Finance Terms Activity

For Pupils and Teachers…

On the following four pages are lots of finance words and terms together with information and definitions of what these are. Your task is to match up the terms with their definitions. The words have been grouped into four pages by:

- The Basics
- Using Money
- Saving Money
- Borrowing Money

We have deliberately included some simple and straightforward information as well as some of the more complicated technicalities. The task of matching up is designed to be fairly easy but the real goal here is for you to easily learn lots about these financial words, products, services etc.

Good luck and happy learning!

For Teachers…

Scroll down (or turn the page) for the answers. The matching patterns have been designed to be easy to check pupils work but it'll probably be easier still to print these off beforehand so that you can refer to them if necessary during the lesson. As mentioned above, we've included simple information as well as more complicated but you're not expected to know all of this yourself. You may even take something from this activity too! If all else fails you (or the students) can always google the term. The moneysavingexpert website has a wealth of good information and it's always up to date.

Any questions, concerns, suggestions, amendments please just email me at grahamcolman@colmanweb.co.uk

Finance Terms 1 – The Basics

Term		Definition
Interest rate	●	The percentage of your money that you'll be charged, or earn, per year for this service or product is 0%, i.e. it's free. Usually only for a certain period of time however so check this clearly. In most cases you'll want to take the longest interest-free-period that you can find.
Interest-free	●	This is a record, or judgement, used and shared by finance companies to determine how much of a risk you are when borrowing money. There are many aspects which are included in determining your score; e.g. how many credit checks you've had, how much money 'credit' you already have access to, if you've ever defaulted on (missed, not paid) a payment.
Credit score / credit check / credit history	●	This term is used for products involving borrowing money. It is used to compare different credit and loan offers. The value takes into account not just the interest on the loan but also other charges you have to pay, for example, any arrangement fee. All lenders have to tell you what their APR is before you sign an agreement. It will vary from lender to lender.
APR = Annual Percentage Rate	●	This term is used for savings products and is designed to allow easy comparisons as it's meant to smooth out the variances between accounts by showing what you'd get over a year if you put money in the account and left it there. I.e. so you can compare like with like, all in time periods of one year. Its then up to your good maths of course to work out how much you'd get after six months, nine months etc.
AER = Annual Equivalent Rate	●	The percentage of your money that you'll be charged, or earn, per year for that service or product, typically around 0-1% for current accounts, 1-3% for savings products, 15+% for credit cards. Although this is an annual rate, banks etc. will calculate and charge/give this on a monthly or daily basis.

Finance Terms 2 – Using Money

Term		Description
A Current Account	●	This type of card is offered by big retailers and shops. It is the same as a credit card but allows you to ‘earn’ points and rewards by spending with that retailer and their associated partner shops. Better than a credit card if you regularly use that shop anyway but check that the interest rates that you could end up paying make the rewards worthwhile.
A Student Bank Account	●	This is the card that is you use to pay for shopping, withdraw money and do other things all related to your regular bank account. Spending and *withdrawals* made with this card are taken, *debited*, immediately from your bank account.
A Credit Card	●	With this card you can spend now and pay later. Each month you’ll receive a *statement* of how much you’ve spent in that month together with when, and how much, you need to pay it back to the credit card company. You can choose whether to *pay back in full* each month (the sensible option) or, where necessary, to pay back a *minimum payment* and be charged interest on any *outstanding balance*. Be careful here as interest rates can be anything from 15% per year upwards and bills can easily ramp up.
A Debit Card	●	This is the same as a regular bank account but specifically for students. The main benefits of these accounts are that they offer some type of interest-free overdraft together, usually, with some other minor benefits such as free rail cards etc. You’ll need to prove that you’re in higher education to get one of these and will need to repay any borrowing soon after you graduate.
A Store Card	●	This is an everyday bank account which you’ll use for having your wages paid into, paying bills, sending money to someone and withdrawing cash. This isn’t really used for earning interest on your money but is more functional. Best of all, most of these accounts are free to have and use!

Finance Terms 3 – Saving Money (matchup the first four here)

Term		Definition
A Savings Account	●	This is a *tax-free* savings account. There are different types such as a *stocks and shares ISA*, *help to buy ISA*, *lifetime ISA* but the most common is a *cash ISA*. The 2017/18 government limit on how much you can put into an ISA each *financial year* (April-April) is £20,000. However, recently the interest rates on ISAs have been so low that it's possible to earn more money in other types of accounts, even after you pay tax on your earnings.
A Regular Savings Account	●	This is an important financial product that everyone uses to save money for an income during *retirement*. During your working life you make *tax-free pension contributions* and these then provide both a *lump sum* and *regular income* for the rest of your life after retirement. If you're an employee then your employer has a legal duty to provide a pension scheme and will also make contributions towards your pension.
An ISA	●	This is a bank (or *building society*) account for the specific purpose of earning interest on your money. These offer higher interest rates but often have a more limited functionality. For example, you may only be allowed to withdraw up to a specified amount per year or may need to tell them beforehand if you want to withdraw cash. Others may require you to deposit money for a specified amount of time before any interest is paid.
A Pension	●	This is a bank (or *building society*) account for the specific purpose of *depositing* a regular (usually monthly) amount and earning interest on this money. These are usually for a specific period of time and come with conditions attached such as no *withdrawals* and/or minimum and maximum payments in.
Others: an endowment, a current account, child trust fund,		

