

MARTIN LEWIS

MoneySavingExpert.com

TEEN CASH CLASS

LESSON ONE:

A COMPANY'S JOB IS TO MAKE MONEY

LESSON TWO:

DEBT ISN'T BAD; BAD DEBT IS BAD

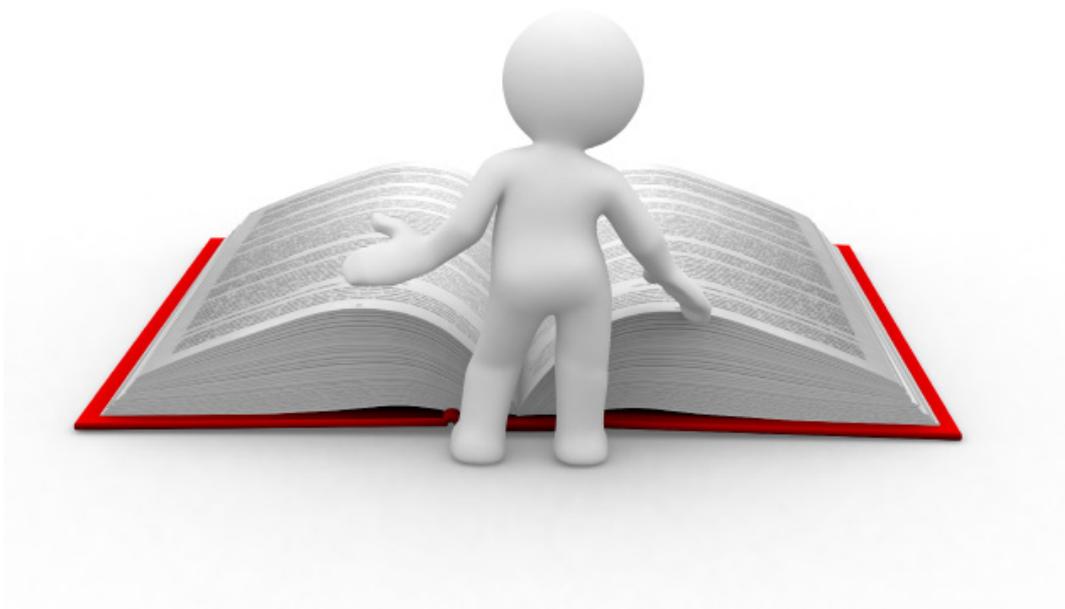
LESSON THREE:

LOYALTY DOESN'T PAY

Three lessons to turn ANYONE into a
super-savvy 21st century consumer.
Save money, fight back & grab bargains!



*This guide isn't just for teenagers.
It's for anyone who wants to learn
the fundamentals about handling their
money, getting the best deals, and
avoiding being ripped off.*



Where The Story Starts...

In July 2007, the ITV1 Tonight programme gave me a challenge: take a class of ordinary teenagers for one day and turn them into junior Money Saving Experts. It was a scary concept, and like nothing I'd tried before. Yet the results were astonishing: after class, the 12 pupils went home and saved their families a whopping £5,050!

This Teen Cash Class guide has been written using transcripts from those six hours' filming and, hopefully, will allow anyone – teen and adult – to learn the same fundamentals and become true MoneySavers.

It's not about "how to open a bank account!"

This isn't a trite guide to "opening a bank account" or "how cheques work". Companies spend billions of pounds a year on marketing, advertising and teaching their staff to sell, yet we don't get ANY "buyers' training". This is a real practical survival guide to living in one of the most competitive consumer economies in the world.

Teaching 15-year-olds about their own money is narrow-minded: they're far more interested in the real world. The real challenge is to make teens so savvy with money that they can save money for their parents. I believe that's possible – and the cash class proved it.

I've three *crucial* lessons:

- A company's job is to make money from you; your job is to stop it.
- Debt isn't bad; bad debt is bad. Understand the difference.
- You need skills and tactics to be a top consumer; common sense isn't enough.



CONTENTS

LESSON ONE: KNOW YOUR ENEMY; A COMPANY ISN'T YOUR FRIEND	1
A. ARE YOU 'GOOD WITH MONEY'?	
B. LOOK OUT FOR NUMBER ONE	3
C. MARTIN'S MONEY MANTRAS	3
D. BREAKING THE IMPULSE CHAIN	4
E. A WORD ABOUT FASHION	7
F. MONEYSAVING RESOURCES	7
	8

VITAL BECAUSE...

- ➔ Until you understand that a company's job is to make money, you will make the wrong decisions.
- ➔ YOU are the only person who is really bothered about YOU.
- ➔ If you don't learn this lesson, the companies will be left with smiles on their faces... while you'll be left with a future of cold baked beans at mealtimes because it could be all you can afford.

BREAK TIME

LESSON TWO: DEBT – THE TERRIFYING TRUTH

A. WHAT IS IT?	10
B. AN INTERESTING PROBLEM	11
C. GOOD DEBT, BAD DEBT... AND KNOWING THE DIFFERENCE (INCLUDES QUICK QUIZ)	14 18
D. CREDIT CARDS	22
E. OTHER TYPES OF DEBT	24
F. MONEYSAVING RESOURCES	

VITAL BECAUSE...

- ➔ There's very little chance you'll be able to live your life without borrowing money at any point – whether it's for university, a house or something else that you need.
- ➔ Logic has changed over the years. While our grandparents may say "don't ever borrow" this is no longer feasible. We now live in a different world and so need to be equipped with the tools that work.
- ➔ Get debt wrong and it'll cost you a fortune. Unlike most other things we spend cash on, you can't cancel your debts, so you need to get it right first time.
- ➔ More people lead miserable lives because of debt.



CONTENTS

LESSON THREE: LOYALTY IS FOR LOSERS – HOW TO BE A SAVVY SHOPPER

A. WHY THE LOYAL LOSE OUT	25
B. THE APATHY TRAP	27
C. SAVVY SHOPPING	27
D. CHUTZPAH AND HOW TO HAGGLE	28
E. MONEYSAVING RESOURCES	30

VITAL BECAUSE...

- ➡ The normal rules do not apply – sticking with the same people for longer means you get less
- ➡ There is no such thing as a 'fixed price'
- ➡ No one else will ever search and find the best deal for you.

THE END...WELL. THE BEGINNING, REALLY	31
---------------------------------------	----

GLOSSARY	33
----------	----





Let me say this loud and clear at the start, in the biggest font I've got. It is the single most important thing I will say in this whole guide: if you don't understand it, you've lost before even starting.

A company's job is to make money; it is NOT there to help you, it is NOT your friend.

They spend billions on advertising, marketing, and teaching their staff to sell; all to make you part with your cash, even when you shouldn't!

Now don't think this means I'm against companies. I'm not. I don't think they do anything wrong, that's how our society operates. My problem isn't that their job is to make money; my problem is that most people don't understand that and think instead that businesses are there to help and assist with daily life.

Of course, some companies give a great service; but that's just part of making money. As a business you can attract customers in many ways.... using cheap prices; offering the best product; giving great customer service. Yet these are simply all a way to bring in customers and make money.

Sometimes, the very fact they want profit works in your favour; if you're a new customer and they want your business, you're likely to get a great deal. Yet once you've been trapped into buying a product, you may well find that it's not right for you but now that they've got your money, they don't give a stuff.

