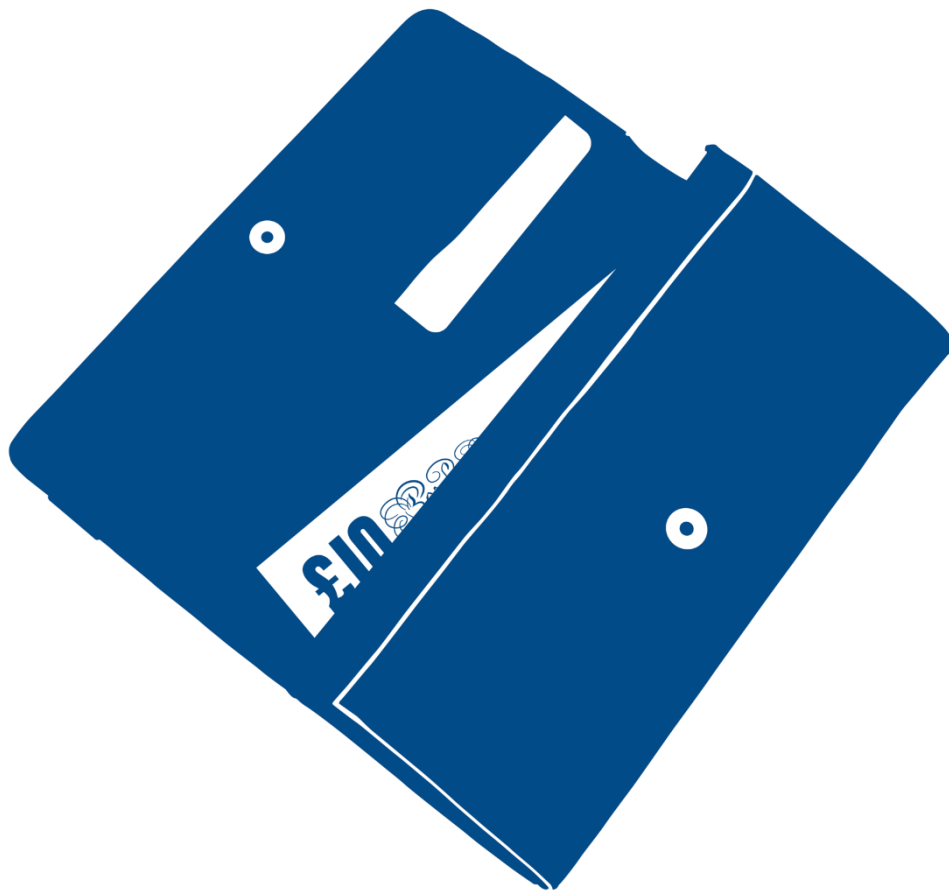


Understanding Banking and Money Borrowing

A beginner's guide with financial terms explained



**citizens
advice**

Plymouth

This booklet is made for people who are new to banking and managing their money. It provides a simple explanation of what you need to know to get you started.

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Starting with banking

A bank account is a place in the bank to keep your money safely. You can do many things with it, for example:

- Save (put/pay in and keep) money in it
- Withdraw (take out) cash
- Make payments
- Transfer (move) money to another account/person or organisation



Some bank accounts allow you to spend more money than is in your account. This is called an overdraft (see also 'Borrowing Money' section/see page 6 for more information about overdrafts).

Opening a bank account

To open a bank account, you usually fill in an application form in a branch or online. You will have to provide proof of your identity (ID). This is a document like your passport or driving licence that confirms your name and date of birth. Different banks require different types of proof.

If you don't have proof, don't worry. Banks can accept a letter from a professional who knows you, such as a doctor, teacher, or qualified government staff.

Your application might be refused in some cases. For example, if you are not allowed to stay in the UK or you have committed certain crimes before. Bad or poor financial record might also affect opening the bank account with an overdraft function.

Getting a bank card

When your application is approved, your bank will ask you to set a password to use certain services such as Internet or telephone banking. You'll receive a bank card that contains a card number (a 16-digit number to identify your account). You'll also

receive a separate notice with your PIN (Personal Identification Number). This is for making payments with your account.

