



## Debt Advice For Teenagers

***“Credit cards and store cards are largely to be blamed for increasing debt fig-***

**So you've just opened your first bank account.**

Whether you've got your first job, £30 a week from your Education Maintenance Allowance or you've just got a fixed allowance from your parents, you've got some money of your own to spend.

Budgeting and saving may be the last things you want to think about, but it should be the first – after all, you want to get the most out of what you've got, especially if you're not earning that much. If you mismanage your money, you'll be paying so much in charges and interest that there'll be nothing left for you.



### What you need to know

- Banking basics – what to look for in a bank account, how to use your bank statement
- How to budget – writing a budget and keeping a money diary
- How to dodge debt – how some sources of lending, like credit cards and store cards, can be very dangerous
- What to do if things go wrong – who to talk to and what your options are



## Beware of the Credit Card!

Everything you spend on a credit card is added up and put on a monthly bill. No money leaves your account until you pay the bill, and if you forget you'll be charged. Conversely, when you buy something on a debit card the money goes straight out of your account, so you can keep track of what you have left to spend.

### • How much you pay

With credit cards, it's easy to get in the habit of just paying the minimum amount each month. But with minimum repayments so low – just 3% of the balance in some cases – and interest so high, it's an easy way to rack up debt. Look at this example:



You borrow **£500** on a credit card with **18.9% interest**, and pay back **the minimum payment** each month. It takes you **12 years** to pay it off, and it costs you **£487** in interest. You eventually pay back **£987**, almost **twice as much** as you borrowed

Your bank will likely be keen to get a credit card set up for you, but try to weigh up whether or not you really need one. If not, don't get one or keep it hidden away somewhere for emergency use only. Reckless use of credit cards is one of the major causes of spiralling debts, so resist the urge to splurge!



### • Credit Card Pros

A credit card allows you to pay for things when you do not have the money available in your account to pay for them. (e.g. You need to pay a £200 bill on Monday but know you are being paid £400 on the following Friday) Credit cards are good for giving you a bit of financial flexibility.

### • Credit Card Cons

If you do not pay your credit card bill in full you will be charged and pay hefty amounts of interest on the money you owe, so it's easy for debts to escalate. Remember that the interest rate on credit cards averages at 14-16% - can you definitely afford the repayments?



## Budgeting

If you can master budgeting you'll save yourself both stress and cash. It's actually fairly simple – each month, just make a list of your incomings and outgoings...

- 1) Draw up a balance sheet (a table with two columns, income and expenditure)
- 2) List the money you have coming in – e.g. Loan, money from parents, job salary
- 3) List the money you have going out – e.g. Rent, transport, food, bills
- 4) Make sure you cover everything so you don't get any nasty surprises!
- 5) The difference between those two amounts is your 'disposable income' – i.e. the money you can afford to spend on extras - going out/shopping etc



**62% of young people said if they got into money trouble or debt they would not be able to name any advice or support services they could turn to for advice.**

### • Useful tools

- Your bank statement – A lot of people don't even read their bank statement, but it is the perfect tool for seeing how much you spend and earn each month
- A cashbook – Woolworths sell them for 99p – bargain! Buy one and keep a record of what you've spent money on during the week. It will help you know where you are with your money in both the short and long term
- An online spreadsheet – A basic Excel spreadsheet can be an excellent way of keeping flexible records without generating a huge amount of paperwork



## If you find yourself in trouble...

- Talk to someone – your parents should really be the first people to speak to.  
Failing that, talk to the Citizens Advice Bureau or Connexions, they both offer good free advice on financial problems. Then at least when you talk to your parents, you can show that you've taken steps to sort things out yourself
- If you haven't drawn up a budget yet, now's definitely the time to do so. List what you've got coming in, how much you need to pay back (and who you need to pay it to), and what you're spending your money on. Figure out what you can save, and how much you can use to pay back your debt
- DO NOT fall into the trap of paying credit with credit, e.g. getting another credit card to pay off your other credit card. Soon you'll be hit by charges and interest on both cards



- A consolidation loan or putting your debts onto a card with 0% on balance transfers can help clear your debt, but these MUST be used carefully – get advice from an expert before trying these, as they can simply lead to more borrowing and higher debts
- If things are getting very serious, you need to talk to a professional debt management company. The websites below can help you find a good one. A Debt Management Plan, IVA or even bankruptcy are all ways of dealing with extreme levels of debt

## Contacts

- **The Citizen's Advice Bureau (CAB)**  
An independent charity giving free advice on legal, financial and consumer matters. [www.adviceguide.org.uk](http://www.adviceguide.org.uk)
- **Connexions:** A government run careers, counselling and advice service for 13 – 19 year olds.  
[www.connexions-direct.com](http://www.connexions-direct.com)
- **Consumer Credit Counselling Service:** A large debt advice charity.  
[www.cccs.co.uk](http://www.cccs.co.uk)
- **IVA.co.uk:** Online forum and community site discussing all aspects of personal debt. [www.iva.co.uk](http://www.iva.co.uk)