tr>
<td>Advice on avoiding receiving mail that you do not want</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electoral Commission</td>
<td>020 7271 0500</td>
<td><a href="http://www.aboutmyvote.co.uk">www.aboutmyvote.co.uk</a></td>
</tr>
<tr>
<td>Information on how to join your local electoral register</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Taking Care Online
Take care when searching online for advice websites as a number of commercial companies have taken website addresses that are very similar to those of the genuine organisations. These companies often aim to present themselves as the real advice organisation but will try to get you to buy their own services.
A-Z Glossary
An A to Z of credit and personal finance words

Some of the definitions in this glossary have been taken from Jargon Buster, Citizens Advice (www.adviceguide.org.uk) and the Adult financial capability framework. The credit report specific terms have been taken from the Experian website. For explanations of more credit report terminology, look at the online glossary at www.experian.co.uk/consumer.

A

Address link
Address links appear on a credit report and are usually records of previous or forwarding addresses. They are created when an account is transferred from one address to another or when lenders search an address you have supplied to them on a credit application. They may also be created as a result of information you have given to a credit reference agency.

Afford (Affording, Affordability)
To have enough money to be able to spend on the things that are in your plan and still keep to your budget. (“Because I had saved up enough money, I could afford to go on holiday”. “I could not afford to buy a new car just with my own money but I could afford the repayments on a loan for one.”)

Annual Percentage Rate (APR)
APR is a way of telling you in one figure the full costs of a loan. It takes into account the interest you pay, any other charges included and when the payments fall due. It converts all these into one rate of interest that would apply if all the costs were smoothed across the term of the loan. This means that you can use the APR figure to compare the overall costs of loans from different providers. A loan with an APR of 15% would be more expensive than a loan with an APR of 10%.

Association
A financial connection between two individuals resulting from a joint court judgment, joint account or a joint application for credit. A credit report will include the names of anybody you have a financial connection with.

B

Balance
The amount of a loan still to be repaid. ("The balance of the loan remaining is £1,200"). It can also apply to a savings account or a current account as well. ("After their holiday, they had a balance of £563 in their current account").

Bankrupt
Describes someone who has been judged by a court as being unable to repay their debts.

Bankruptcy Order
A way of dealing with debts that cannot be paid. If someone has been judged insolvent in court, they will be given a Bankruptcy Order. An Official Receiver is responsible for the administration of bankruptcies.

Borrow (Borrowing, Borrowed, Borrower)
To use something that does not belong to you but with the agreement of the owner.

Budget (Budgeting)
A budget is an important part of your financial planning. It is a list of the items of your income and spending that shows how you intend to plan your finances to meet your objectives. For most people, their first objective is usually to make sure they have enough income to meet their planned spending. Another way of saying the same thing is to avoid spending more than they have in income. ("I have made a budget to help me plan my spending"). ("I am going to budget so that I can afford a holiday"). ("I find that budgeting helps me avoid spending too much").
Getting credit

CAIS (Credit Account Information Sharing)
This term refers to the account information held by the credit reference agency Experian. Lenders provide information on accounts held with their customers. This information will appear on your credit report and shows you how your past and recent credit agreements have been conducted. It will show you whether payments have been made on time and what the outstanding balance on the agreement is. Account information held on your Equifax credit report is called Insight information. The account information on your Callcredit report is called Share.

CIFAS
The UK’s Fraud Prevention Service. CIFAS aims to detect and prevent fraud and so protect innocent people whose names, addresses or other details are used fraudulently by others in order to get credit. You can find more information about CIFAS at www.cifas.org.uk

County Court Judgment (CCJ)
A judgment made in a County Court in England or Wales enabling a creditor to recover a debt, usually where someone has defaulted on the agreement. A record of the judgment would appear on the debtor’s credit report and stay there for six years from the date of the judgment. If the debtor later pays off the debt, this is shown as a ‘satisfied’ judgment on a credit report.

Credit (Credited, Creditor)
This word has several uses that are related to each other. In the world of financial services, it refers to when you have been allowed to purchase something with money lent to you by a lender (“I bought this dress on credit”). It can also refer to the act of lending (The lender credited the account of the borrower with the money”). The word creditor is used to describe someone is owed money by a borrower. It is mostly used in situations where there are problems over repayment of money that has been loaned (“The creditors held a meeting to discuss how they could recover their money”).

