

# Borrowing options

## Overdraft

- This is when someone takes money out of their current account with the bank so their **balance falls below zero**.
- It tends to be used for **short-term borrowing** or **emergencies**.

## Credit Card

- The **credit card company** pays the **shop/business** and then **sends the bill to the credit card owner** (for the amount borrowed) each month.
- If the bill is paid in full, no interest is charged.
- However, if a smaller amount is paid or an amount isn't paid back on time, **interest will be charged on the whole amount**, making it more expensive to pay back.

## Friends & Family

- This involves **asking people close to you for money**.
- It may be **interest free**, but for some people it can **feel awkward or uncomfortable**, especially if someone has difficulty paying back the money.

## Payday Loans

- Payday loans are **short-term, very high-interest (high cost) loans** available to consumers, usually for smaller amounts of money.
- The interest may be up to **1,500%** which is huge!
- This is compared to an average of 22.8% for a credit card, meaning a lot more will be paid back than was borrowed.

## Personal Bank Loans

- A fixed amount of money, usually **borrowed from the bank**. It is repayable by **set monthly instalments over an agreed period of time**.
- A fixed rate of interest and sometimes extra fees are added to the value of the loan.
- Repayments are usually made by direct debit from a bank account. If the payments are not made on time, then a fee may be charged.

## Buy Now Pay Later

- *Buy now pay later* schemes do exactly what they say – a consumer gets the opportunity to **buy something without having to pay for it until a later date**.
- Repayment plans can look different. For example, a person may be required to make repayments **every 2 weeks** for up to 3 months.
- If payments are late, **fees and interest are normally added**.