This topic is about credit. It helps your client understand the different types of credit, credit contracts and their credit files.

Section: content for the worker and resources	Key messages
A: Introducing credit **Level 1** **Level 1** Factsheet	▶ *Credit* is borrowed money you have to pay back. ▶ Credit has extra costs. ▶ Too much credit can cause money problems.
B: Understanding credit Activity **Level 2:** *Is this credit?* Factsheet	▶ *Banks, credit unions, building societies* and *finance companies* provide credit. ▶ You use different types of credit depending on what you borrow money for. ▶ You pay *interest, fees* and *charges* to use credit. ▶ Credit options are available for people on a low income.
C: Credit contracts Story **Level 2:** *Hussein gets a car loan* Story **Level 3:** *Connie guarantees a loan for her son* Factsheet	▶ There are laws in Australia about credit. ▶ *Lenders* need information from you before they can give you credit. ▶ Ask questions before signing a *credit contract.* ▶ A *guarantor* is legally responsible if you cannot pay your debt.
D: Secured and unsecured credit Activity **Level 3:** *Secured or unsecured loan?* Story **Level 3:** *Joe and Faith think about a home loan* Factsheet	▶ *Secured* and *unsecured loans* are different. ▶ A secured loan means the lender can take something from you if you do not pay the loan. ▶ An unsecured loan means the lender relies on your promise to pay it back.
E: Credit files Story **Level 2:** *Su has a default on her credit file* Factsheet	▶ A *credit file* is a document with information on your *credit history.* ▶ A *credit reporting agency* keeps a file of your credit history. ▶ You can ask to see your credit file at any time.

Financial literacy levels

Ask these types of questions to check your client's level of understanding and knowledge

- What is credit?
- Do you know what interest is?
- Do you know what happens if you get credit?

After your client answers your questions, determine what information they need based on their level of knowledge. You can do this using this table.

Your client has this level of knowledge	Description
Level 1: No or a limited understanding	If your client cannot answer any of your questions or can only answer them a bit, they have no or a limited understanding. You can help them understand more by showing them the photo story in their translated language to introduce the topic. You can also listen to the audio story. After using the photo and/or audio stories, see if your client has developed some understanding of the topic, by asking them to answer the questions again. At the end of the section, you can give your client the factsheet in their translated language to take home with them, so they can look at it later.
Level 2: Some level of understanding	If your client answers one or more of your questions, but not in a lot of detail, they have some level of understanding. You can show them the photo story to review the topic. You can also go through the **Level 2** activities and stories in the kit as these are for clients with some level of understanding. At the end of the section, you can give your client the factsheet in their translated language to take home with them, so they can look at it later.
Level 3: A higher level of understanding	If your client answers your questions in detail they have a higher level of understanding. For example, if you ask your client 'What is credit?', and they can explain what it is, you do not need to show them the photo story. Instead, you can look at the more advanced activities in the kit with them, labelled as **Level 3**. At the end of the section, you can give your client the factsheet in their translated language to take home with them, so they can look at it later.

A: Introducing credit

Key messages

- Credit is borrowed money you have to pay back.
- Credit has extra costs.
- Too much credit can cause money problems.

Content for the worker

This section introduces your client to the concept of credit. To do this, show your client the photo story and/or play the audio story.

When showing the photo story, remember to pause and check if your client is following the story in the right sequence.

A factsheet on this topic is also available for your client. You can photocopy and give the factsheet to your client in their translated language to take home.

After using the photo and audio stories, you can check your client's level of understanding and knowledge by asking questions such as:

- What is credit?
- Do you know why credit costs you more money?
- Have you borrowed money before?

Does your client understand the key points from today?

If they do not, you can go through the information again at another time.

If they do you can proceed to the next level the next time you meet your client – from **Level 1** to **Level 2** or from **Level 2** to **Level 3**.

Resources

Level 1: Credit photo story

Level 1: Credit audio story

Credit fact sheets. These can be found at the end of the topic in the following languages:

1. English
2. Arabic
3. Assyrian
4. Burmese
5. Chin Hakka
6. Dari
7. Dinka
8. Farsi
9. Hazaragi
10. Karen
11. Kirundi
12. Nepalese
13. Nuer
14. Sudanese Arabic
15. Swahili
16. Tamil

B: Understanding credit

Key messages

- Banks, credit unions, building societies and finance companies provide credit.
- You use different types of credit depending on what you borrow money for.
- You pay interest, fees and charges to use credit.
- Credit options are available for people on a low income.

Content for the worker

Credit is money you borrow from a lender. You have to pay it back at an agreed time. Lenders include banks, credit unions, building societies and finance companies.

You use credit to pay for things you have not saved for. Having credit means there is money you owe. You need to repay your debt to the lender.

You use different types of credit depending on what you borrow money for.

Different types of credit

There are different types of credit. Some types of credit cost more money than others. Some credit is for a short time, and some for a long time, like several years.

You can use the information in the table on the next few pages to explain the different types of credit to your client.

High-cost credit

Payday loans (short-term loan)	A *payday loan* is a *short-term loan*. It is usually for a small amount, like a few hundred dollars. These loans cost a lot of money. The lender charges a high *interest rate* and must be paid back by a certain date. To pay back your loan, you arrange to have money taken from your account when you get paid. This money is given to the lender. You may also be charged a fee to access the loan. The amount of the fee differs depending on how long your loan is for. You can tell your client that the interest charges and fees on these loans can be very high and will cost them a lot of money. Some payday loans will charge your client an upfront fee instead of interest. However, just because your client is not paying interest it does not mean this loan is cheap. Because the term of the loan is for a short time – usually only 30 days – the upfront fee can be just as much as a very high interest rate.
Interest-free deals	Many stores offer *interest-free deals* that let you take goods home before you pay for them. But *interest-free* does not mean cost-free – you still have to pay fees and charges. Most large stores offer interest-free deals for things like computers, electrical appliances, lounge suites and other household goods. There are usually two ways you can pay for interest-free deals: ▶ By *instalments* – you make regular payments each month, to pay off your purchase by the end of the interest-free period. The instalment payments may not be enough to pay off the full price before the interest-free period ends. When this happens the lender will charge you high interest. ▶ *Buy now, pay later* – you do not make any payments until the end of the interest-free period. Then you pay the full amount, plus fees and charges. The lender does not need to tell you when this period ends. It is up to you to keep track of this date. If you do not pay everything you owe by the end of the interest-period the lender will charge you interest. You can tell your client that interest-free does not mean cost-free – they still have to pay fees and charges. If you do not pay back the full amount of your purchase by the end of the interest-free period, your lender will charge you high interest.