The aim of this lesson isn't to make you "avoid" companies but to make you "understand them" and remember that when they try and sell you something – whether it's a mobile phone or debt – that doesn't mean it's good or bad for you; it means it'll make them MONEY.

Still unsure about this? Right. Think about a supermarket and the journey you go on from when you first get there...

- **The store layout.** Items that you regularly buy – your bread and your milk – tend to be sprinkled around the store, so that you need to pass many other tempting goodies to complete your shopping.
- **Feeling hungry?** Delicious food smells regularly waft through the store. Of course, when you're hungry, you buy more food!
- **Eye-level isn't the best level.** The most profitable stock is placed at eye-level (or children's eye-level if it's targeted at them); yet profitable goods for stores tend not to be the best deals for shoppers, so the adage 'look high and low for something' really does apply here.
- **Not all sales are 'super!'** While grapes and other attractive products may be placed near the front of a store to entice you in with a genuine bargain – the same signage and displays will be used elsewhere to promote deals, yet these mightn't be competitive. Bright colours and the word 'discount or sale' make us feel good, yet the reduction may be pennies, and other equivalent products still hidden on the shelf for less.
- **Spot the sweets and magazines by the till.** These are impulse buys, so putting them near the till gives the store one last attempt to grab our cash: kids can nag their parents for goodies too.

Everything about this store – everything you can smell, see and hear – is geared towards making you spend; over the years they've honed it to get your money. And this fictional store is virtually identical to every supermarket in Britain; they are cathedrals of consumerism.

This is what you're up against, everywhere you spend! Be aware of it and you automatically start to lessen the impact. You can ask yourself "Do I really want something, or am I just a victim of their marketing schemes and spending money I'd be better keeping?"

So let's get going – there's no time to lose....



A: ARE YOU 'GOOD WITH MONEY'?

When I asked the cash class this question, quite a few said yes. Their reason where invariably something like "I try and save, not spend, when I get cash". Yet for me, this doesn't make you good with money, it just means you stick within a budget. Being good with cash is just as much about how you spend, as whether or not you spend.

It's about how well you understand the value of money, and what it can be used for. Can you effectively see through the thousands of companies telling you different things about where to stash it; where to spend it; and what to splurge it on?

Which of these two girls would you say is best with cash?

- **Sally the Saver:** She has £400 for a holiday. She spends £250 on a budget flight to Rome, and stays in a youth hostel managing to save £60 of it.
- **Silvia the Savvyspender:** She also has £400 for a holiday. She manages to find a bargain business class flight to New York, stays in a nice hotel with a pool and gets discount theatre tickets but spends the whole £400.

The answer depends on your circumstances and what you can use the money for. If Silvia's in debt, and splashing out on a holiday, she's not good with money even though she got the better bargain. Being cash savvy is both about understanding what money you have, and how to use it.

During Lesson One, I hope you'll develop this kind of vision... And learn a few home truths about the society we now live in.

B: ONLY YOU CAN HELP YOU

I really don't want to get all touchy-feely on you but...the first thing for me to really knock into you – really, BANG BANG, knock into you – is that the only person who's ever going to properly help you is YOU.

Here's a very tough truth:

- No one is ever going to teach you what the best way to spend is.
- No one is ever going to write a budget for you, or watch to ensure you stick to it.
- No one is ever going to tell you the best way to borrow money, should you need to do so.

YOU have to learn how to do all these things for yourselves.

YOU have to become as clever as the companies who are trying to get your cash.

You may think your family or boyfriend/girlfriend/husband/wife or pet dog may take it over. But do that and you're following someone else's agenda. That's not good. Co-operating and work together is fine. But you must make your own decisions.

C: MARTIN'S MONEY MANTRAS

A mantra is something that you repeat to yourself over and over again to help control the way you think. You're about to learn two special, simple 'Martins money mantras' I developed when I first became the Money Saving Expert. Their job is to slow down the process that makes you spend, so you're correctly questioning what you're doing.

The Mantra If You're Skint

The first mantra is the one to use when you're skint. Picture yourself with some mates, wandering around your local shopping centre. You're eyeing something up – something cool that's making your blood rush and your head thinks, 'That's awesome! I want it! I need it! I have to have it!'



Just stop!

Ask yourself the following three questions.
Repeat after me:

- *Do I need it?*
- *Can I afford it?*
- *Can I get it cheaper somewhere else?*



Ask yourself these questions before you get whatever it is you're lusting after any closer to the sign that reads 'Please Pay Here'. Then ask them again. And again.

- **If you don't need it – don't buy it.** If you buy something you don't need, it's obviously a waste of money.
- **If you can't afford it – don't buy it.** If you buy something you can't afford, you begin a cycle of living beyond your means. Eventually, you'll have to borrow money to do this, and you could end up in debt crisis.

What if, after repeating the mantra a few more times, you realise that you do need 'it' and you can afford it? Check and make sure that the same thing isn't available at a better price somewhere else. Look in other shops, and use the internet to search for the best deal (more on this in Lesson Three). If you haven't checked, don't buy it (yet).

The Mantra if you're not skint

The second mantra is for those of you who aren't totally broke. I know what you're thinking – 'Why do I need a money mantra if I've got enough cash?'

Firstly (as if I need to remind you), because COMPANIES ARE NOT YOUR FRIENDS. They are after your cash and do not care if they give you a good deal.

Secondly, to make sure that YOU are in control of your spending, NOT THEM! If you don't think carefully about every money decision you make, you are giving those devious advertising gurus back their power. You are doing their job for them.

So you've got some money in your wallet, you're feeling good, and you've got your eye on something special. You know what's coming...

Just stop! Ask yourself the following three questions.

Repeat after me:

- Will I use it?
- Is it worth it?
- Can I get it cheaper somewhere else?



Think about the differences between this one and the skint mantra. Here the questions focus on whether it's going to be a good buy, not whether you should buy.

Consider this example from the Teen Cash Class...

Teen Cash Class Chat



Charlotte:
A good friend bought some shoes once that cost £100.



Martin:
Did she need them?



Charlotte:
Well... She said she needed some new shoes.



Martin:
Could she afford them?



Charlotte: I think so. She had quite a lot of money, so she could afford to spend that much.



Martin:
Could she have got them cheaper somewhere else?



Charlotte: Oh no, definitely not. They were one pair of shoes from a certain place, not available anywhere else.



Martin: Did she use them?



Charlotte:
Well, I think she's worn them about three times. .



Martin: So. Were they worth it?



Difficult, isn't it? Is three times, or £33 per use, good enough to justify buying them in the first place? Could she have got more use or more enjoyment by spending £100 on something else. Ultimately, only Charlotte's friend will know that – but it's crucial to consider this before buying anything.

The fancy term that economists use for this dilemma is called "*opportunity cost*". This is where you have one thing but, as a result, miss out on having another. You don't have to be a genius to assess opportunity cost, though – you can do it yourself, every time you shop, by asking yourself honestly: '*Is it worth it?*'

As always, everything comes back to you in the end. YOU have to remember these mantras. **YOU** have to apply them. If you do and you're honest with yourself, then these mantras should ensure you don't spend what you haven't got; and you always buy well.

D: BREAKING THE IMPULSE CHAIN

OK. Hands up all those who are guilty of impulse shopping. That is, buying something on a whim, without even thinking about it - let alone using either of my money mantras. Shops want you to see something, lose your mind over it and buy it there and then. Surely, by now, you're smarter than that?

