



## FACT SHEET NO. 19

# HOW TO AVOID DEBT AT CHRISTMAS

JUN 2007

## 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 got 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 self-help 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 priorities, 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.
- Look at the personal finance section in weekend newspapers for lists of best buys. There are also various websites which compare the cost of different loans and credit cards such as:

[www.moneysupermarket.com](http://www.moneysupermarket.com)

[www.thisismoney.com](http://www.thisismoney.com)

[www.moneyfacts.co.uk](http://www.moneyfacts.co.uk)

- 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.

are within your limit. Shop around for the best accounts.

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

### ADVICE

Check whether you can afford insurance cover 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 wouldn’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.

### Instant credit ‘buy now pay later’

Be very careful to build 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 any payments on for many months.

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

### 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.

### Doorstep credit/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 cards

If you can pay the whole debt within the interest free period allowed on the card this is 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.

### Credit unions

Credit unions are saving schemes run by their members. 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. The interest rate is very low.

### 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

## INFORMATION

For details of a credit union near you contact:

### **Association of British Credit Unions Ltd (ABCUL)**

Holyoake House  
Hanover Street  
Manchester M60 0AS

**Tel: 0161 832 3694**

Website: [www.abcul.org](http://www.abcul.org)

## LETS schemes

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 your library for any local scheme, or contact Letslinkuk for details. Their website is [www.letslinkuk.net](http://www.letslinkuk.net).

## 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/building society account and be paid interest on your savings.

- You could take out a cash ISA and build up tax-free savings.
- Some supermarkets and shops have saving schemes you can join.

### WARNING

Christmas hamper schemes and Christmas savings schemes are not covered by the Financial Services Compensation Scheme so you will not be able to claim compensation if the scheme collapses.

- 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. For details see the section on 'credit unions'.

## Helpful hints

- Keep within your budget.
- If you have children, try to 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.
- 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 present money 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 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.

**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](http://www.nationaldebtline.co.uk)**

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