Finance Terms 4 – Borrowing Money (matchup the first five here)

Unsecured loan

Secured loan

Student Loan

Mortgage

An overdraft and a tiered-overdraft

A Grant

This is an arrangement to borrow a *lump sum* of money for a *fixed period of time* and at a *fixed interest rate*. You will make regular (usually monthly) payments over the course of the *term* to pay off the *debt* and any interest charged. This money is lent based on using your home as *security*, meaning that, if necessary, the bank can *repossess* your house and sell it to pay off your outstanding balance. This would be used to finance large borrowing of, say, £10,000+.

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This is a special, low cost loan from the Student Loans Company to finance higher education. You must apply for it and must pay the money back (sort of, see below). The money could be used to pay for university fees, rent, food, bills etc. Interest is charged at *inflation+3%* for the duration of the loan (mostly). You will not pay any money back until you earn £21,000+ per year and will then have loan repayments taken from your salary before you receive it at a rate of 9% of *gross earnings* (earning before tax etc.) above £21,000. You will continue repaying for the minimum of either; until you have repaid the loan plus all interest charged or 30 years after you graduate (at which point any remaining student loan is cancelled).

This is an arrangement with your bank by where you're allowed to borrow money up to an agreed amount (known as an *overdraft limit*). Usually there is a charge, mostly in terms of interest per month, for using this facility but banks include this for free as part of a *student bank account* where the limit may be linked to the year that you are in at university (i.e. Year 1 could be £500, Year 2 = £1000, Year 3 = £1500 etc.).

This is a special financial product used for buying a house. Assuming that you don't have enough money to purchase a house outright, you'll need to arrange one of these with a financial institution in order to pay for your new home. Typical requirements are that you use some of your money to pay for some of the cost of your house, known as a *deposit* and usually anything from 5%-25%+, with the rest being paid for through this special type of loan. The interest rates on these are low (anything from 1% upwards) in comparison to other ways of borrowing money but, as these are usually repaid over 25+ years, the total cost is (almost) always the most expensive thing you'll ever have. Beware… "your home is at risk if you do not keep up repayments"; this loan is *secured* on your home, meaning that, if necessary, the bank can *repossess* your house and sell it to pay off your *outstanding balance*.

Finance Terms 1 – The Basics - Answers

Interest rate

Interest-free

Credit score / credit check / credit history

APR = Annual Percentage Rate

AER = Annual Equivalent Rate

- The percentage of your money that you'll be charged, or earn, per year for this service or product is 0%, i.e. it's free. Usually only for a certain period of time however so check this clearly. In most cases you'll want to take the longest interest-free-period that you can find.

- This is a record, or judgement, used and shared by finance companies to determine how much of a risk you are when borrowing money. There are many aspects which are included in determining your score; e.g. how many credit checks you've had, how much money 'credit' you already have access to, if you've ever defaulted on (missed, not paid) a payment.

- This term is used for products involving borrowing money. It is used to compare different credit and loan offers. The value takes into account not just the interest on the loan but also other charges you have to pay, for example, any arrangement fee. All lenders have to tell you what their APR is before you sign an agreement. It will vary from lender to lender.

- This term is used for savings products and is designed to allow easy comparisons as it's meant to smooth out the variances between accounts by showing what you'd get over a year if you put money in the account and left it there. I.e. so you can compare like with like, all in time periods of one year. Its then up to your good maths of course to work out how much you'd get after six months, nine months etc.

- The percentage of your money that you'll be charged, or earn, per year for that service or product, typically around 0-1% for current accounts, 1-3% for savings products, 15+% for credit cards. Although this is an annual rate, banks etc. will calculate and charge/give this on a monthly or daily basis.

Finance Terms 2 – Using Money - Answers

A Current Account

A Student Bank Account

A Credit Card

A Debit Card

A Store Card

This type of card is offered by big retailers and shops. It is the same as a credit card but allows you to 'earn' points and rewards by spending with that retailer and their associated partner shops. Better than a credit card if you regularly use that shop anyway but check that the interest rates that you could end up paying make the rewards worthwhile.

This is the card that is you use to pay for shopping, withdraw money and do other things all related to your regular bank account. Spending and *withdrawals* made with this card are taken, *debited*, immediately from your bank account.

With this card you can spend now and pay later. Each month you'll receive a *statement* of how much you've spent in that month together with when, and how much, you need to pay it back to the credit card company. You can choose whether to *pay back in full* each month (the sensible option) or, where necessary, to pay back a *minimum payment* and be charged interest on any *outstanding balance*. Be careful here as interest rates can be anything from 15% per year upwards and bills can easily ramp up.