If you weren't planning to buy something, never buy it on the day you spot it, or even the next. Go back and repeat all the relevant money mantras all over again. If it's right to buy the thing you want, then go ahead – guilt free. But chances are, with a pause before buying, the impulse to buy will have lessened.

I asked the TV Teen Cash Class:

'If I were able to give you back all the money you've ever spent buying things on impulse, would you take the cash and hand over the stuff?'

No prizes for guessing what their answer was...

'YES!'

Some of them realised they've spent £100s on things they just didn't ever really use. Sadly, in real life, no one will ever make you that offer; so you have to do it in advance by not buying on impulse.

E. A WORD ABOUT FASHION

This may shock you, but fashion – rather than being the epitome of cool – is actually one of the most profitable business mechanisms ever invented.

Think about it. If we didn't have changing fashions, you'd be able to have a wardrobe full of clothes that you could wear for your whole adult life; and would only ever need changing if they wore out or you changed shape.

Sadly, the billions poured in to fashion trend-setting mean it's impossible to ignore. Magazines, TV programmes, newspapers, adverts, radio, the web all like to pump out "the latest trends". Think about this from the clothes manufacturer and retailers' side... it means "the stuff they bought six weeks ago can't be worn anymore... yippee... they'll have to spend more with us!"

In a nutshell, as my Teen Cash Class summarised beautifully, fashion changes:

"to make you buy more stuff!"

So be careful when buying things that are 'the height of fashion': it means you won't be able to wear or use them for long... ask yourself "is it worth it?".

Even legendary French fashion designer Yves Saint Laurent admitted: "Fashion fades, style is eternal". So buying things to last is better value, and if it's high fashion, make sure it's super-cheap because the value per wear will be tiny.

Don't forget...

A COMPANY'S JOB IS TO MAKE MONEY

I cannot say this enough.

If you didn't think that handling your money well was about a battle between you and the companies, hopefully, by now, you've cottoned on. Don't take just my word for it though, if you've ever watched the TV programme Dragons' Den, take that as further proof. They never ask "how much good will it do society", their key question is "will it make me money" – that's the first priority of any business. There's a reason it's not called Fluffy Bunnies' Den.

And you have to remember this. It means that in your dealings with a company, consider them the opposition. While they may be subtly smiling, their job is to outfox you and get as much of your cash as possible. Your job is to stop them.

MONEYSAVING RESOURCES

Here are a few places to find extra hints and tips that will help you use the things you've learnt from Lesson One. If you want to save yourself (or your parents) money, these are the best places to start...

- The Demotivator. A special tool to help you stop spending:
www.moneysavingexpert.com/stopspending
- Do a complete money makeover:
www.moneysavingexpert.com/family/money-help
- Cutting the Cost of Food Shopping:
www.moneysavingexpert.com/supermarketshopping
- Are you spending more than you earn?
www.moneysavingexpert.com/budgeting





BREAK TIME

Martin: So come on, are any of you impulse purchasers? Tell the truth...

Hannah: Well... Yeah. I've impulse bought quite a lot of things.

Martin: Such as?

Hannah: Clothes mostly... Things that I'd just wear once. Really, I could have done something better with that money.

Martin: How many times d'you think you've done that?

Hannah: Oh, wow, too many times!

Martin: Twenty? Thirty?

Hannah: Mmmmm. Yeah, probably.



Martin: And how much do you spend each time?

Hannah: Um... Not really a lot. About twenty quid.

Martin: Thomas, you said you were good at Maths. Twenty quid times thirty impulse purchases makes?

Thomas: Six hundred quid.

Martin: Right. Hannah, how much pocket money do you get?

Hannah: £50 pocket money and £50 for work every month.

Martin: So you've spent six months' worth of your cash – including money you've worked for - on stuff you didn't really need or want.

Hannah: Wow... Erm. What were those money mantras again?

LESSON TWO: DEBT - THE TERRIFYING TRUTH

WHY THIS SECTION IS IMPORTANT:

- * There's very little chance you'll be able to live your life without borrowing money at any point - whether it's for university, a house or something else that you need;
- * Logic has changed over the years. While our grandparents may say "don't ever borrow" this is no longer feasible. We now live in a different world and so need to be equipped with the tools that work;
- * Get debt wrong and it'll cost you a fortune. Unlike most other things we spend cash on, you can't cancel your debts, so you need to get it right first time;
- * More people lead miserable lives because of debt than any other single factor

A: WHAT IS DEBT?

Debt is where you borrow money from someone else, so you now owe them money and have to pay it back. You may have already been in debt at some point - to parents, friends or other relatives.

But when you borrow from a company, it's not like borrowing a fiver from your big sister and giving it back to her next week when you can afford to. A company, such as a bank or credit card firm, will want your fiver back PLUS more on top.

It's their payment for lending you the money AND it'll want the debt repaid in a certain way at a certain time, to suit them. Miss this at your peril because your costs and troubles will mount up.

Let's not forget: ***companies are not your friends.***

When people need to borrow money, they usually go to their bank and expect that someone there will know the best thing for them to do. Wipe this crazy idea from your minds right away. A bank isn't there to give advice, it's there to sell you things and make fat profits.

Whether or not to go into debt, and who to borrow money from, are two of the most important decisions you'll make in adult life. And, as you've probably come to expect by this stage in your MoneySaving education, there is no one who will sit down with you and independently advise or help with these questions.

This is why, for the rest of Lesson Two, you need to concentrate really hard. This may seem a long way away, but it's not... in a year or two people will start trying to flog you debt; and you get yourself into trouble this way and you could be paying for it for **40 years!** (No joke - read on!)

B: AN INTERESTING PROBLEM

The most important thing to understand about debt is how interest works and just how clever it is. The 'interest' is the cost of borrowing money and often it's displayed in a way that makes it look cheap but makes 'em a fortune.

As you're about to discover, it's pure genius; the same number can be both cheap and expensive, and they use it to confuse. If you don't learn to understand it – prepare to stand in the road and empty out your pockets – as you'll end up giving them your money anyway.

The interest rate

This is the cost you pay for having debt, expressed as a percentage of the amount you borrowed that you will have to pay back on top of the original borrowing. Normally this is the cost per year but it isn't always - so it's crucial to check.

Typically if you borrow money on a credit card, it will charge you around 18% interest a year. The actual way it works is quite complex, so I'm going to simplify it for the moment...
Are percentages a struggle for you?

Borrow £1,000 at 18% over a year

The amount you must repay equals

**The Original £1,000
Plus the interest (18% of £1,000) = £180**

Total £1,180

Don't worry if you don't yet fully understand percentages: here's a little guide that I hope will help.

One percentage point of something is the same as saying one hundredth of it.

Using the above example, where we need to know 18% of £1,000. This means we could also say 18% is eighteen hundredths of the amount (written in decimals 0.18 of the amount); therefore to find out what this equals.

First find out what one hundredth is...

To do this you divide the amount (£1,000) by 100. Here the answer is £10.

Now you multiply it by the number of percentage points.

We need to know what 18% of it is, so we simply multiply one hundredth (£10) by 18 to find it out. The answer is £180.

From here on in, I'm going to assume you understand percentages.

How much you pay isn't just about the interest rate though...