B: Understanding credit (continued)

High-cost credit *(continued)*	
Credit cards	You use a *credit card* to buy things. You can only spend up to a certain amount of money on the card, which is called the credit limit. You get a credit card from a lender who will ask you to repay the amount you have spent on the card in monthly amounts. There may be interest, fees and charges for spending money on the card. With most credit cards you pay a fee every year to be able to use the card. With credit cards you get a bill that tells you how much you owe that month. If you do not pay this amount you are charged interest and sometimes other fees. Fees add a lot to the cost of using a credit card. You can pay fees for: ▶ annual accounts ▶ *rewards programs* ▶ *late payments* ▶ exceeding your credit limit. With a credit card you can often get a *secondary card*. This allows your partner or other family members, for example, to buy goods or services using your credit. You have to pay any debts caused when someone else uses your card. You can tell your client that interest, fees and charges can become very expensive.
Store cards	Some large retail stores issue their own *store cards*, but you can normally only use them in their stores or stores they are connected with. You use store cards just like regular credit cards but you usually pay higher interest for doing so. Some big stores in Australia offer these cards. You can tell your client that store cards can become an expensive way to shop as the interest rate is usually more than it is with regular credit cards.
Consumer leases	A *consumer lease* lets you rent an item (for example, a home computer or television) over a period of time. You make regular rental payments (usually monthly) until the lease is over. The total amount you pay, however, will be more than if you paid for the item with cash. You may also have to pay fees and charges. You can tell your client that the total lease payments add up to more than the cash price of the item. Your client may also have to pay fees and charges. A consumer lease can easily become more expensive than buying the item by paying cash for it.

High-cost credit *(continued)*	
Rent to buy	A purchasing arrangement where you buy an item by renting it for an amount of time. You make regular rental payments, for example, every month over 3 years. Even though the payments are called rental payments you are buying the item, not renting it. At the end of the amount of time, you pay the amount you still owe to finalise your purchase. Your total rental payments always add up to more than what you would pay for the item with cash. You may also have to pay fees and charges. You can tell your client that the total rental payments add up to more than the cash price of the item – sometimes a lot more. You may also have to pay fees and charges. Renting to buy can easily become more expensive than buying the item by paying cash for it.

Lower cost credit	
Car loan	A *car loan* is for buying a new or used car – not for any other item. With a car loan, you borrow an amount of money to pay for your car. You have to repay it in an amount of time. You have to sign a credit contract that tells you how much you have borrowed and how much you have to pay back every month. Not all car loans are for the same amount of time. They are usually between 12 months and 5 years. Car loans are nearly always *fixed rate* loans. This means you pay the same interest rate throughout the loan. You also have to pay fees and charges. These are included in the total cost of your loan.
Personal loans	A *personal loan* is normally for something you need or something you want to do like fixing things in your home or taking a holiday. Your *repayments* are made within an amount of time. This is usually between 12 months and 5 years. Personal loans can be secured or unsecured. You have to pay interest, fees and charges on the amount you borrow.
Home loans	A *home loan* is for buying a home – not for any other item. There are many different types of home loans. The interest rates, terms and fees are not all the same. So you need to look at different loans to see which one is best for you.

B: Understanding credit (continued)

Other credit	
Consolidation loans	A *consolidation loan* is when you put all of your loans into one loan. An advantage of a consolidation loan is that you only have to make one repayment each month and you can get a lower interest rate. You might not have to pay as many fees and charges. With a consolidation loan, you are repaying all your debts in the one loan, over a longer period of time.

When you borrow money (credit) there are extra costs. These include interest, fees and charges.

You need to shop around for the credit that is best for you. When doing so you need to compare the costs of credit (including fees and charges), the time you have to pay, and other things. Then you can decide which credit is the best for you.

Interest is an ongoing charge for the credit you borrow. The amount of interest you pay is shown as an interest rate. An interest rate is what you pay from the time you borrow money (when it is lent to you) and the time you pay the money back. It is usually as a percentage for each year (also called an *annual percentage rate*) – for example, 12% a year, or $12 a year, for every $100 you borrow.

For some types of credit the interest rate stays the same. With other types of credit the interest rate can change.

It is important to read your credit contract. Fees and charges are costs you are charged every month or every year by the lender who provides you with credit. They can include paying money to the lender for them to provide you with their service.

Fees and charges can include:

- monthly fees for having the account
- fees if you do not pay on time
- fees if you do not make a payment.

Credit options for those on a low income

If you do not earn a lot of money you can still try to get credit if you need it. Centrelink and some community organisations can help you with credit if you do not earn a lot of money.

You can explain to your client the different options available to them if their income is low. You can use the information in this table to explain the different types of credit to your client.

Program name	About the program	Who can get it
Centrelink	A small amount of money (usually less than $1,000) you can get before (in advance of) your Centrelink payment. You have to pay the money back to Centrelink, but there is no interest or charges.	Centrelink clients
No Interest Loan Scheme	A small loan you can get from a community organisation, usually to buy things you need like household items such as a fridge or washing machine. You have to pay the money back but can do so in small amounts that you can afford. There is no interest or charges.	Individuals and families on low and limited incomes
StepUP	Unsecured personal loans between $800 and $3,000 you can get from certain lenders. You have to pay the money back like credit but these loans are low interest at a fixed-rate. There are no fees or charges.	Individuals and families on low and limited incomes

For more information about credit, you can tell your client to call a Centrelink Financial Information Service Officer on 13 23 00.