Credit Agreement
Before you can buy something on credit, you must have agreed with the lender that they are happy for you to do that. This will usually involve a written document, called a credit agreement. This sets out all the rules and conditions the lender requires you to keep until you have paid back the money.

Credit card
A plastic card issued by a bank or building society which allows you to make purchases now and pay for them later. Credit will be made available to you to buy goods. Every month the bank or building society will send you a statement of your account. You must pay back at least a minimum amount each month and interest will be charged if you do not pay off the full amount borrowed.

Credit check
An application for credit will usually result in a search of the records held by a credit reference agency. A credit search is sometimes also referred to as a credit check.

Credit reference agency (CRA)
Creditors share credit-related information through credit reference agencies to help them lend responsibly. This includes credit account information (for example, repayment records for loans, credit agreements, mortgages, or hire purchase) and records of recent credit checks that have been requested. The agencies also collect public record information (for example, electoral roll and court judgments), which also helps creditors decide who to give credit to. CRAs make it possible for lenders to quickly make accurate lending decisions and also help lenders guard against fraud.

Credit reference agencies:
• do not make lending decisions, the lenders make these
• do not know which applications are successful so cannot tell why someone has been refused credit
• do not hold a blacklist of people or properties
• do not decide everyone’s credit rating. Applications for credit are scored by the lenders and different lenders use difference scoring methods
Credit repair companies
Companies offering to advise on how to remove court judgments and clear bad debts from your credit report, and how to arrange loans and how to make successful applications for credit. There is usually a charge for this kind of service. The Office of Fair Trading has said that many of these companies make misleading claims and can actually worsen your situation.

Credit report (or credit file)
A copy of the information stored about you with a credit reference agency. It will include electoral roll information for your address, how you have handled recent credit commitments and a record of and recent credit checks made about you with that agency.

D
Debt (Indebted, Indebtedness, Debtor)
This word is only used after a loan has been made and it describes what the borrower owes to the lender. (“The total debt that I owe is £200.”) The word debt is generally only used in formal, serious settings, such as where money is owed rather than informal loans of objects between friends. A debtor is another word for a borrower but is mainly used after the borrowing has taken place.

Default (Defaulting, Defaulted)
To fail to make repayments as agreed on a loan.

Defaulted account
This is an account where you have not kept to the credit agreement. A record of these accounts is held by a credit reference agency for six years from the default date and will appear on your credit report. The record will show how much money you owe.

F
Finance (Financial, Finances)
To do with money. (“He started to sort out his finances”. “They had heard she was in a financial mess”. “He approached the finance company to apply for a loan”.)

Financial Associate
A technical term describing someone who is linked to another person by something involving money. This could because they are married or civil partners or it could be because they jointly own something, such as a car.

Financial associate searches
Financial associate searches may appear on your credit report. They tell you when your credit report information has been seen by a lender because someone that you are financially connected to (usually a partner) has made an application for credit.

Financial Planning
A process of planning for the present and the future to help you meet your objectives that involve money. It starts with setting objectives for the things that are important to you. This is followed by budgeting to show you intend to use the money you have available in order to help you meet those objectives. Then you have to actually follow the budget. It is also very important to review your financial plan on a regular basis. This means checking to see if you are still following the plan.

G
GAIN
The letters GAIN stand for “Gone Away Information Network”. This is a network through which lenders share information on customers with debts who have moved home without telling their lenders of a forwarding address. This information may appear on your credit report.

E
Electoral roll
The electoral roll is a list of the names and addresses of all people registered to vote in elections. Electoral roll information in your name at your current and previous addresses will be shown on your credit report.
Hire purchase agreement
A form of credit agreement which allows you to pay for goods in installments. Cars are often bought this way. You will not own the car until all the installments have been paid. If payments are not made the car might be repossessed and sold. You would not be able to sell the car without the permission of the lender, until you had paid for it.

Identity fraud
Identity Fraud is the use of a stolen identity in criminal activity, usually obtaining goods or services by deception. It usually, but not always, involves the use of stolen or forged identity documents, for example, a passport or driving licence.