This is one of the big ones, one that many adults get wrong. They only consider the interest rate when deciding how to borrow, yet there's another big factor... how long you borrow for.

Look at this example from my Teen Cash Class:

Ruari was quick, he understood that you don't just pay interest, you have to pay interest on the interest. This is called 'compound interest' and it makes lenders a fortune.

Martin: I borrow £1000 from the bank at an interest rate of 20% over 1 year. How much does it cost me?

Ruairi: £200

Martin: Get your calculators out now. What about this: the same debt, at the same rate, over two years.

Ruairi: £440

Martin: Right. The amount you have to pay back has increased.

This might be the first time that you've heard of it, but no less than Albert Einstein, one of the world's greatest scientists, described compound interest as the one of the world's most powerful forces.

Let's briefly look at why... borrowing £1,000 at 20%

After year 1:

You owe £1,000 for the original debt, plus £200 interest.



After year 2:

You owe £1,200 from last year plus £200 interest on the original borrowing and £40 interest on the interest = £1,440

After year 3:

You owe £1,440 from last year plus £200 interest on the original borrowing, and £80 interest on the interest and £8 interest on the interest on the interest = £1,728

As you can see, each year the amount your borrowing costs increases, and it accelerates so the longer you borrow for costs much more. So much so that..

After year 20:

If compound interest didn't exist, so you only paid interest on the original borrowing, you'd have to repay £5,000; but because of compound interest you actually need to repay a huge, whopping, gobsmacking... **£38,400!**

All this means the longer you borrow for, the more it costs you.

The Teen Cash Class's Quiz

'Should you take a lower rate for longer; or a higher rate for shorter?'

Having taught my cash class this, I asked them the following question:

Imagine you have a mortgage, which is a special loan you get to buy a house and because the lender is secure in the knowledge it can take the house back if you can't repay, it gives you a cheap rate of, say, 6%.

Now you need an additional loan for a car and the best interest rate you can find is 12%. Suddenly, your mortgage lender says 'Hey, why not borrow that extra £10,000 on top of your mortgage: after all, at 6%, it's half-price....'

I asked my Teen Cash Class which they thought was better, and understandably they all went for the cheaper rate. This would be good.... except... a typical loan will be paid back over five years, while most mortgages last for 25 years. And you have to take this into account.

Here's the real answer

- **A £10,000 Loan at 12% over 5 years costs £3,300 in interest**
- **£10,000 added to a mortgage at 6% over 25 years costs £9,200 in interest**

As you can see, the higher interest rate loan is much cheaper. Though it does also mean because you need to pay it more quickly you need to repay more a month.

Even though 6% interest sounded far lower, in the end it was a MUCH more expensive loan. I'm sure you've seen the ads on the TV which say things like, 'Shift all of your debts, to us and we'll give you a low rate'. Well, guess what? These companies are not your friends! They will end up making more profit from you, because to get the low rate you repay over a much, much, much, much longer time, so they earn masses in interest.

Always remember, a lower interest rate doesn't guarantee cheaper borrowing. If you're going to borrow money, you have to ask the question, 'How long am I going to borrow for?' as well as 'What's the rate of interest?'

Now, isn't that interest-ing? 😊

Web Resource:

For more on the different types of interest rates visit www.moneysavingexpert.com/interestrates

C: GOOD DEBT, BAD DEBT... AND KNOWING THE DIFFERENCE

Now you understand what debt is. It's important to realise that, as nasty as it can be (and trust me sometimes it is) you are not going to be able to avoid it. So what's important is learning when it's right to borrow, and to understand the best way to do it.

Let me start with the quick quiz I gave the Teen Cash Class.... Test yourself on which of these you think are good and bad debt.

-  **A.** You want to go on holiday because you haven't been away for three months, but you'd need to pay for it on a credit card. *Good debt* or *bad debt*?
-  **B.** You recently got married and now it's time to get your own house. You need to borrow money by getting mortgage in order to do so. Good debt or bad debt?
-  **C.** You've just got a new job, moved house and live eight miles from work and your children go to a school that's ten miles away. There's no public transport, so you borrow money for a car. Good debt or bad debt?
-  **D.** You have a store card with a limit of £500, and you're off to a big party tonight. You see some top party clothes that cost £250, so you go for it. Good debt or bad debt?

The Answers are upside down at the bottom of the page...

Of course, no debt is truly 'good' as you don't want to borrow anything from anyone, but 'necessary and unnecessary debt' was too long a phrase!



Good debt or bad debt quiz answers

A. The Holiday. Bad debt! The clue is in the question. If you can't afford it and don't need it, don't go into debt for it! A holiday is a luxury that you can live without for a few months while you save enough money to pay for it a better way.

B. A House. Good debt! Going into debt for some things is unavoidable, and a house is usually one of them. If you need to get a mortgage to get your own place, find the best deal you can and consider it an investment in your future – though only do it if you can afford the repayments and you won't be hurting the rest of your finances.

C. A Car. Good debt! If you need a car and can't buy one out of your own pocket, then borrow for one wisely. This isn't bad debt because having the car (as long as you get a good deal!) will improve your quality of life and enable you to earn money. Yet as you're borrowing, try and get the cheapest workable car, don't spend more than you need to, ensure you budget for your repayments, check that the interest rate is cheap, and pay it off as quickly as possible.

D. Party Clothes. Bad debt! If you got this one wrong, shame on you! Feeling like you've got nothing to wear is no excuse for impulse shopping or buying something you can't afford. Even worse is putting this crazy purchase on a store card, which as you'll soon see have stupidly high interest rates. Remember, they're the devil's debt – designed to trap you!

Now let me show you a different real-life example of good debt and bad debt...

The 'Good Debt, Bad Debt' of Student Borrowing

Going to university and needing to borrow money for your course is something that troubles an awful lot of people, and it's an issue that you may well face in the next few years.

Although I won't go into detail about it here, thinking about university borrowing offers us the chance to look at how you can spot good debt and bad debt in a real life situation

also see the Parents' Guide to Student Finance at www.moneysavingexpert.com/family/student-finance

and Students' Guide at www.moneysavingexpert.com/banking/student-money-saving

When you go to university, there are generally three types of borrowing that will be on offer and – crazy as it sounds – nobody is likely to tell you the differences between them before you go.

- **The Official Student Loans.** The government gives you this loan to cover your tuition costs and some living costs, and it's the cheapest form of long term debt possible. Even better you don't need to start repaying it until you're earning over £15,000 (raising to £21,000 for new loans from Sep 2011).
- **Interest-Free Overdrafts.** Most banks offer these to higher education students. An overdraft is an amount of money that you can withdraw from your account, even if there is no cash in it, that's pre-agreed between you and your bank. Yet many banks like to allow students to borrow for free, because this attracts them as customers.*

This will mean that, while you study, the money you borrow doesn't cost you any cash – but they will want you to pay it back in installments from when your course finishes, and may begin to charge you interest.

- **Commercial debts.** This is all other types of debt, credit cards, store cards additional loans, hire purchase agreements or other types of commercial debt. On this kind of debt, you will be paying real, expensive interest that will build up and not go away.

**Don't think banks are being generous by doing this! The idea is that they get you as a student and then once you finish, you end up not moving to another bank for life - even though you'll get better rates elsewhere. In fact, it's a very cheap way of them buying your custom! Always remember: once you finish university or college, look again for the best new bank.*

Now, of the three types of debt on offer, it's obvious that the official Student Loan is the best.