Activities and stories

Activity **Level 2:** *Is this credit?*
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C: Credit contracts

Key messages

- There are laws in Australia about credit.
- Lenders need information from you before they can give you credit.
- Ask questions before signing a credit contract.
- A guarantor is legally responsible if you cannot pay your debt.

Content for the worker

A credit contract is a legal obligation (see the topic on Contracts for more details). All credit contracts MUST be in writing.

It is important that you know what you are signing before you get a credit card, loan or consumer lease because once you have signed the contract you have to follow it by law. You need to understand your credit contract before you sign it.

You can explain to your client that most loans in Australia are under consumer credit law. This is regulated by the government – the Australian Securities and Investments Commission.

All lenders must be licensed by the Australian Securities and Investments Commission. Licensed lenders like banks, building societies, credit unions and finance companies, must be responsible when lending money. They must follow the government's credit law. These laws also apply to finance or mortgage brokers who arrange loans.

You can explain to your client that some loans are not covered under consumer credit laws. Your client needs to check this with their lender.

Questions a lender will need to ask

Lenders need information from you to help them decide if they are going to give you credit. The lender is required by law to be responsible when lending you money. This is to make sure credit is only given to you, as a borrower, if you can afford to pay it back.

The lender needs to make sure that you:

- can afford to pay the money back
- understand what you are borrowing the money for
- understand how much you have to pay back
- are getting credit that is best for your needs.

The lender then looks at whether they can lend you credit.

The lender will ask you questions about:

- your financial situation (for example, what is your income and what are your expenses)
- why you want credit.

The lender will also check if you are telling the truth about your situation by checking your credit file.

After the lender asks you questions, they check if the information you have given is correct. They use this information to decide if they will lend you credit. A lender can decide not to lend you money if you do not meet the requirements.

Signing a credit contract with someone else

When a person enters into a loan contract with someone else they are either a *co-borrower* (sign a loan with someone else) or a guarantor (who is responsible for paying the loan if the borrower stops paying – they are guaranteeing the loan).

It is common for more than one person to enter into a contract, especially between people who are married, or between family members.

What is a co-borrower?

A co-borrower is a person who agrees to borrow and pay back money with another person. Two or more people sign a contract for this. This means each person is responsible for paying back all of the money.

When two or more people borrow money together it is also known as a *joint debt*. It means each person is responsible for paying all of the money back.

Many people – especially couples – enter into contracts as co-borrowers. For example, a husband and wife might sign a loan to buy some furniture for where they are living. In doing so, they both agree to pay the money back.

For a large contract, such as for a home loan, the organisation lending the money (*lender*) often needs two people who are earning money to sign a loan. Both co-borrowers are responsible for paying the whole debt.

What is a guarantor?

If you sign a guarantee for someone else, like a friend or a family member, you are the guarantor.

If you sign a loan as a guarantor, you become responsible by law for paying back the entire loan if the other person you signed the contract with stops paying. This is whether the other person stops because they cannot or will not pay. And you also have to pay any fees, charges and interest.

Parents may be asked to be a guarantor for their grown-up children. Perhaps the grown-up child has not been working for long and cannot get a loan by themselves. Another example is when one family member provides a guarantee for another family member who cannot get a loan because they have had money problems.

Most people want to help their families. But it is important to understand there are lots of risks.

You can explain to your client that a guarantor has to pay the loan if the borrower stops making repayments. The guarantor is responsible for the whole loan if the borrower stops paying, and it does not matter why the borrower stops paying.

You can also explain to your client that if they, as guarantor, cannot pay the loan they will have financial and legal problems.

Activities and stories

Story **Level 2:** *Hussein gets a car loan*
Page 21

Story **Level 3:** *Connie guarantees a loan for her son*
Page 23

D: Secured and unsecured credit

Key messages

- Secured and unsecured loans are different.
- A secured loan means the lender can take something from you if you do not pay the loan.
- An unsecured loan means the lender relies on your promise to pay it back.

Content for the worker

There are two different types of loans – secured loans and unsecured loans. The difference depends on how much risk there is that the borrower might not pay the loan back to the lender.

Secured loans

With this type of loan a lender holds security over one or more of your assets to make sure they get their money back. It protects the lender from losing their money. An asset is something you own like your house or car.

This loan is called a secured loan. This is because the lender has security until you repay your debt. With a home loan, the house is usually used as security.

With a secured loan you cannot sell your asset without permission from the lender. If you cannot pay your loan the lender can sell your property to get their money back.

A car loan, where your car is used as security, is another example of this type of loan. In this case the lender can sell your car to get their money back.

Unsecured loans

With this type of loan a lender may decide that there is not a lot of risk and so they do not need to hold an item as security.

This loan is called an unsecured loan. Your asset is not used as security. The amount of money involved is usually not as much as with a secured loan.

The interest rate for unsecured loans is usually higher than for a secured loan.

Unsecured loans are normally for buying smaller things like computers. They are also used for credit cards, store cards, some personal loans and short-term loans.

Activities and stories

Activity **Level 3:** *Secured or unsecured loan?* Page 27

Story **Level 3:** *Joe and Faith think about a home loan* Page 29

E: Credit files

Key messages

- A credit file is a document with information on your credit history.
- A credit reporting agency keeps a file of your credit history.
- You can ask to see your credit file at any time.

Content for the worker

A credit file is a document with information on your credit history, including every time you apply for credit or *default* on a repayment.

You credit file is kept by a credit reporting agency. A lender must ask you for permission to look at your file before deciding to give you credit.

