



SCOTLAND – FACT SHEET NO. 17

HOW TO AVOID DEBT AT CHRISTMAS

WHY IS DEBT A PROBLEM AT CHRISTMAS?

Christmas puts a great strain on the family budget. There is enormous pressure on everyone to spend a lot on presents and entertaining. It is particularly difficult if you have children who want the latest and most expensive toy because they have seen it on the television and ‘everyone else has one’.

National Debtline experiences a huge increase in the number of calls it receives in January, February and March when people start to feel the effects of having missed payments on essential bills to fund the festive season. This fact sheet outlines some of the pitfalls of Christmas and how to avoid them.

PLANNING AHEAD

- Draw up a personal budget to work out how much you have to pay out on all your essentials and make sure you have these covered. Our information pack ‘Dealing with your debts’ shows you how to do this.
- Make sure all your priority bills are being paid, e.g. mortgage, rent, gas, electricity, water, Council Tax and housekeeping.
- If you can decide how much you can afford to spend at Christmas in advance and stick to it, you are less likely to skip payments on essential bills which will need catching up with in the New Year.
- Try to spread payments for presents over as long a time as possible, so lump sums don’t have to be paid all at once.
- Try to avoid expensive credit offers in shops, no matter how tempting they may seem.

SHOULD I TAKE OUT MORE CREDIT TO PAY FOR CHRISTMAS?

Taking out credit is not always a good option, especially if you are struggling to pay priority bills, or are already in debt. Under the pressure of Christmas you are more likely to sign agreements in a rush, without checking the small print. Below are some practical tips to consider before borrowing money.


- Make sure you know how much the credit is costing you. Most forms of credit are expensive. If you feel the only way to afford Christmas is to spread the cost by taking out a loan, be very careful to shop around for the best deals.
- Check the interest rates on offer and compare different forms of credit to see how much you have to pay in total over the whole loan period.
- The interest charges on credit are called the ‘Annual Percentage Rate’ or ‘APR’. This tells you how expensive the loan will be. Generally the APR will be higher than the quoted interest rate and will reflect the true cost of the credit.



ADVICE

Check whether you can afford insurance to cover you if you fall ill or lose your job. Beware, as some insurance agreements have small print excluding you from cover if you are self-employed, or had a particular medical condition before you took out the agreement. If the loan insurance being offered doesn’t cover you, you may be able to get cover elsewhere.

Some loan companies will want to secure debts on your home. This means that the loan becomes a second mortgage on your home.

 **WARNING** Your home is at risk if you cannot keep up the payments on a secured loan.

Think very carefully before taking out a secured loan. Get advice first.

Credit cards

If you can pay the whole debt within the interest free period allowed on the card, this can be a good option. If you cannot repay the full amount in one go, you will be charged interest on the balance each month. This may be very expensive. Shop around for cheaper deals on credit cards.

Bank overdrafts

Make sure you arrange the overdraft with your bank in advance. The charges and interest on most unauthorised overdrafts can increase your debt massively. Some banks and building society accounts do not charge for an overdraft if you are within your limit. Shop around for the best accounts. Look at the personal finance section in weekend newspapers for lists of best buys.

- Keep till receipts from card purchases so you know how much you have spent.
- Find out from your bank statement how much a 'bounced' cheque will cost you before you sign the cheque.

Instant credit 'buy now, pay later'

Be very careful to build in future payments you will have to make under the credit agreement into your personal budget. Make sure you will be able to afford them. It can be very tempting to take out credit, perhaps for a bargain in the

sales, which you don't have to make payments on for many months.

If you are offered interest free credit, check that the credit is really interest free. Some agreements say in the small print that interest will be added as soon as a payment is missed.

Doorstep credit or catalogues


The interest on cash loans or catalogue goods can be high but tend to be 'hidden' because you may only look at your weekly payment amount rather than the APR being charged. Compare the price you would pay for the same item in the shops.

Credit union or LETS schemes

If you are a member of a 'credit union' you can usually borrow up to two or three times the amount you have in savings, depending upon the loan policy of your credit union. See below for how to join a credit union.

'Local Exchange Trading Schemes' (LETS) are a new 'money free' way of bartering goods and services. You can 'buy' goods using tokens and 'earn' tokens by providing a service back, e.g. baby-sitting, window cleaning. Check in your library for details of any local scheme or check the LETSlink website. The details are under the 'Useful addresses' section.

Loan sharks

 **WARNING** Be very careful of making agreements with lenders who could be 'loan sharks'. Lenders must have a consumer credit licence or they are lending money illegally. Don't be tempted to borrow from a loan shark as they will want repayment at a very high rate and you could fall behind on essential bills. Try every other option and **phone us for advice**.

SAVING FOR NEXT CHRISTMAS

- Allow yourself an affordable weekly or monthly amount in your personal budget to set aside over the year for Christmas and birthdays.
- You could save in a bank or building society account and be paid interest on your savings.
- Some supermarkets and shops have saving schemes you can join.
- Some catalogue companies do hampers for Christmas which you can buy over a year. Beware of higher charges for mail order goods.
- See if there is a local credit union you can join. Credit unions are saving schemes run by their members which allow you to borrow twice or three times as much as you have saved at a very low interest rate. The contact address to find your local credit union is in the 'Useful addresses' section.

Helpful hints

- Keep within your budget.
- If you have children, try and explain why you cannot afford expensive presents for Christmas.
- Leave Christmas shopping as late as you can, since you may be able to find last minute bargains.

- Shop around for bargains on food shopping.
- Start out with an idea of how much in total you want to spend on presents. Decide who you will get presents for. Then divide the money you have by the number of people to get an idea of how much to spend on each person.

WHAT SHOULD I DO IF IT ALL GOES WRONG?

If you find that you are falling behind with your bills and worried about how to pay your credit debts, contact us for a copy of our information pack 'Dealing with your debts' if you do not already have one. Read through the pack and **phone us for advice.**

SOME GOLDEN RULES

- Don't ignore the problem; it won't go away and the longer you leave it, the worse it will get.
- Don't borrow money to pay off your debts without thinking carefully. Get advice first.
- Use the information pack to work out your personal budget and use this to send to your creditors, when you tell them about your difficulties.
- Make sure you tackle your priority debts first, for example, debts which could mean losing your home or having your gas or electricity cut off.
- Contact everyone you owe money to and make arrangements to pay a reduced amount that you can afford on your credit debts.

USEFUL ADDRESSES

Association of British Credit Unions Ltd (ABCUL)

Holyoake House
Hanover Street
Manchester
M60 0AS

Tel: 0161 832 3694

www.abcul.org

Letslink UK

12 Southcote Road
London
N19 5BJ

Tel: 020 7607 7852

www.letslinkuk.net

Remember: You can always contact us for advice about any difficulty you have in dealing with your debts.

Freephone 0808 808 4000 Website www.nationaldebtline.co.uk

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