This is a great example of good debt. A university degree is something that can be considered an investment in your future – it's not the same as slapping a new pair of shoes on a store card. More importantly, by borrowing from the government you're getting the best available deal in terms of interest and repayments.

In the middle, there's the interest-free overdraft from your bank. In the short term, this might seem like good debt – perhaps you need the money to survive, and – after all – you're not paying interest. However, it can very easily become bad debt if it isn't paid off correctly; your bank can begin charging you interest, and before you know it what once was free ends up costing you a bundle.

Getting into commercial debt while you're at university is definitely the worst pick from the choices above. In fact, I'd go as far as to say never, ever, ever, ever take this type of borrowing.

Some people may say all borrowing is bad...

Some people, especially older generations, may tell you to avoid all borrowing. And your parents may try to scrimp and scrape so you needn't get a student loan.

My view - and not everyone agrees - is that we have to grow up and understand borrowing is an unwelcome, but necessary part of life. That's why my aim isn't to scare you off ever borrowing, but to show you how scary – if done badly - it can be. Yet if you plan it; check it's worthwhile; budget for it; understand it; and ensure it's as cheap and affordable as possible; then it isn't always bad.

My worry is that those who say 'never borrow' lump all types of debt together; and this can lead to terrible mistakes. For example, if you go to university thinking all debt is bad, but still need to borrow you may get hideous commercial debt instead of (or as well as) a student loan; and that scares the pants off ME.

THE DEBT SPIRAL.... WHERE BORROWING GETS **UGLY**

One of the most dangerous things you can do with money is consistently spend more than you earn, and borrow to fill the gap. Unfortunately, many people just spend willy-nilly on credit cards, without ever thinking where the money to repay them will come from.

The risk here is that you enter a debt spiral – and this is where bad debt turns really ugly. It stands to reason that, the more money you borrow, the higher your repayments will be every month. This means that, to carry on living in the same way, you borrow a bit more.

Then a bit more.....



When you've nothing left, you're in debt crisis and this is where things get catastrophic.

People split up with their husbands or their wives; people have their homes taken away because they can no longer afford their mortgage; some people even threaten to kill themselves.

ALL of these things can be the results of a debt spiral – a spiral that might start off very small.

Now this probably sounds scary to you. And it should. I want it to scare you.

I helped my Teen Cash Class to understand it this way:



Martin: If you enjoy going to the cinema every week but suddenly can't afford it, what do you do?

Class:

Well, you stop going to the cinema. If you've arranged it, you cancel it



Martin: Right. But what about debts? What if you suddenly don't have enough money to repay your debts? You can't stop that. You can't cancel that. You can't run away from it. That's the difference between debts and other spending - once you've got them, you can't stop them!

D: CREDIT CARDS

You've probably spotted that I've already mentioned these in passing: now it's time for me to devote my full attention to them.

There's no more important single product to learn about than credit cards. In my view we'd all be better off if these were renamed debt cards rather than credit card as they're designed to make us borrow money.

Sadly many teens have a big misunderstanding about credit cards and their cousins, store cards. So it's time for m'big letters again.

Credit cards do NOT give you free money!

*You have to pay back every penny you spend...
...AND A WHOLE LOT MORE.*



*Interest charges on credit cards can be **EXTREME!***

A credit card is just a pre-approved loan, so once you've got it you can borrow as much as you like from it, up to a set limit. Yet just like a loan, every penny needs to be paid back... and if they don't get their cash and their interest... they'll come for you.

The key difference, though, between borrowing in the form of a loan and using a credit card is that you decide how much (or how little) you pay off per month. In addition, you decide how much you borrow, within a pre-arranged limit.

Already, you should be able to hear alarm bells!

- You can borrow more each month than you repay. There's no pressure on you to pay a lot of money back, so you could easily end up borrowing more cash per month than you are paying off.
- Budgeting is difficult. It's incredibly difficult to budget with a credit card, and your spending can quickly get out of control.

Years ago, credit cards used to be called your 'flexible friend'. How crazy is that? Anyone smart knows that no company is their friend.

If you want to admire innovative money-making genius, take a look at credit card minimum repayments...

Like a shark, they're deadly but beautiful.

One of the most ingenious money-making schemes ever devised by mankind is the credit card minimum repayment system. You have to admire the companies for thinking this one up, because it truly is outstandingly profitable: but most people don't notice it!

Remember, with credit cards you are in control of the repayments, and all you have to do each month is meet the minimum amount they've set. This is usually around 2% of the total debt, or £5 (whichever is the greater).

Now prepare to be truly terrified by this example of how minimum payments work, which the Teen Cash Class worked through when I spent the day with them:



Martin: Ok. Imagine that you owe £3000 on a credit card. It's at an interest rate of 17.9%, which is quite typical. The minimum repayment on that card, at 2%, would be...?

Class: £60



Martin: Right. So imagine that you're just going to pay the minimum payment every month - starting at £60 - until the debt's paid off.

You're not going to be able to do this one on the calculator, it's way too complicated – but someone give me a guess. How long is it going to take until the debt's paid off?

Richard : A year?



Martin: Hmm. A year. Who thinks between one and three years?
Some of you.

Who thinks three to five years? Five to seven? Some more of you. Seven to ten years? Ten to fifteen years? Has anyone not put their hand up?

What if I told you that, in fact, it would take you **forty** years to pay off that debt? At a cost of £6,300 in interest? Does that shock you?

Class: Wow. Yes! I don't believe (mouths were hanging open, including the teacher who was supervising at the back of the class, the two cameramen, sound operators, the producer and assistant producer!)



Yup, you read it right the first time:

IT'D TAKE 40 YEARS TO REPAY!



Why does this happen?

Here's the secret of minimum repayments.

Because the minimum repayment is set as a **percentage** of what you owe, the actual sums you pay back with your monthly minimum repayments naturally fall as what you owe decreases.

So, actually, the amount you repay only just covers the interest on the card, meaning you're hardly repaying back any of the original amount you borrowed. Clever, innit?

Imagine you start getting into this debt at the age of around twenty, and you settle for making the minimum payment each month. You're going to be **SIXTY** by the time that debt is cleared! Can you imagine that? You'll have grey hair, or a white beard, or granny shoes on your feet!

Credit card companies designed minimum payments to trap you into debt for the rest of your life. They want to see you take forty years to pay it off as that way they earn a mass of interest and you're permanently in debt to them.

Don't worry, though, I've a stick to hit them back with, as the Teen Cash Class found out:



Martin: Ok. So imagine now that instead of letting the amount you pay each month reduce, you fixed the amount you pay at £60 each month. How long is it going to take you now to clear the debt?

Ruairi: A few years?



Martin: Seven. Seven years. You will pay £2,300 in interest, saving yourself £4000 – and you clear the debt 33 years earlier.

Think about why this is so effective...

I'm going to pause while you try and work it out.... Take your time before reading on.

Ready....?

The amount you repay is fixed. Thus while the debt and interest decrease, your repayments stay firm. The interest drops, but more of your money goes towards repaying the actual debt rather than the interest.

Credit cards aren't all bad

At this point, you probably feel that credit cards are fairly terrible things. I should perhaps say in their defence that, used correctly, they can actually be good; using a credit card, for example, is often the cheapest way to spend abroad, and with some cards you can earn cash back every time you buy something.