Lenders can include a default on your credit file, if your payment is late by more than 60 days.

Every time you apply for credit this is put on your credit file. Your file then shows lenders the type of credit you have applied for, the amount of money you want to borrow and the date you applied for credit.

Your credit file includes your full name, date of birth, driver's license, whether you are male or female, your home address and where you work. It also has credit information collected from lenders by credit reporting agencies for the past 5 to 7 years.

You can ask for a copy of your credit file by contacting the credit reporting agency and giving them your details. If you do not need your credit file right away you can get a copy of it for free. It will arrive in 2 weeks by mail. If you need it right away you pay a fee and it will be emailed to you the same day.

Check your credit file to make sure the information is correct. If you want to change something on your credit file, speak to a free Financial Counsellor who can help you.

If you want to fix something on your credit file about an outstanding debt from a few years ago, contact the lender to arrange to pay the debt. When the debt has been paid, the lender can put 'paid' next to this.

To access your credit file, visit **www.mycreditfile.com.au**. You can also contact a free Financial Counsellor on 1800 007 007.

You can tell your client that their credit file includes a lot of information. You can use the information on the next page to review the type of information included on credit files with your client.

E: Credit files (continued)

Consumer credit information

- This may include credit applications made in the past 5 years for loans for household, personal or domestic purposes.

Overdue accounts

- Overdue accounts may also be listed as a 'payment default' or as a 'clearout'.

Payment default

A payment default is, for example, if you have a bill of more than $110, and it was due 65 days ago. This could be listed on your credit file as a payment default.

- Payment defaults should only be included on your credit file if the lender has tried to get some or all of the money back from you. This means they must have sent you a notice in writing to let you know your payment is overdue. And they must ask you to make the payment.
- A lender may not be willing to lend money to you if your credit file shows you have overdue accounts. This is why it is a good idea to pay on time, so defaults will not show on your credit file. To do this, you need to pay your bills before they are overdue.
- If an overdue account is listed on your credit file, the lender has to, by law, update the listing, as soon as they can, once you have paid the overdue amount.
- A payment default stays on your credit file for 5 years, even after you have paid your overdue amount. Overdue accounts, even once you have paid them, become part of your credit history.

Clearouts

A clearout is also sometimes called a 'confirmed missing debtor'. It means that the person who owes money (the borrower) could not be located even after the lender tried to contact them.

- Before you can be listed as a clearout, the lender must try to contact you in several ways, usually in person (including over the phone) or in writing to your last known address. They must ask you to pay the outstanding amount.
- If you cannot be contacted, the lender can list your debt on your credit file as overdue, even if it has not been overdue for 60 days or more.
- Clearouts remain on your file for 7 years from the date they are listed, even after you pay the overdue amount. They become part of your credit history.

Activities and stories

Level 2: *Su has a default on her credit file*
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Activities and stories

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B: Understanding credit

Is this credit?

Activity **Level 2**

You can use this activity to make sure your client understands credit. First review the information on credit and then read your client the statements listed in the next column to see if they understand what credit is and how it works.

Is this credit?

Credit is money you borrow from a lender. You have to pay it back at an agreed time. Lenders include banks, credit unions, building societies and finance companies.

You use credit to pay for things you have not saved for. Credit results in debt (money you owe). You need to repay your debt to the borrower.

You use different types of credit depending on what you borrow money for.

When you borrow money you pay extra costs. These include interest, fees and charges.

Interest is an ongoing charge for the credit you borrow. The amount of interest you pay is an interest rate. An interest rate is what you pay from the time you borrow money (when it is lent to you) and the time you pay the money back.

The interest rate is usually a percentage for each year also called an annual percentage rate – for example, 12% a year, or $12 a year for every $100 you borrow.

For some types of credit the interest rate stays the same. With other types of credit the interest rate can change.

It is important to read your credit contract. Fees and charges are costs you are charged every month or every year by the lender who provides you with credit. They can include paying money to the lender for them to give you service.

Statements

You can go through the following statements with your client and have your client decide if each one is credit or not. You can ask your client to explain how they made their decision. The answers are on the next page.

1. Two people saving together for a birthday present.
2. Taking a television home to own without paying anything up front.
3. Your friend lends you $5 which you must pay back with no interest, fees or charges.
4. Buying a car by using the bank's money.
5. Borrowing money to buy a house as you do not have the money to pay for it now.

Is this credit? *(continued)*

Answers

1. No. This is simply saving money.
2. Yes. This could be an interest-free deal or using a credit card.
3. No. The friend is lending you money and there is no interest.
4. Yes. This could be a car or personal loan.
5. Yes. This would be a home loan.

End of level 2: check in with your client

Does your client understand the key points from today?

If they do not, you can go through the information again at another time.

If they do you can proceed to **Level 3** the next time you get together.

You can give your client the factsheet in their translated language to take home. Repetition is part of learning.

Has your client got a better understanding?

Result	Next steps
Your client has a higher level of understanding – completely understands the concept of credit and has demonstrated their understanding.	Great work! You can give your client a copy of the factsheet in their translated language to take home.
Your client has some level of understanding of the concept of credit.	You can help your client work through the **Level 2** activities and stories again.
Your client has no or limited understanding of the concept of credit.	You can watch the photo story and listen to the audio story again with your client.

B: Understanding credit

More information for your client

If your client has problems paying credit, you can tell them to contact a free Financial Counsellor on 1800 007 007 or you can refer them to the MoneySmart website, **www.moneysmart.gov.au**, or tell them to call 1300 300 630.

Reflection questions for workers

- What worked well today? What did not work well?
- Did your client understand the key messages?
- How could the session have been more effective?
- Did the activities engage your client in the topic?
- What questions unexpectedly emerged and how did you handle them?
- What might you do differently next time?

