

What is borrowing? Ways to borrow

Borrowing is obtaining money from another person with an agreement that you must pay it back.

There are many ways to borrow money, for example:

- by asking friends or family;
- using a credit card;
- setting up a bank loan or overdraft; or
- arranging a mortgage to buy a house.

Friends and Family

People often borrow money from friends or members of their family.

Advantages

- Borrowing small amounts from friends and family usually works well.
- Generally, the borrower will not have to pay interest on the amount borrowed.

Disadvantages

- Owing large sums of money to people close to you may lead to bad feelings or family rows.



Credit Card

You can use a credit card for purchases. The credit card company pays for the items and you pay the company back over a period of time.

Advantages

- You can buy the items that you want immediately, even if you don't have enough money.
- The system is very secure – the credit card company will not charge you for any fraudulent purchases.

Disadvantages

- You will be charged interest and the amount you owe quickly increases if you do not pay off a certain amount every month.
- You may be tempted to overspend as purchases can be made so easily.



Borrowing From a Bank

Overdraft

This is an arrangement with your bank to allow your account to be overdrawn by an agreed amount.

Advantages

- You will not have to pay interest until your account is overdrawn.
- Overdrafts can usually be arranged quickly.

Disadvantage

- If you spend more than the agreed amount, you will be charged extra banking fees.



Personal Loan

If you want to borrow a large sum of money, a personal loan from a bank is a good option. It is paid back at an agreed amount per month over a period of time.

Advantages

- The bank will usually charge a low interest rate.
- A small amount can be repaid each month over a long period of time.

Disadvantages

- You will have to prove to the bank that you have the means to pay the money back.



Level 6

Apply mathematical concepts to a range of financial situations.

Level 7

Make informed decisions involving money.

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Student Loans

Student loans are designed to help university and college students with their fees and living expenses while they are studying.

Advantages

- Many young people cannot afford to go to university or college without a student loan.
- You don't start repaying the loan until you finish your course and start to earn above a certain amount of money.
- The interest rates are generally low.

Disadvantages

- Starting a career with a debt might make some young people hesitant about applying for further or higher education.
- It can take a very long time to pay off a student loan.



Hire Purchase

Hire Purchase is often used to buy high value items such as a car. The buyer pays a deposit (usually about 10% of the total value) and then repays the rest in monthly instalments.

Advantages

- You can buy a high value item that you would not otherwise be able to afford.
- You repay a small amount each month over a long period of time.

Disadvantages

- You will not own the item until you have made all the payments.
- If you do not pay as arranged, the item can be taken away from you.



Mortgages

Banks and building societies lend money to people who want to buy a house. This is called a mortgage.

There are many different types of mortgage. Buyers need to study different options before choosing the one that suits them best.

Advantages

- Most people cannot afford to buy a house without a mortgage.
- If you want to improve your house, you can borrow more money but this will increase your mortgage repayments.
- By overpaying on your mortgage, you could reduce the overall interest owed and the term of the loan.

Disadvantages

- It may take years to save enough money for the deposit on a house.
- To buy the house you really want, you might be tempted to take on a mortgage that you will find difficult to repay.
- If you fall behind on your payments or fail to make regular payments, your mortgage lender can take you to court and repossess your home.



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