FINANCIAL FITNESS:

LEVEL UP

WAYS TO BORROW

Borrowing money can seem daunting, but most of us will need to do it at some point. It could be for something relatively small, like a new bike, or a serious commitment like buying your first home.

Here, we'll help you understand some of the different ways to borrow and when you might consider using them, so you can stay in control of your finances.

SHORT TERM

USUALLY PAID BACK WITHIN 1 YEAR

SHORT TERM

FRIENDS & FAMILY

This could be a whip-round from your friends, a visit to the 'Bank of Mum and Dad', or a generous member of the family.

Pros: You can set your own terms as to when and how much you pay them back. This means that it could also become a medium or long-term loan. Because you agree the loan, there may be little to no interest on it.

Cons: You need to make sure the money is paid back, otherwise it could cause rifts in your relationship.

SHORT TERM

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ARRANGED OVERDRAFT

This is a way to borrow money through your current account. You'll go into an overdraft if you make a withdrawal or purchase that takes you below your available balance. An 'arranged' overdraft is one approved in advance with your bank. An 'unarranged' overdraft is when you go overdrawn without an arranged overdraft limit in place, or you go over your arranged overdraft. If you go overdrawn without having an arranged overdraft in place it may negatively affect your ability to borrow money in future.

Pros: It's a flexible way to manage your borrowing over a short period. You only borrow what you need to spend.

Cons: You could be charged interest and going over your arranged overdraft limit may negatively influence your credit score, affecting your chances of being able to borrow again.

SHORT TERM

PAYDAY LOANS

These are designed to lend you money until your next payday but can sometimes run for longer.

Pros: They offer quick access to cash.

Cons: They can trap you in a cycle of debt as interest payments quickly spiral above the amount you actually borrowed.

Warning: If you're already in financial difficulty, speak to your bank about how they can help you before resorting to this type of borrowing.

MEDIUM TERM

USUALLY PAID BACK BETWEEN 1 AND 3 YEARS

MEDIUM TERM

CREDIT CARDS

Credit cards allow you to buy things now and pay later. They're different to debit cards, where you pay upfront. They can also offer protection on payments between £100 and £30,000.

Pros: Some cards offer rewards and benefits if you spend a certain amount. They may help improve your credit score if you always make your repayments on time.

Cons: The amount you owe can mount up if you're not careful. Try to pay back as much as you can each month, ideally the full balance.

MEDIUM TERM

PERSONAL LOANS

This is where you borrow a set amount of money for an agreed amount of time; usually between 1 and 7 years. You pay back the full amount plus interest. They could help you bring together all of your other, more expensive debts into one new loan with a lower payment.

Pros: You can borrow a larger amount without having to offer anything, such as your house, as security for the repayments.

Cons: It's important that you can comfortably afford to keep up with repayments. If you miss a repayment, it could impact your credit rating.

Warning: If you're using the loan to pay off existing debt, spreading your payment over a longer term means you might end up paying more overall.

LONG TERM

USUALLY PAID BACK OVER 3 TO 30 YEARS

LONG TERM

MORTGAGES

You'll usually need a mortgage when you're ready to buy your first home, the property provides security for the loan. Whilst you can borrow a large amount this way, you will also have to offer a deposit, usually at least 5% of the property value or purchase price.

Pros: It allows you to buy a home without having to pay the full amount up front. You'll need to apply for a mortgage and lenders will review your credit history to assess your suitability.

Cons: It's a long-term agreement, so it's important to take time to think about what you want and how much you'll be able to afford. If you are unable to keep up with the repayments, you could end up losing your home.

LONG TERM

HIRE PURCHASE

You can take these out when you want to buy something expensive such as a new car.

Pros: Instead of buying the car outright, you can spread the cost over a few years by paying smaller amounts each month.

Cons: You won't actually own the car until you have made the final payment, and you may end up paying more in the long run than you would if you saved and bought it outright.

HSBC