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C: Credit contracts

Hussein gets a car loan

Story **Level 2**

Hussein wants to buy a second hand car. He wants the cost of registration and insurance (about $1,000) to be included and decides he can spend up to $5,000. This means the car can cost no more than $4,000. He does not have any savings and so has to borrow the money.

One Saturday morning, Hussein goes to the car yard to look for a second hand car. He sees one he likes for $3,900. Hussein finds a sales person and asks some questions about the car. Hussein wants to know if the car is reliable, what year it was made and if it is safe to drive. Hussein decides he would like to buy the car. The car yard's finance person says Hussein can apply for a loan but he must answer some questions first.

What sort of questions will the finance person ask Hussein?

The finance person asks Hussein the following questions to find out if he can get the loan:

- How much money do you earn?
- Where do you work?
- How much is your rent?
- How much are your other expenses?
- Do you owe any money?
- How is your credit history – good or bad?

Hussein gives the information to the finance person. The finance person tells Hussein he is able to get the loan for $4,900 (which will also pay for the registration and insurance).

The finance person gives Hussein the credit contract and asks him to read it and sign it. However, Hussein's friend once told him 'Never sign something you do not understand.' Hussein wants to read the whole contract so he asks if he can take it home and come back. He agrees to meet the finance person again on Monday morning.

What do you think should happen if the finance person does not let Hussein take the contract home?

If the finance person does not let Hussein take the contract home, he should not sign it. He should look for another finance company to get the loan from.

Hussein reads the credit contract and goes back to the car yard on Monday to meet with the finance person. After reading the credit contract, Hussein has some questions.

What questions should Hussein ask the finance person?

Hussein asks the finance person many questions, including:

- What is the total amount of the loan?
- What is the interest rate on the loan?
- How often do the repayments need to be made?
- How long is the credit contract?

Hussein completely understands the terms and conditions of the loan and he signs the contract and buys the car.

What does Hussein need to think about when applying for a loan?

You can discuss the following with your client:

- Hussein needs to see if there are car loans that do not cost as much money. He can buy his car at this car yard, but he does not have to get a loan from this same car yard – he can look at other loans to see if they cost less.
- How will Hussein make his car loan repayments if he loses his job?
- How will Hussein pay to fix the car if it breaks down?

End of level 2: check in with your client

Does your client understand the key points from today?

If they do not, you can go through the information again at another time.

If they do you can proceed to **Level 3** the next time you get together.

You can give your client the factsheet in their translated language to take home. Repetition is part of learning.

Has your client got a better understanding?

Result	Next steps
Your client has a higher level of understanding – completely understands the concept of credit and has demonstrated their understanding.	Great work! You can give your client a copy of the factsheet in their translated language to take home.
Your client has some level of understanding of the concept of credit.	You can help your client work through the **Level 2** activities and stories again.
Your client has no or limited understanding of the concept of credit.	You can watch the photo story and listen to the audio story again with your client.

More information for your client

If your client has a problem paying their loan, you can tell them to contact a free Financial Counsellor on 1800 007 007 or you can refer them to the MoneySmart website, **www.moneysmart.gov.au**, or tell them to call 1300 300 630.

If your client needs to order a copy of their credit file, you can tell them to visit **www.mycreditfile.com.au**.

If your client is having legal problems with a car loan contract, you can tell them to contact a free community legal centre. Community legal centres are independent and provide free legal services.

The National Association of Community Legal Centres has information on free community legal centres. You can tell your client they can find the closest free community legal centre by visiting **www.naclc.org.au/directory**.

Reflection questions for workers

- What worked well today? What did not work well?
- Did your client understand the key messages?
- How could the session have been more effective?
- Did the activities engage your client in the topic?
- What questions unexpectedly emerged and how did you handle them?
- What might you do differently next time?

C: Credit contracts

Connie guarantees a loan for her son

Story **Level 3**

Connie's family has managed a cafe for many years. Her husband died recently and her son Leo is planning to take over the cafe.

Leo thinks it would be a good business idea to start making food to sell to local workplaces. To do this, Leo needs a truck to deliver the food. Connie thinks Leo will do a really good job as he has grown up working in the cafe.

To get the delivery truck, Leo needs to get a loan. Connie wants to help Leo so she offers to do what she can so he can get the loan.

Why does Connie want to help Leo?

Connie wants to help Leo because he is her son and he would not be able to get the loan on his own. And she wants to see him do well when he takes over the cafe.

What questions should Connie ask the lender?

Connie should ask the lender about what would happen if Leo cannot make the repayments. She does not ask this question.

After making an assessment, the lender decides Leo can only get the loan if Connie agrees to be the guarantor. As guarantor Connie is legally responsible for paying back the loan if Leo cannot or will not make the repayments. She also has to pay all fees, charges and interest.

Connie does not ask any more questions or get any more information. Instead she agrees to be Leo's guarantor. The lender uses Connie's house as security for the loan because the amount of money Leo is borrowing is big. This is called a secured loan.

The secured loan means that if Leo cannot or will not make the repayments Connie will have to do so. If Connie cannot make the repayments then the lender can sell her house to get their money back.

Unfortunately Leo has a gambling problem that Connie does not know about. A few months later, Connie notices a lot of letters from the lender have been sent to Leo in the mail. She asks Leo about these letters but he tells Connie not to worry about them. What Leo does not tell Connie is that he is behind on his repayments.

Soon after, Connie gets a phone call from the lender who says the loan has not been paid for the last 2 months. The lender explains that it is Connie's responsibility to make the repayments because she is the guarantor. This means she is responsible by law for paying the loan. Connie is upset and really worried. She calls Leo to ask him what has happened.

How do you think this made Connie feel?

C: Credit contracts

Connie guarantees a loan for her son *(continued)*

Connie asks Leo what is going on. Leo explains he has money problems. Leo decides to do the right thing and be honest with Connie. He tells her about his gambling problem. Leo feels really bad as Connie now has to pay the loan or lose her house.