Like so many things, though, a credit card can turn nasty in the wrong hands. Remember: as always, the responsibility to do the smart thing ultimately lies with **YOU**.



The Teen Cash Class Credit Card Challenge

This was the challenge my cash class found the most difficult, but also the most enjoyable. Here's a real life scenario... what's the best deal you can come up with?

Challenge your friends/ parents/ teachers to see what they can come up with – it isn't easy. Even better, you could always ask your parents whether they have any credit cards and if they do, what they are. If they're willing to tell you, see how much money you can save them (one of my cash class saved his mum over **£1,000!**).

Imagine.. You have £2,500 on a Barclaycard at 16% interest, and have done for a few years. You also need to borrow £1,000 for stuff for a new home. What's the best credit card solution you can come up with?

Now what? The Teen Cash Class had to go to different banks and find leaflets to compare offers, yet you can do the same on the internet.

Call me a sappy old git (go on if you like, I can't hear you), but doing this with the Teen Cash Class nearly brought me to tears. It's because, at one moment, I suddenly looked at them and saw them all quietly studying credit card leaflets.

Having spent most of my career trying to explain to people how they're being ripped off, the one thing I know most people haven't done is actually sit down and examine different deals. To see my cash class doing it, and enjoying it, was a wonderful moment. Better still is how they started realising there are vast differences between cards.

What's the answer?

Credit card deals change all the time, so it depends on when you do this. Yet the process of comparing credit cards to try and find the winning deal is the best lesson possible. Here are some hints.

- **All cards aren't the same.** While they're the same shape and size, the rates and deals on credit cards differ massively; after all 50 Cent and the Cheeky Girls both sell records, but they're certainly not the same. So ensure you read the small print and check exactly what the terms are.
- **They're a tool, not an accessory.** Don't ever be drawn into picking a credit card for its colour or design, and forget gimmicks or cards linked to football teams or funky stores. These are ways to draw you in. Always compare cards based on which is best financially for you.
- **There's more than one interest rate.** One card may have a number of different interest rates. The two main ones are for 'purchases' - for new spending on the card - and 'balance transfers' which is a special offer if you move debt from a previous credit card to it (now read the challenge again and try to spot which is which).
- **It's not about getting 'one card'.** Don't assume that you're looking for one credit card, the cash class winners were actually the ones who realised they needed two cards: one for the cheapest purchases debt and one for the cheapest balance transfers. There's no 'one-size-fits all deal'.

WEB RESOURCES

I've only just opened the door with credit cards, there's so much more to learn. If you do the above properly you're going to have a lot of questions about the different types of deals out there. And don't worry: the answers exist. For much more on credit cards use the following web resources.

- **Best Balance Transfers:** How to cut the cost of debts on existing cards
www.moneysavingexpert.com/cards/balance-transfer-credit-cards
- **Best Card For Purchases:** If you need to borrow on a credit card, how to pick the best
www.moneysavingexpert.com/cards/lowest-interest-credit-cards

E: OTHER TYPES OF CREDIT DEBT



Store cards are hideous beasts – steer clear.

I hate store cards. And, sadly, they're likely to be the first bit of debt you encounter. Store cards are like credit cards but can only be used in one shop (or a select group of stores).

They will usually be pushed at you with a special offer attached – money off whatever you spend that day, loyalty points that will save you cash later, blah blah blah. As usual, this all sounds fantastic but...

“IT ISN'T!”

The rate of interest you can expect to pay on a store card is around **25-30%**. By now, you're savvy enough to know: that's an unusually **HUGE** amount!

Their biggest ploy is offering a whopping discount – 20 per cent, say – on a new pair of shoes and then relying on you not paying off the debt all in one go. If you don't clear this debt in a shot, then that discount you've got will be **WIPED OUT** by the cost of repaying the debt at a later date.

Make no mistake, store cards are the devil's debt: they deliberately target young people who are inexperienced, tempting them into borrowing before they really understand what it means. **AVOID LIKE THE PLAGUE**

THE FINAL INSULT

I've spent this whole lesson talking about debts. And I wanted to explain one final thing to you, before I finish, which takes us back to lesson one – a company's job is to make money from us...

When you borrow money from the bank in whatever form, it charges you interest. When you save with a bank, you are paid interest. The reason for this is because, actually, you are lending the bank your own money - and so it's also paying you interest.

But now let's look at the different rates. Imagine you're not a MoneySaver and didn't bother to check for the best deals (though, of course, by now I know you would).

*Put money in a typical bank account and it pays 0.1% interest
Put £1,000 in there and you earn £1 a year (yes, a measly £1)*

*Borrow money on a typical credit card and it charges 18% interest
Borrow £1,000 from there and you pay £180 per year*



It's pretty clever when you think about it; you lend them money and they give you diddly squat back, but if they lend you money, it costs more. Banks have this rather unfair interest game entirely in their favour, and it will stay that way unless you play it properly.

Worse still, some people will have £1,000 in the bank, and then borrow £1,000 from the same bank's credit cards! It's madness; but it's very common. It means the bank gets to lend you back the money you've lent it – **and make £179 for doing it.**

People do this because they like to "feel I've some money in the bank". Of course this is a false feeling because if you add up what the person has - and what they owe - they've got nothing. They'd be far better off just spending the money in the bank; that way, at least, they won't be paying any interest on borrowing.

Stooze on!

Now, remember what I just said about banks having the interest game all their own way?

For the very sophisticated, there's a game called 'stoozing' where you can get your own back on the banks and play the interest game. And, amazingly, it cropped up during the filming of my Teen Cash Guide...

Want to be a stoozer?

The best question anyone asked me in the cash class came after we'd finished filming the Credit Card Challenge. It boiled down to something like this...

Richard: Martin, if you can borrow money interest free for a year on a credit card, can't you take this money and put it in a good savings account and earn interest on it?"

Martin: Yes, yes, woo-hoo, wonderful, fab, brilliant, I can't believe you thought of it, I love it!

As you may just be able to tell. I was shocked and delighted they'd figured this out. As most adults never get close to it. If you're super-savvy and in control of your money, it is possible to make money out of credit cards, some people make big cash (you'll need to be at least 18 though). It's called stoozing, and it works. Yet its only for those who really know what they're doing.

Web Resource:

A Guide to Stoozing:

www.moneysavingexpert.com/cards/stooze-cash-credit-cards



ONE SIMPLE RULE IF YOU STILL FIND THIS ALL CONFUSING

The thing you must understand after Lesson Two is this: I am not anti-debt. I'm not someone who says that all debt is bad. However, bad debt is very bad!

YOU have to make sure you know the difference between good debt and bad debt. Use my money mantras at all times, and use the masses of information you've been given during this Lesson to make the right decisions about any money you borrow.

Yet there's one final rule. If you still don't understand debt, don't get into it. It's as simple as that.