Income
Your income is the money you have coming in. It includes wages, benefits (like income support or child benefit) and child maintenance payments.

Individual Voluntary Arrangement
This is where a debtor or bankrupt comes to a legally binding agreement with creditors to pay some or all of their debt. It is an alternative to bankruptcy.

Interest
In financial arrangements interest is a reward received for letting someone else have the use of your money. When a lender makes a loan to a borrower, the lender will charge interest. This is money that is added to the amount lent that the borrower must pay back in addition. The amount borrowed is divided up into instalments to be paid at regular intervals over the term of the loan and the interest is also divided up and added to each repayment.

Although interest is a central part of credit agreements in western European banking, some religious beliefs, notably Islam, do not approve of it. This means that followers of Islam may not be able to make use of some types of credit arrangements described in this resource. If you need further information on this, you may need to talk to an expert from your own faith.

When you keep money in a bank account you may also receive interest from the bank. This is because you are actually lending your money to the bank. The bank lends your money to other people so that they can buy things and these borrowers pay interest to the bank. The bank pays some of this interest to you in return for having the use of your money.

Interest rate
Is the percentage that is charged on loans or other credit agreements. Generally borrowing money at 20% is going to cost more than borrowing at 15%.

Judgment
See “County Court Judgment”

Lend (Lending, Lent, Lender)
To allow another person to use something you own.

The owner is called the lender (“I lent a dress to my flatmate”) and the user is called the borrower. When the borrower has finished using it, he or she returns it to the lender. The thing that is borrowed can be money (“I borrowed five pounds from my friend”) or it could be an object (“I borrowed a screwdriver from my next door neighbour”)

Loan (Loaning, Loaned)
Another name for the act of lending (“The bank made a loan to its customer”) but it can also be used by the borrower to describe the situation (“My sister loaned me her car for the day”). It may also be used where there is a formal agreement but not necessarily involving money (“I have three books on loan from the library”).
M

Mortgage
A loan usually taken out to buy property, such as a house, and spread over a long period of time, often 25 years. This makes the repayments smaller and more manageable. If you do not keep up the mortgage repayments the mortgage company can repossess your house. This is an example of a secured loan.

N

Notice of Correction (NOC)
A Notice of Correction is an explanatory statement that an individual can add to their credit report. It is attached to an item of data and is usually used to explain circumstances surrounding an entry on the report.

O

Official Receiver
An Official Receiver is the person responsible for the administration of a bankruptcy.

Order of Discharge
An official notice obtained when the terms of a bankruptcy have been met and the bankruptcy has ended.

Owe (Owing, Owes, Owed)
This word is used when someone is obliged to make an agreed payment. It can be used of loans (“I owe the bank nearly £300”) and other forms of payment such as earnings (“I was owed two weeks wages”) or even actions (“Thanks for helping. I owe you a favour now”).

P

Personal information
Includes your name, address, date of birth, telephone number, National Insurance number.

Phishing
This is the use of spoof e-mails to lead you to counterfeit websites designed to trick you into entering your personal details, such as credit card numbers, account usernames and passwords. The fraudster then uses your personal details to access the genuine websites (usually banks and other finance companies) and steal your money.

PIN
PIN stands for “Personal Identification Number”. This is a four-digit number that you use with a cash machine card or a credit card. You type it in to the keypad and the cash machine checks that the card number and PIN are the same. This shows that the person with the card is the real owner. PIN numbers must always be kept secret by card holders so that other people cannot use the cards if they are stolen or lost.

Principal
The amount of money that is borrowed in a loan. (“The amount of the principal of his loan is £1,500”)

Q

Quotation search
A search of your credit report made by a lender before giving you a credit quotation. It has the advantage that it does not leave a record of the search on your credit report.

R

Risk based pricing
Lenders charge different interest rates to different people, depending on their credit history and the differing levels of risk that the lender thinks there are in making the loan. A customer who is considered more likely to pay back the money will get a better deal, for example, with a lower interest rate. This is also sometimes called ‘personal pricing’.
S

Search
A request for information about a customer’s credit record made by a lender to a credit reference agency

Status history
Every record of a credit account that appears on a credit report will include a status history showing whether past payments have been made on time.