This is the same as a regular bank account but specifically for students. The main benefits of these accounts are that they offer some type of interest-free overdraft together, usually, with some other minor benefits such as free rail cards etc. You'll need to prove that you're in higher education to get one of these and will need to repay any borrowing soon after you graduate.

This is an everyday bank account which you'll use for having your wages paid into, paying bills, sending money to someone and withdrawing cash. This isn't really used for earning interest on your money but is more functional. Best of all, most of these accounts are free to have and use!

Finance Terms 3 – Saving Money - Answers

A Savings Account

A Regular Savings Account

An ISA

A Pension

Others: an endowment, a current account, child trust fund,

This is a *tax-free* savings account. There are different types such as a *stocks and shares ISA*, *help to buy ISA*, *lifetime ISA* but the most common is a *cash ISA*. The 2017/18 government limit on how much you can put into an ISA each *financial year* (April-April) is £20,000. However, recently the interest rates on ISAs have been so low that it's possible to earn more money in other types of accounts, even after you pay tax on your earnings.

This is an important financial product that everyone uses to save money for an income during *retirement*. During your working life you make *tax-free pension contributions* and these then provide both a *lump sum* and *regular income* for the rest of your life after retirement. If you're an employee then your employer has a legal duty to provide a pension scheme and will also make contributions towards your pension.

This is a bank (or *building society*) account for the specific purpose of earning interest on your money. These offer higher interest rates but often have a more limited functionality. For example, you may only be allowed to withdraw up to a specified amount per year or may need to tell them beforehand if you want to withdraw cash. Others may require you to deposit money for a specified amount of time before any interest is paid.

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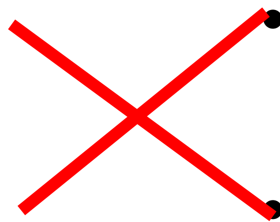
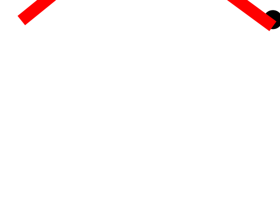
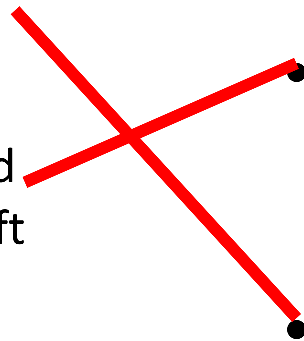
Finance Terms 4 – Borrowing Money - Answers

Term		Description
Unsecured loan		This is an arrangement to borrow a *lump sum* of money for a *fixed period of time* and at a *fixed interest rate*. You will make regular (usually monthly) payments over the course of the *term* to pay off the *debt* and any interest charged. This money is lent based on using your home as *security*, meaning that, if necessary, the bank can *repossess* your house and sell it to pay off your outstanding balance. This would be used to finance large borrowing of, say, £10,000+.
Secured loan		This is an arrangement to borrow a *lump sum* of money for a *fixed period of time* and at a *fixed interest rate*. You will make regular (usually monthly) payments over the course of the *term* to pay off the *debt* and any interest charged. This money is lent effectively based on a promise to pay it back, with various penalties and legal consequences if you don't of course! This would be used to finance purchases such as cars, home improvements, student fees and other small-medium sized costs.
Student Loan		This is a special, low cost loan from the Student Loans Company to finance higher education. You must apply for it and must pay the money back (sort of, see below). The money could be used to pay for university fees, rent, food, bills etc. Interest is charged at *inflation+3%* for the duration of the loan (mostly). You will not pay any money back until you earn £21,000+ per year and will then have loan repayments taken from your salary before you receive it at a rate of 9% of *gross earnings* (earning before tax etc.) above £21,000. You will continue repaying for the minimum of either; until you have repaid the loan plus all interest charged or 30 years after you graduate (at which point any remaining student loan is cancelled).
Mortgage		This is an arrangement with your bank by where you're allowed to borrow money up to an agreed amount (known as an *overdraft limit*). Usually there is a charge, mostly in terms of interest per month, for using this facility but banks include this for free as part of a *student bank account* where the limit may be linked to the year that you are in at university (i.e. Year 1 could be £500, Year 2 = £1000, Year 3 = £1500 etc.).
An overdraft and a tiered-overdraft		This is a special financial product used for buying a house. Assuming that you don't have enough money to purchase a house outright, you'll need to arrange one of these with a financial institution in order to pay for your new home. Typical requirements are that you use some of your money to pay for some of the cost of your house, known as a *deposit* and usually anything from 5%-25%+, with the rest being paid for through this special type of loan. The interest rates on these are low (anything from 1% upwards) in comparison to other ways of borrowing money but, as these are usually repaid over 25+ years, the total cost is (almost) always the most expensive thing you'll ever have. Beware… "your home is at risk if you do not keep up repayments"; this loan is *secured* on your home, meaning that, if necessary, the bank can *repossess* your house and sell it to pay off your *outstanding balance*.
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