What does this mean for Connie?

The lender contacts Connie to tell her she must start to make the repayments. The lender explains that because Connie decided to be the guarantor, the loan is her responsibility. Connie realises she may have to sell her house to pay off Leo's debts.

Connie arranges to go to her closest free community legal centre to explain what has happened and to get some free advice. The worker explains it is now Connie's responsibility to pay for the loan as she signed the contract as the guarantor. If she does not make the repayments, she might lose her house.

The worker also tells Connie that they can try and make a payment arrangement for her so she can pay off the debt in smaller amounts that she can afford. This way, Connie should be able to keep her house.

The community legal centre worker contacts the lender on Connie's behalf, to organise a payment arrangement.

Now Connie thinks it was not a good idea to sign the contract as the guarantor. She did not really understand what she was getting herself into. But it is too late. By law she has to follow the contract.

Next time Connie will not sign something if she does not understand what is written in it. She knows she will always ask more questions about her responsibilities when helping other people out.

C: Credit contracts

Has your client got a better understanding?

Result	Next steps
Your client has a higher level of understanding – completely understands the concept of credit and has demonstrated their understanding.	Great work! You can give your client a copy of the factsheet in their translated language to take home.
Your client has some level of understanding of the concept of credit.	You can help your client work through the **Level 2** activities and stories again.
Your client has no or limited understanding of the concept of credit.	You can watch the photo story and listen to the audio story again with your client.

More information for your client

If your client needs more information about car loans and guarantors, you can tell them to visit the MoneySmart website, **www.moneysmart.gov.au**, or call 1300 300 630.

If your client is having legal problems as a guarantor or with a car loan contract, you can tell your client they can contact a free community legal centre. Community legal centres are independent, community organisations that provide free legal services to the public.

The National Association of Community Legal Centres has information on free community legal centres. Your client can find the closest free community legal centre by visiting **www.naclc.org.au/directory.**

Reflection questions for workers

- What worked well today? What did not work well?
- Did your client understand the key messages?
- How could the session have been more effective?
- Did the activities engage your client in the topic?
- What questions unexpectedly emerged and how did you handle them?
- What might you do differently next time?

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D: Secured and unsecured credit

Secured or unsecured loan?

Activity **Level 3**

You can use this activity to make sure your client understands the difference between secured and unsecured loans. The answers are on the next page.

Secured or unsecured loan?

There are two different types of loans – secured loans and unsecured loans.

A secured loan is a loan where the lender holds security over one or more of your assets to make sure they get their money back. It protects the lender from losing their money. An asset is something you own, like your house or a car.

If you cannot pay your loan the lender can sell your property to get their money back.

An unsecured loan is a loan that does not have an asset as security. The interest rate is usually higher than for a secured loan.

You can look at the pictures below with your client and ask if each one is a secured or unsecured loan.

You can also ask your client why a lender would want to use something to secure a loan?

How did you decide which loans were secured and unsecured?

1. Car loan

2. Home loan

3. Credit cards

4. Payday loan

5. Personal loan

6. Store card

D: Secured and unsecured credit

Secured or unsecured loan? *(continued)*

Answers

1. Secured or unsecured, 2. Secured, 3. Unsecured, 4. Unsecured, 5. Secured or unsecured, 6. Unsecured.

Has your client got a better understanding?

Result	Next steps
Your client has a higher level of understanding – completely understands the concept of credit and has demonstrated their understanding.	Great work! You can give your client a copy of the factsheet in their translated language to take home.
Your client has some level of understanding of the concept of credit.	You can help your client work through the **Level 2** activities and stories again.
Your client has no or limited understanding of the concept of credit.	You can watch the photo story and listen to the audio story again with your client.

More information for your client

For more information about secured and unsecured loans, visit MoneySmart, ASIC's consumer website, **www.moneysmart.gov.au**.

For any problems related to your loan, contact the lender.

If your client is having legal problems with a secured or unsecured loan contract, contact a free community legal centre. Community legal centres are independent, community organisations that provide free legal services to the public. The National Association of Community Legal Centres has information on free community legal centres. Your client can find the closest free community legal centre by visiting **www.naclc.org.au/directory**.

Reflection questions for workers

- What worked well today? What did not work well?
- Did your client understand the key messages?
- How could the session have been more effective?
- Did the activities engage your client in the topic?
- What questions unexpectedly emerged and how did you handle them?
- What might you do differently next time?

D: Secured and unsecured credit

Joe and Faith think about a home loan

Story **Level 3**

Joe and Faith decide to buy an apartment. They have been saving money for the last 3 years and have $50,000.

They look at different home loans on a website. They look at their budget and talk to different lenders to work out what they could borrow and how much it will cost them. They can borrow up to $300,000.

What do you think Joe and Faith need to do next?

They meet with Samantha, the bank manager at their local bank.

Samantha explains that the money the bank lends will be a secured loan, called a home loan. The house Joe and Faith buy will be used as security for the loan.

A home loan has a mortgage (a guarantee of payment the lender has). The lender can sell the house to get their money back if Joe and Faith do not make their mortgage payments.

Why do you think the home loan is a secured loan?

It is a secured loan because $300,000 is a large amount of money for the bank to loan and the bank needs to make sure it gets all of its money back.

Joe and Faith tell Samantha they are planning to have children and, when they do, will only have one income. They ask Samantha if they can reduce their monthly mortgage payments for a short time if Faith stops working to have children.

What do you think Samantha will tell Joe and Faith?

Samantha explains that if Joe and Faith ever have financial problems and cannot pay, they should contact the lender immediately. If the financial problems are only for a short time, the lender may be able to help by:

- making the contract longer and changing the amount of each payment so it is smaller (without a change being made to the annual percentage rate)
- postponing payments for a short time (without a change being made to the annual percentage rate)
- making the contract longer and postponing some repayments.