Store card
Store cards are like credit cards but are available from shops rather than banks. They can only be used to buy things in particular shops. Anything you spend on your store card is borrowed money. If you do not pay off the full amount each month, you will usually start paying interest on it. The interest rate charged in store cards is usually higher than on credit cards.

T

Term
This word is sometimes used to describe the period of time that is set for the repayment of a loan. (“This loan has a three year term.”)
This Section contains a number of puzzles all linked in some way with the credit journey. The answers to each of the puzzles are at the back of this booklet.

Word Search
Find these ten credit related words or phrases in the grid below. Words can read upwards, downwards or across.

Words and phrases to find:
Application  Crossroads  Mortgage
Credit card  Electoral roll  Scoring
Credit report  Loan  Shopping around
Anagrams
An anagram is a word or phrase that is formed by reordering the letters of another word or phrase, such as nemoy to money. Can you work out which words these jumbled letters make?

| rcdeit acdr | betd | idrect eeeefrrnc ncyage |
| anlo       | ordbiillyaaff | peenrctag |
| liiocaapptn | wrorbore      |

Fill in the blanks
These statements all have words missing. Can you match the missing words from the box below with the right statement?

<table>
<thead>
<tr>
<th>Missing words</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit</td>
</tr>
<tr>
<td>Advice</td>
</tr>
</tbody>
</table>

1. It is the _______ who decides whether or not to give credit.

2. If you make an __________ for _________ your information will be put through a credit _________ system.

3. You can get a copy of your credit _________ from a credit _________ agency.

4. If you are struggling with _______ there are lots of people who can give you ________.

5. The annual _________ rate will tell you how much the loan will cost you.

6. A ______________ is a loan to buy a house.
Ordering statements
These statements tell a story if they are put in the correct order. What order do you think they should be in?

A He made another application and was accepted.
B He was refused credit by the lender and told to get a copy of his credit report.
C He noticed that he was not recorded on the electoral roll at his address.
D Mark needed a new car. He checked whether he could afford a new one.
E He applied to the credit reference agency for his credit report.
F He made an application for credit.
G He contacted the local authority and registered to vote.
H Mark bought his new car.

What is the correct order? Put your answer in the box below.
Getting credit

Multiple choice questions
Which of these options correctly answers the question?

1. Who decides whether or not you get credit?
   a. The lender (the company you apply to)
   b. The credit reference agency
   c. The government
   d. You

2. Which of these might you find on your credit report?
   a. Your electoral roll registration
   b. A record of recent credit agreements
   c. Recent credit applications you have made
   d. All of these

3. If you are struggling to keep up with payments on your accounts:
   a. Ignore the letters from the companies – they will go away
   b. Apply for more credit to try and cope with the repayments
   c. Ask for help – ring National Debtline or speak to Citizens Advice
   d. Try and forget about it

4. If you are refused credit, it means
   a. No-one will want you as a customer
   b. There is something terribly wrong with you
   c. You should not apply to anyone else
   d. None of the above – people are refused credit for all sorts of reasons. Don’t panic, get in touch with the lender and find out why.

5. Experian has produced leaflets to advise people who:
   a. Are made redundant or find their income is reduced
   b. Suffer a bereavement or serious illness
   c. Are about to move house
   d. All of these – and more!
Tutor’s Answers
The answers to the word search are highlighted.

Anagrams
The words are:

<table>
<thead>
<tr>
<th>credit card</th>
<th>debt</th>
<th>credit reference agency</th>
</tr>
</thead>
<tbody>
<tr>
<td>loan</td>
<td>affordability</td>
<td>percentage</td>
</tr>
<tr>
<td>applicaiton</td>
<td>borrower</td>
<td></td>
</tr>
</tbody>
</table>
Fill in the blanks
The correct statements are as follows. The missing words are in bold.

1. It is the lender who decides whether or not to give credit.
2. If you make an application for credit your information will be put through a credit scoring system.
3. You can get a copy of your credit report from a credit reference agency.
4. If you are struggling with debt there are lots of people who can give you advice.
5. The Annual Percentage Rate will tell you how much the loan will cost you.
6. A mortgage is a loan to buy a house.

Ordering statements
The correct order for the statements is D F B E C G A H

Multiple choice
The correct answers are
1a  2d  3b  4c  5d  6d