Lesson 10: Activity 1

Teacher resource sheet: True/false

Everyone can apply for a loan

FALSE	You must be over 18 years of age to get a loan from a financial institution. Although everyone can apply for a loan there is no guarantee that they will be successful in their application. Lenders take lots of different factors into consideration – for example, they look at your credit history or credit score to see what your track record in repaying loans is like. Your credit history is calculated by looking at information about the number of late repayments you have made, the number of accounts you hold and the numbers of applications for credit you have made in the last 12 months. As this information changes over time, your score will go up or down.

There is no difference between different types of lenders

FALSE	There are many differences between the different types of lenders. It is important to shop around and get the best possible deal for your individual circumstance. Terms and conditions will vary between the types of loans offered by a lender and the same loans offered by different lenders. NB: There is a very big difference between the kind of loan you can get from a bank or credit union and the kind of loan available from money lenders.

Saving for something is more cost effective than borrowing to pay for it

TRUE	Financial institutions charge interest on loans, which means that if you borrow money from banks/credit unions you have to pay back more than you have borrowed. This means that you pay more for goods or services when you borrow money than when you do if you use money you have saved – this is called the cost of credit. Borrowing money to buy something is therefore more expensive than saving for what you want.

You should pay off your credit card bill in full each month

TRUE	You should always try to pay your credit card bill in full each month. Paying the minimum repayment means that you are only clearing the interest and don't eat into your debt. For example, if you owe €1,000 on your credit card and only pay back €30 a month, it will take you four years to clear your debt. This assumes the interest rate on your card is 19% APR. Interest is charged on the full amount that you owe.

If a parent supports their child when they apply for a loan (i.e. acts as guarantor) they have to pay back the loan if their child doesn't/can't

TRUE	When someone acts as a guarantor for a loan they enter a contract with the financial institution and may have to pay back the loan if the other person can't. For this reason it is important to think carefully if you are considering asking a parent or someone else to act as guarantor. Before you (and your guarantor) take out any loan read all the documents in full and ask if there is anything you don't understand. Don't sign anything unless you are happy that you understand it fully. Guarantors should think carefully before agreeing and consider the implications for themselves and their estate. For example, they should think about how long the contract is for, how much of the loan they are guaranteeing, how they can end the contract and what would happen if they were to die. Under the Central Bank's Consumer Protection Code, a lender must advise guarantors of their responsibilities are and warn them to take legal advice.

If you miss one loan repayment it is ok

FALSE	Missing repayments will damage your credit record and your ability to get loans in the future. If you think that you are in danger of missing a repayment it would be better to contact your financial institution in advance and come to some sort of arrangement with them.

There is help for people who find that they are unable to repay their loans

TRUE	If someone finds themselves in financial difficulty, they should not be afraid to ask for help. They can speak to their bank/credit union or if relevant they could speak to the student welfare officer at university etc.