If Joe and Faith have financial problems for a long time, they still need to contact the lender. However, the lender might not be able to help and Joe and Faith may have to look at another option – for example, they may need to sell their house and then use the money to pay the lender back.

Has your client got a better understanding?

Result	Next steps
Your client has a higher level of understanding – completely understands the concept of credit and has demonstrated their understanding.	Great work! You can give your client a copy of the factsheet in their translated language to take home.
Your client has some level of understanding of the concept of credit.	You can help your client work through the **Level 2** activities and stories again.
Your client has no or limited understanding of the concept of credit.	You can watch the photo story and listen to the audio story again with your client.

More information for your client

If your client needs more information about home loans, you can tell them to visit the MoneySmart website, **www.moneysmart.gov.au**.

If your client has any problems related to their loan, you can tell them to contact their lender.

If your client is having legal problems with a home loan contract, they can contact a free community legal centre. Community legal centres are independent, community organisations that provide free legal services to the public.

The National Association of Community Legal Centres has information on free community legal centres. Your client can find the free community legal centre closest to them by visiting **www.naclc.org.au/directory**.

Reflection questions for workers

- What worked well today? What did not work well?
- Did your client understand the key messages?
- How could the session have been more effective?
- Did the activities engage your client in the topic?
- What questions unexpectedly emerged and how did you handle them?
- What might you do differently next time?

E: Credit files

Su has a default on her credit file

Story **Level 2**

Su decides to apply for a new credit card with her bank because she wants to have more money to spend for some things she needs. Su looks at different credit cards online, finds one that is right for her needs and then visits her bank to talk to them about it.

Su completes the paperwork and provides her bank with the information it needs to decide whether to give Su a credit card.

The information the bank needs includes:

- information about Su's financial situation
- why Su wants to get credit
- whether Su is telling the truth about her financial situation (the bank can check Su's credit file).

After the bank looks at all the information, they let Su know she cannot get credit this time because she has a default on her credit file. Su is upset and when she gets home she calls her friend Helen to tell her the news and see if Helen has any idea about what she can do.

Helen suggests to Su that she should get a copy of her credit file. Su is not sure how to do this. Helen explains that Su can ask for a copy of her credit file by contacting the credit reporting agency. If Su is not in a hurry for her credit file, she can get a free copy that will take 2 weeks to arrive by mail. If she needs it now she can pay money to have it emailed to her the same day.

Su decides to wait 2 weeks and get her free copy. Her credit file arrives in the mail. Su looks at it and sees she still owes money (outstanding debt) for an old phone bill. She now understands why the bank thinks she does not always pay her bills.

What can Su do?

Su needs to see someone to fix the problem. She makes an appointment to see a free Financial Counsellor. At her appointment, she shows the Financial Counsellor her credit file. The Financial Counsellor explains that they will contact the phone company to see how much Su owes and how she can pay the money back.

The next day, the Financial Counsellor calls Su and explains that she owes $127.50 to the phone company. After she has made the payment, the Financial Counsellor wants to see Su's receipt, as proof that she has paid.

Su wants to pay what she owes right away and the Financial Counsellor says this is a good idea. Sue pays all of the money and takes the receipt to the Financial Counsellor. The Financial Counsellor contacts the phone company to fax the receipt to them and asks the phone company to put a note on Su's credit file to say the debt has been paid.

The Financial Counsellor explains to Su that even though she has now paid her debt, the default will stay on her credit file for 5 years. Su did not realise how not paying her phone bill would affect her credit file or for how long.

What has Su learned from this experience?

End of level 2: check in with your client

Does your client understand the key points from today?

If they do not, you can go through the information again at another time.

If they do you can proceed to **Level 3** the next time you get together.

You can give your client the factsheet in their translated language to take home. Repetition is part of learning.

Has your client got a better understanding?

Result	Next steps
Your client has a higher level of understanding – completely understands the concept of credit and has demonstrated their understanding.	Great work! You can give your client a copy of the factsheet in their translated language to take home.
Your client has some level of understanding of the concept of credit.	You can help your client work through the **Level 2** activities and stories again.
Your client has no or limited understanding of the concept of credit.	You can watch the photo story and listen to the audio story again with your client.

More information for your client

You can tell your client that to order a copy of their credit file they can visit **www.mycreditfile.com.au.**

If your client has a problem with a listing on their credit file, you can tell them to contact a free financial counsellor on 1800 007 007.

Reflection questions for workers

- What worked well today? What did not work well?
- Did your client understand the key messages?
- How could the session have been more effective?
- Did the activities engage your client in the topic?
- What questions unexpectedly emerged and how did you handle them?
- What might you do differently next time?

Glossary

Annual percentage rate	The interest rate charged to you, as borrower, excluding expenses such as account opening and account keeping fees. For example, 12% a year, or $12 a year, for every $100 you borrow.
Asset	Something you own, like your house or car.
Bank	An institution for depositing money, lending, exchanging and safeguarding money.
Borrow	When you take and use (money) from a person or bank under an agreement to pay it back later.
Building society	A place that operates like a bank. It is where bank accounts are held and where money is kept safely. It is owned by its members.
Car loan	A loan to buy a new or used car. You cannot use the money you borrow for anything else.
Co-borrower	A person who borrows money jointly with you. Each person is responsible for the loan, so if one of you does not pay, the other person must pay the full amount.
Consolidated loan	When several loans are combined into one, with the aim of reducing repayments.
Consumer lease	A consumer lease lets you rent an item (for example, a home computer or television) over a period of time. You make regular rental payments (usually monthly) until the lease is over. You do not own the item at the end of the lease period unless the lease company offers to sell you the item at its market value or an agreed value.
Contract	A legally binding agreement between two or more persons.
Credit	Money you borrow that you have to pay back. It lets you get goods or services before you pay for them in full.
Credit card	A card that lets you buy things (goods and services) up to an approved credit limit. You get one from a lender (credit provider). You have to pay it back each month and cannot spend more than you are allowed to (your maximum spending limit). You are charged fees and interest when you use your credit card.
Credit contract	A legal agreement between two or more people and a lender. It tells you how much you have borrowed from the lender and how much you have to pay back every month.
Credit file	A credit file is a document with information on your credit history. It includes credit or loans you have applied for in the past five years. It also includes defaults (an account of $100 or more that is 60 days or more overdue where the lender has started to try to get the money back) and any other credit problems.