Your card number and PIN are private information. Don't share them with anyone else! If someone asks about your PIN or other security questions, it may be a scam. Banks will never call you to ask for your PIN, full password or to move money to another account.

In addition to this, you'll get an account number (an 8-digit number to identify your account), a Sort Code (a 6-digit number uniquely allocated to each bank in the UK) as well as a BIC Number and IBAN (these are used for international payments). You can share them with other people so they can transfer money to your account.

You can get a monthly statement from your bank. It tells you your balance (the amount of money in your account) and who and how much you paid or received money from during the month.

Choosing banking services

There are different banking institutions in the UK:

- Banks are businesses (financial institutions) that help people manage their finances. Banks make sure your money is kept safe. They can also lend money to those who need it and meet certain criteria.
- Building societies and credit unions offer similar services to banks. They operate regionally and they are owned by their members rather than external shareholders.

Different types of accounts

Banking institutions usually offer various types of accounts, for example;

A basic account is for people who are new to banking or who can't open a standard current account due to their financial record. With a basic account, you can't use an overdraft but can still use basic services.

A current account is for your day-to-day spending and can allow you to use an overdraft.

A savings account is for putting aside some money and increasing it. Saving accounts normally give you interest for your deposit (the money you have put in your account). Interest is the additional money you could receive by depositing money. AER (Annual Equivalent Rate) is used to show an interest rate you receive over a year. Interest rates can change over time.

It's always good to do research and choose the best account for you.

You should read the terms and conditions (T&Cs) carefully when you open bank accounts. T&Cs contain information about any money you will have to pay for using certain services and any money you expect to get from them.

If you use a credit union, you might be able to divide your money into separate 'jars' in the same account so you can separate your bills from your disposable income. This is called a jam jar account.

Debit and credit services

Your bank card (or bank app) allows you to make payments in shops or online. There are two types of cards, debit cards and credit cards.

When you pay with a debit card, your money will move directly from your bank account to the shop/seller. You can also use your debit card to withdraw cash from a cash machine.

A credit card allows you to spend money up to a pre-set limit (credit limit). This is the maximum amount of money you can spend with your credit card in a month. You shouldn't spend more money than you can pay because you are borrowing money from the credit card provider. When you make a payment with it, your credit card provider temporarily pays the money. You have a



set period of time during which no interest is charged, usually between 20 and 55 days. This is called the interest free period. After that, interest may be added to the account if you do not pay the full balance on time.

Borrowing money

If you need to purchase an expensive item (for example, a house, household goods, or a car), you might need to borrow money. In this case, banks or other financial organisations may be able to lend you money.

When you borrow money and you are expected to pay it back in instalments in an agreed timeframe, it is called a loan. This means you owe the money to the lender (the people or financial organisations that have given you a loan), who will charge you interest for the loan.

Loans always cost you more than you borrow in the long run because you have to pay interest for your loan. Interest is the additional money you pay back on top of the money you borrowed. Interest is often presented as APR (Annual Percentage Rate). This is an annual rate of interest for your loan. You should carefully read the terms and conditions (T&Cs) of the loan before you sign a contract. They have information about interest and any penalty for missing repayments.

Many bank accounts come with an overdraft option. Remember it is a type of borrowing and banks can charge you high fees and interest rates, which can range from 19% to 40% or more, depending on the type of current account you have. To pay off your overdraft, you'll need to get your current account balance back above zero.

Applying for loans

When you apply for loans, money lenders use your credit score to assess whether they can lend you money and how much interest they will charge you.

What is a credit score?

A credit score is a number up to 1,000. Scores can vary based on credit referencing agencies. The score ranges from 'very poor' to 'excellent'. The higher your score, the more likely it is that you can borrow money. It is based on your credit history (a record of your past loans and missed repayments) and indicates how well you manage your finances.



You need a high score to borrow money with a low interest rate. If your score is low, the interest will be set high, or you'll be rejected for the loan.