MONEYSAVING WEB RESOURCES

- How interest rates work. www.moneysavingexpert.com/interestrates
- Should I pay off debts with savings? www.moneysavingexpert.com/savingsvsdebts
- Danger Minimum Repayments (includes minimum repayment calculator)
www.moneysavingexpert.com/minrepayments
- The Best Balance Transfers: www.moneysavingexpert.com/balancetransfers
- Store Cards: Leave them or beat them: www.moneysavingexpert.com/storecards
- The Best Bank Accounts: www.moneysavingexpert.com/bankaccounts
- Debt problems? What to do, where to get help www.moneysavingexpert.com/debtproblems



A. WHY THE LOYAL LOSE OUT

The first thing you need to learn in Lesson Three is that, when it comes to cash, you can forget all the touchy-feely stuff you've ever been told about how important it is to be loyal. With friends, relatives, boyfriends, girlfriends? Yes. Loyalty in these relationships is generally a very good plan. But in your dealings with companies, businesses and banks? NO.

The average adult in this country wastes up to £5,000 each year – simply by being apathetic and not getting off their backside and shopping around for the best deal.

I'll say it again... **£5,000**

Don't you think that's where apathetic becomes just plain pathetic?

LOYALTY IS NEVER REWARDED!

What you'll actually get, if you're loyal to companies, is usually a bum deal. That's because (drumroll, please...) companies are not your friends.

By staying with the same company – whether it's a building society, an insurance firm or even your mobile phone provider – you probably think you're doing the right thing. As you'll see below, most members of the TV Teen Class Class believed that in return for being a loyal customer, they'd get better treatment.



Martin:

So, imagine you've got a car and you've had insurance with the same firm for years. You've always paid on time, you've never had any problems, but your premium's coming up for renewal. Are you going to get a better deal by sticking with the guys you know or switching to a different company?

Emily:

I think you probably stay with the one you've been with, so you get more things like no-claims bonuses.



Thomas:

I'd stay with them, because if you went to a new company you'd have to start building that up again from scratch... But if you're a loyal customer, you'll get more bonuses.



Martin: Who agrees? A few of you. Hmmm...

As the conversation progressed, we talked through the simple logic of our dilemma. The answer became obvious:



Think from the insurance company's perspective now. Think – who is the easiest customer to get for their business?

Richard:

The existing customer. They won't want all the hassle of changing to a different company, and having to make phone calls and send letters out and everything.



Martin:

Right. And if you're an insurance company, how do you win new customers?



Richard:

By bringing them good deals.



Martin:

Good. What else do you have to do to win them over?



Richard:

Advertise, marketing and all that stuff.



Martin:

And that costs money, right? How do you think they cover the cost of giving new customers money off and putting adverts on the telly? Who does that cost get passed on to – I mean, who really ends up footing the bill?



Richard:

The existing customer



Martin:

Brilliant



Ruairi:

The existing customer doesn't cost you anything, either. You don't have to advertise to get them, or cut their bills.



EXACTLY! So ask yourself the question, do I want to be the customer who has companies fighting for my business or do I just want to be taken for granted?

Loyalty is for losers: if you're loyal, you lose out.

B. THE APATHY TRAP

So far, so simple. Loyalty doesn't pay, and now you understand why. What's a lot more difficult to explain is the behaviour of millions of people every year who, in the situation outlined above, would simply sign the renewal forms sent by their current insurance provider and wave goodbye to another fat chunk of their hard-earned cash.

These sorry individuals, poor fools, have fallen into what I call the apathy trap. This is where you become thoughtless, you settle into a routine and – in the end – become too lazy to get off your backside and **CHECK** whether or not you are being swizzed.

It's easily done, you could say: adult life is busy, you have a job, a house to organise, maybe even kids to keep under control. These are all excuses I've heard time and time again. In the end, though, there is no excuse: apathy is the enemy, and as we learnt in Lesson One, you have to do this or no one else will do it for you..

This means, for example, that six weeks before your insurance is up for renewal you put a note in your diary – then you take yourself by the scruff of the neck and make yourself spend some time finding a great price.

C. SAVVY SHOPPING

The internet has changed the world of shopping and money. That's because there are so many tools out there which offer to do the job for you. Many websites quickly search the web to find you the cheapest price.

This is a great resource, but it's also dangerous. As you've seen from credit cards, there's no one best fit deal for anything. So you really must understand how a product works before doing a comparison.

Having taught my cash class about car insurance, I then challenged them to find a better car insurance deal for their history teacher. Those bright sparks quickly used their computers to save him a massive **£385!** As you already know, they later used their learning to help their families save thousands of pounds as well.

Yet they were rightly wary about using the internet.... So here are some quick rules.

- **Always use more than one comparison site.** Even comparison services are commercial companies out to make a profit, they tend only to compare from companies who pay them if you end up getting the best deal through them.

This means you should use more than one – after all it doesn't take much time. Take car insurance, for example: even the website which gives the widest search only compares around 30 companies, but if you use four comparison sites you can search over four times more and it only takes a few minutes longer.

- **You may be able to beat the best price by haggling.** Secondly, when you've found a good price, ring the company who are offering it direct and see if you can beat it down some more (details on how to go about this later).

If needing car insurance seems a million years away yet, don't despair – there are other ways you can use the internet to save yourselves loads of cash. Hundreds of shopping robot websites (shopbots) are now out there, and any one of them could help you save.

Whether it's a CD, DVD, book, stereo, skin care product or more, there are comparison engines to search them for you.

Web Resources:

Cheapest Car Insurance: inc. a list of comparison sites:

www.moneysavingexpert.com/insurance/compare-cheap-car-insurance

Cheapest Home Insurance: inc a list of comparison sites:

www.moneysavingexpert.com/insurance/home-insurance

Online Shopping: inc a list of shopbots for different things:

www.moneysavingexpert.com/shopping/cheap-online-shopping-shopbots

D. SUPER-SAVVY SHOPPING

Now let's step it up a bit. And go somewhere, most parents wouldn't dare. This is about pushing the web to a higher degree using cashback websites.

These websites are essentially advertising websites, but instead of keeping the money they're paid by companies to promote them, they give it to you. So if you buy something or get a product from a website having clicked from the cashback site, it gets paid and you get some of it.

Therefore once you've found the best product for you (and always do that before using a cashback site) then see if you can get cashback on it. This isn't small change either: it can be 4-5% of the cost of what you're buying, or up to £100 per insurance product. So if you're getting new products or buying something online, once you've found it – step up the gain by getting a cut of the advert revenue for yourself.

Web Resources:

Top Cashback Sites: inc. a list of comparison sites

www.moneysavingexpert.com/shopping/cashback-websites

HAGGLING AND CHUTZPAH

Chutzpah (pronounced hoot'spa), is a Yiddish word that basically means 'nerve'. If you're a person with chutzpah, it means you've got cheek – and while they probably don't like this at school, it's a good characteristic for MoneySaving.

If you've got the brass neck to demand them, you will always get better deals.

Having chutzpah means having the confidence to ask for more than you're being offered, or suggest you should pay less for what you're getting. Every night on the news you'll hear about negotiations - negotiations between countries, businesses, and between groups of people and the government. Negotiating is frankly just a posh word for haggling, and if you want to be an ace MoneySaver, you have to learn to do it. Whether you use the big word for it or not is up to you.

Haggling is about getting what you want by having the chutzpah to ask for it.

It's not about being rude or difficult;

It is about understanding that there's no such thing as a fixed price, and that those who don't ask, don't get.

Haggling isn't always easy. Even if you might try it once a year on holiday, you're not likely to feel 100% comfortable doing it in Topshop. In this, the final part of Lesson Three, you'll find some top tips on how to haggle without feeling flustered.