Glossary (continued)

Credit history	This includes every time you apply for credit or default on a payment. It includes credit information collected from lenders by credit reporting agencies for the past 5 to 7 years.
Credit provider	See Lender.
Credit reporting agency	An organisation that keeps a file of your credit history. In Australia there are three credit reporting agencies – Equifax (www.equifax.com.au), Dunn and Bradstreet (www.dnb.com.au) and Tasmanian Collection Service (www.tascol.com.au).
Credit union	A financial cooperative that operates like a bank, but is owned and controlled by people who use its services.
Default	When your loan repayment is late, or when you do not pay.
Fees	The costs a lender charges you to use their services.
Finance company	A competitor of commercial banks that provides credit. Unlike banks, finance companies do not accept deposits. You repay your credit in instalments.
Guarantor	A person who guarantees a loan for someone else. The guarantor is legally responsible for paying the debt if the borrower stops paying since they are guaranteeing the loan.
Home loan	A loan to buy a property or a home. It cannot be used for anything else.
Interest	Payment for the use of money over time. You earn interest by lending your money. If you borrow money, interest is the amount you pay to borrow the money.
Interest-free deals	When you get to take goods home before you pay for them, such as computers, electrical appliances and other household goods. It is a payment arrangement where you do not have to pay interest for a set period. You usually make regular repayments during the interest-free period. Any money outstanding at the end of the interest-free period will incur interest, often at a very high rate.
Interest rate	The relationship between the amount of money borrowed or lent and the money paid in return for the use of that money. Usually expressed as a percentage per year.
Lender	An organisation that you enter into a credit agreement with.
Mortgage	A form of security (usually over real estate) that is used to secure repayment of a debt (usually a home loan).

Glossary (continued)

Payday loan	A short-term loan, usually for a small amount (like a few hundred dollars). You normally have this type of loan for a number of weeks. They cost a lot of money. The lender charges a high interest rate and you must pay the money back by a certain date.
Personal loan	A loan from banks or another lender for something you need or want to do like buying a car or taking a holiday. Your repayments are made within an amount of time – usually between 12 months and 5 years.
Repayment	A regular amount of money you pay back for your own loan (includes the amount of money you borrow, interest, fees and charges).
Secured loan	A loan backed by an asset. An asset is something you own, like your house or car. With a secured car loan your lender can use your car as security. If you do not pay your loan the lender can sell your car to get their money back.
Short-term credit or short-term loan	See Payday loan.
Unsecured loan	A loan for which no asset has been used as security. This means the lender relies on your promise to pay it back. The interest rate is usually higher than for a secured loan as there is a higher risk to the lender of not getting their money back.

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Credit

Managing your money factsheet

What is credit?

Credit is money you borrow from a lender. You have to pay it back by an agreed time. You need to pay back the money you have borrowed plus interest, fees and charges. If you do not pay the money back on time there will be extra costs.

Lenders are also called credit providers. They include banks, credit unions, building societies and finance companies that lend money. Lenders make money by lending money and charging interest, fees and charges for this service.

What are interest, fees and charges?

Interest is an ongoing amount of money you pay to use credit.

Fees and charges are the extra costs for borrowing money (credit). They can be charged monthly or yearly. These costs can include:

- monthly fees for keeping your account
- fees if you do not pay on time
- fees if you do not make a repayment.

Credit law

In Australia lenders must follow consumer credit law. This is regulated by the Australian Government. The person borrowing the money also has to follow the law.

Types of credit

There are many different types of credit in Australia and the type you use depends on what you borrow money for. Some examples are credit cards, car loans, home loans, store cards, short-term loans and consumer leases.

Remember

- Credit is borrowed money you have to pay back.
- Credit has extra costs.
- Too much credit can cause money problems.

For more information about credit, visit the MoneySmart website, **www.moneysmart.gov.au**, or call 1300 300 630. You can also call a Financial Information Service Officer on 13 23 00 who will help you better manage your use of credit.

To order your credit file, visit **www.mycreditfile.com.au.**

MONEYSMART

Hussein gets a car loan

Hussein wants to buy a second hand car. He wants the cost of registration and insurance (about $1,000) to be included and decides he can spend up to $5,000. This means the car can cost no more than $4,000. He does not have any savings so he has to borrow the money.

One Saturday morning, Hussein goes to the car yard to look for a second hand car. He sees one he likes for $3,900. Hussein finds a sales person and asks some questions about the car. Hussein wants to know if the car is reliable, what year it was made and if it is safe to drive. Hussein decides he would like to buy the car. The car yard's finance person says Hussein can apply for a loan but he must answer some questions first.

Hussein gives the information to the finance person. The finance person tells Hussein he is able to get the loan for $4,900 (which will also pay for the registration and insurance).

The finance person gives Hussein the credit contract and asks him to read it and sign it. However, Hussein's friend once told him 'Never sign something you do not understand.' Hussein wants to read the whole contract so he asks if he can take it home to read first. He agrees to meet the finance person again on Monday morning.

Hussein reads the credit contract and goes back to the car yard on Monday to meet with the finance person. After reading the credit contract, Hussein has many questions. He asks the finance person what the total amount of the loan is, what the interest rate is, how much and often he needs to make the repayments, and how long the credit contract is for. Hussein completely understands the terms and conditions of the loan and he signs the contract and buys the car.

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