There are websites and apps where you can view your score for free. Examples of the UK credit reference agencies are Experian, Equifax, Credit Karma and TransUnion.

Choosing lenders

Different financial organisations offer different conditions for their loans (for example, APR, the amount of money you can borrow, the repayment period).

It's important to make sure your lender has a licence (permission from FCA (Financial Conduct Authority) to lend money). When you are rejected for a loan from banks or licenced money lenders, you might seek other options to borrow money. Never use illegal lenders!

What are loan sharks?

Illegal (non-licensed) money lenders are called Loan Sharks. They chase you for your loans like sharks if you don't pay. They usually require massive repayment for your loan. For example, you borrow £10 and have to pay back more than £50.

They might be friendly at the beginning, but when you fail to repay, they can become very aggressive and do anything they can to collect money. They might ask you to do crimes such as stealing things or dealing drugs.

They could approach you through social media or online advertisements, or they can be people you already know.

Don't worry if you borrow money from them. You should report them to the government team called the 'Illegal Money Lending Team'. You will not be in trouble. The team can help you and keep you safe. The team can also take action to stop the illegal lender's business.

You can contact the Illegal Money Lending team on:

- their 24-hour helpline on 0300 555 2222
- their app, or
- their website <https://www.stoploansharks.co.uk>

Dealing with debts

If you have a loan, you need to repay it (pay it back) to the lender in the agreed way. If you don't, your lender will charge you a late fee. This is a penalty for the delay, and your credit score will go down due to the late payment.

If you can't keep up with repayments, you'll be in debt/arrears.

Debt is the money that you borrowed and need to pay back. If you have a debt, you are called a debtor, and the lender is called a creditor.



You can be in debt for various reasons – for example, if you’ve borrowed money, you have failed to pay taxes, rent, or bills (fees for services such as gas, electricity, and phone), and you are charged court fines (the money you are asked to pay because you didn’t follow rules).

Arrears are another expression of late or missed payments. The term accrue is used when the amount of debt increases over time.

Debt collection

If you have missed repayments, your creditor might take action to collect the debt.

The steps/actions include sending you letters to request repayment, bringing the case to the court, and getting a court judgment. After that, the court might send someone to your house to take money from you/collect the amount owed.

Bailiffs (also called ‘enforcement officers’) are officers who are authorised or employed by the court to collect a debt. Bailiffs should notify you 7 days in advance of their visit to you. They have a right to enter your house, although you can refuse this. Bailiffs also have a right to take control of your belongings to sell them to collect the money owed.

In contrast, other debt collectors are not certified by the authority and don’t have such rights.

Debt solutions

When you struggle to repay your debt, it’s important to seek advice from a debt adviser. They can assess your situation and set up a way to move forward.

You should also talk to your creditor. They might offer flexible repayment plans.

If you are unlikely to be able to repay, you need to consider legal options. However, keep in mind that those will affect your future life in many ways.



Each debt solution has different conditions and different restrictions. Debt advisers can assess your situation and advise you which solution suits you.

A DRO (Debt Relief Order) and Bankruptcy are ways to get out of some types of debts. You usually need to follow certain rules (restrictions) for 12 months. After that, many debts will be written off (you don't owe them anymore).

An IVA (Individual Voluntary Agreement) is a formal agreement between you and your creditors to pay back your debts over a long period of time. To apply for it, you need to go to an insolvency practitioner (a professional agent to deal with the process).

Getting Advice

Citizens Advice is a charity that helps people with the different problems they face for free. We offer confidential, impartial, and independent advice online, over the phone and in person.

Our advisers do everything to help every client, whoever they are and whatever the problem. They treat all clients with the same respect and the same commitment.

We can help you with problems such as debt and money, benefits, work housing, family, consumer, immigration and much more.

How to contact us

The best way to contact us is to call our free Adviceline on 0808 278 7910

Citizens Advice debt helpline is available on 0800 144 8848



Online Self-help

Our website contains a lot of advice on debt and money:

<https://www.citizensadvice.org.uk/debt-and-money/>

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