The good news is that, increasingly, some companies are used to hagglers. A great place to try your first haggle is with a mobile phone company, digital TV or broadband provider; any deal where you have a contract which ends after about a year. This is because these providers are notoriously competitive, and always desperate to take customers away from one another.

The Teen Cash Class Haggling Challenge

When filming the Teen Cash Class programme, I challenged some of my students to try this. It didn't make the programme's final cut, but it was an incredibly useful lesson. What they didn't know is the person they were talking to was an actor, specially briefed by me.

Martin: Here's what I want you to do. This is the phone bill of a woman called Lesley Jackson. Call the company and get the very best deal you can for her, by haggling.

Thomas: So we talk to them and see if we can get money off? Or extra stuff?

Martin: You haggle for a better deal.

Thomas (cheekily): What if they won't give me one? Am I allowed to tell them I might leave and look somewhere else?

Martin: I can't tell you that! This is a challenge! That's for you to decide. Just go ahead, give it your best shot.

Sadly in the challenge itself, Tom didn't say he'd consider leaving, a pity as it would have got him top marks. Remember you're not locked into any company, they want to keep you; but they'll only fight for your custom if you make them.

So if they don't give you the deal you want ensure they know (politely) you'll consider leaving and then see what you get. Loyalty is for losers.

There's no such thing as the disconnections department

When you threaten to leave a provider, they often say "we'll put you through to customer disconnections". Yet actually the internal name for the department they connect you to is "customer retentions".

This is because their job is to keep you as a customer and they have a LOT more power than standard customer services departments. If you're going to haggle – they're the best place to do it.

E : MONEYSAVING RESOURCES

- Cash back Sites: www.moneysavingexpert.com/cashbacksites
- Mobile Phone Haggling: www.moneysavingexpert.com/mobilehaggle
- Car Insurance: www.moneysavingexpert.com/carinsurance
- Online Shopping: www.moneysavingexpert.com/shopbots
- Digital TV: www.moneysavingexpert.com/shopping/cheaper-sky-cheap-cable
- Mobile Cost Cutting: www.moneysavingexpert.com/phones/mobile-phone-cost-cutting
- Home Phones: www.moneysavingexpert.com/phones/home-phone-calls



THE FINAL CHALLENGE

That's it. MoneySaving lesson numbers one to three are complete. And don't think "all adults know this", most don't. It's one of the reasons the UK is one of the most heavily indebted countries in the world.

If you've read, worked through and digested this guide – my guess is you're already in the top 10% of savvy consumers in the country; and as long as you remember the rules you're going to end up with more money in your pocket.

Yet the lessons don't end there. I've been a professional MoneySaver for years and a good amateur for a lot longer before; but I continually learn more and hone the techniques.

The lessons I chose here were specifically to give you the raw ideas that'll see you through all aspects of finance. Yet every specific products has its own catches and you need to learn them carefully.

The Final Challenge: One that pays you to do it.

Here's my final challenge. If you're a teen, speak to your parents and see if they'll let you do a Money Makeover on/with them. Look at everything they spend money on (and what you spend money on) and see if you can get the same for less. Remember your parents may not be as web savvy as you, and the web is a powerhouse for MoneySaving.

You'll find help to do this on the web at www.moneysavingexpert.com/moneymakeover

If you're an adult, then there's definitely no excuse. If you've found the time to read this, find the time to sort out your cash.

So go forward, **beat** those companies at their own game and save yourselves oodles of dosh. Hopefully, too, you will pass this important message on to others.

I hope you save some money

Martin.

HOW THEY DID IT

Before we go, just HOW did my 12 teen cash class pupils make their £5,050 savings?

Let's take a look at the areas where they made the biggest savings for their parents...

Number one was...switching credit cards: my pupils saved a staggering **£2,440** over a year by moving away from expensive plastic to better, cheaper alternatives.

Well done!

In second place for curbing their parents' costs was changing insurance provider – whether car or pet...**£830** over a year

Next up was getting a cheaper deal for heating your home. By changing gas or electricity provider, some **£450** was lopped off the bills.

Fourth was mobile phone savings: **£120**

The remaining **£1,210** was spread out across our other top tips.

GLOSSARY

Bad debt = when you borrow money for something you don't need or isn't worth it. When you use borrowing to fund a lifestyle that you can't afford.

Chutzpah = nerve, bare-faced cheek. The guts to ask for a better deal.

Commercial debt = when you owe money to a company (e.g. a bank) and are charged a hefty rate of interest for it.

Companies = the opposition. NOT YOUR FRIENDS! Banks, shops and businesses of any kind... They are all out to get their mitts on your money.

Compound interest = the reason why a debt will cost you more if you take longer to pay it off. It's because you end up paying interest on the interest

Credit card = a borrowing card. When you pay for something on a credit card, you go into debt for whatever you've purchased.

Debt = when you owe somebody cash.

Debt spiral = where you borrow money to finance a lifestyle you can't afford, and keep having to borrow more to keep this going. If you don't stop the spiral, it will lead to...

Debt crisis = where you don't have enough money to repay your debts and other outgoings. If you hit debt crisis, you could lose everything.

Debit card = a card that takes money directly out of your bank account. Allows you to pay for things in shops without using cash.

Good debt = when you borrow money for a good reason, in the right way that's affordable, having thought it through carefully as cheaply as possible.

Haggling = using chutzpah and your natural charm to talk someone into giving you a better deal.

Impulse shopping = very, very silly! It's buying something without using my money mantras to think properly first. Don't do it!

Interest = the cost of borrowing money. It's usually given in the form of a percentage (the interest rate). This is the percentage of the original amount you borrowed that you will have to pay back on top of your loan.

Losers = people who stay loyal to the same companies, and therefore never get the best deals and think all offers are the same.

Minimum repayment = the smallest amount per month that a credit card company will allow you to pay. Also, the cleverest invention EVER. Fall for this trick, and you'll be in debt for your whole life – because as your debt falls, so does the amount you're paying off.

Mortgage = a special loan that you get for buying a house. It's usually at a low rate of interest because if you don't pay up in the way the bank asks, they can take your house away.

Opportunity cost = where you have one thing but, as a result, miss out on having another. You can assess opportunity cost by asking yourself, 'Is it worth it?'

Overdraft = an amount of money that you can take out of your bank account even when there's no money in there. You need to agree this in advance with your bank, and they can charge you interest because they are lending you the money. It's a type of debt.

Savvy shopper = you. Someone who uses their brain to find the best price for the things they want.

Screenscraper = a special type of website that will search the internet for a range of prices.

Shopbot = a 'shopping robot' website that will search the web for the cheapest price on a wide variety of products.

Store card = a credit card that you can only use in certain places. They have high rates of interest and are the devil's debt. Stay away!

Student Loan = the low-interest loan that the government will give you to pay for going to University.

YOU = the only person who is bothered about you. The only person who can be trusted to make the right decisions about when and where to splash or stash your cash.

Thanks

Thanks to ITV1 Tonight for commissioning the programme and the wonderful staff and pupils at St. Simon Stock school in Maidstone where the cash class took place; proving it is a worthwhile concept. Plus thanks to Laura Starkey and Sam Dunn for helping me turn the transcripts into this guide, and finally Mark Shannon for the design and layout work.

If you have any feedback, or would like to discuss this guide, go to www.moneysavingexpert.com/discussteencash

