













This topic is about the many types of credit available and their different costs. The last section introduces information on options if things go wrong.

Section: content for the worker and resources	 Key messages
<p><b>A: Introducing types of credit</b></p> <p> <b>Level 1</b></p> <p> <b>Level 1</b></p> <p> Factsheet</p>	<ul style="list-style-type: none"> <li>▶ There are many different types of <b>credit</b>.</li> <li>▶ Some credit costs more than others.</li> <li>▶ Different types of credit are used for different purposes.</li> <li>▶ Look for the credit that is best for you.</li> </ul>
<p><b>B: Different types of credit</b></p> <p> <b>Activity Level 2:</b> <i>What type of credit can be used?</i></p> <p> <b>Level 2:</b> <i>Indira gets a No Interest Loan Scheme loan</i></p> <p> Factsheet</p>	<ul style="list-style-type: none"> <li>▶ You use different types of credit depending on what you <b>borrow</b> the money for.</li> <li>▶ Credit options are available for people on a low income.</li> <li>▶ There are laws in Australia about credit.</li> </ul>
<p><b>C: The costs of different types of credit</b></p> <p> <b>Level 2:</b> <i>Zeljko buys a plane ticket using his credit card</i></p> <p> <b>Level 3:</b> <i>Peyman borrows to buy a new guitar</i></p> <p> Factsheet</p>	<ul style="list-style-type: none"> <li>▶ You pay <b>interest, fees</b> and <b>charges</b> to use credit.</li> <li>▶ Interest, fees and charges will vary with the type of credit you borrow.</li> </ul>
<p><b>D: Difficulties paying back credit</b></p> <p> <b>Level 2:</b> <i>Jean rings a Financial Counsellor</i></p> <p> Factsheet</p>	<ul style="list-style-type: none"> <li>▶ If you have problems paying back your credit, contact your lender.</li> <li>▶ A <b>debt collector</b> will contact you if you do not pay your debt.</li> <li>▶ Contact a free <b>Financial Counsellor</b> to get help.</li> </ul>

## 7: Types of credit

# Financial literacy levels



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

- ▶ What types of credit are available in Australia?
- ▶ Do you know the costs associated with credit?
- ▶ Do you know what a debt collector is?

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
<b>Level 1:</b> No or a limited understanding	<p>If your client cannot answer any of your questions or can only answer them a bit, they have no or a limited understanding.</p> <p>You can help them understand more by showing them the photo story in their translated language to introduce the topic.</p> <p>You can also listen to the audio story.</p> <p>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.</p> <p>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.</p>
<b>Level 2:</b> Some level of understanding	<p>If your client answers one or more of your questions, but not in a lot of detail, they have some level of understanding.</p> <p>You can show them the photo story to review the topic.</p> <p>You can also go through the <b>Level 2</b> activities and stories in the kit as these are for clients with some level of understanding.</p> <p>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.</p>
<b>Level 3:</b> A higher level of understanding	<p>If your client answers your questions in detail they have a higher level of understanding.</p> <p>For example, if you ask your client 'What types of credit are there in Australia?', and they can explain this, 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 <b>Level 3</b>.</p> <p>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.</p>

## A: Introducing types of credit



### Key messages

- ▶ There are many different types of credit.
- ▶ Some credit costs more than others.
- ▶ Different types of credit are used for different purposes.
- ▶ Look for the credit that is best for you.

### Content for the worker

This section introduces your client to the concept of different types 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:

- ▶ Can you name some different types of credit?
- ▶ What are different types of credit used for?
- ▶ Does some credit cost more than others?

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:** Types of credit photo story



**Level 1:** Types of credit audio story



Types of 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

## 7: Types of credit

# B: Different types of credit



### Key messages

- ▶ You use different types of credit depending on what you borrow the money for.
- ▶ Credit options are available for people on a low income.
- ▶ There are laws in Australia about credit.

### Content for the worker

**Lenders (credit providers)**, such as **banks**, **building societies**, **credit unions** or **finance companies**, provide credit to borrowers.

All types of credit costs money. Some types cost more than others. The type of credit you use depends on the amount you want to borrow. For example, you cannot use a credit card to buy a house.

You need to shop around for the credit that is best for you. To do this you need to compare the costs and conditions of borrowing the money to see which credit is the best for you.

Different types of credit are used for different purposes.

### Different types of credit

You can explain to your client that there are different types of credit. Some types of credit cost more than others. Some credit is for a short time, like a few weeks, and some for a long time, like several years.

You can use the information in the table that starts on the next page 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-free 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.

## 7: Types of credit

### B: Different types of credit (continued)

#### High-cost credit (continued)

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##### 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.

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##### 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.

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##### 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.

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### 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.

## 7: Types of credit

### B: Different types of 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.

#### Consumer credit laws

Most loans in Australia are under consumer credit law. This is regulated by 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.

#### Credit options for those on a low income – low-cost loans

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 the table on the next page to explain the different types of credit to your client.



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.



Car loan



Home loan



Credit cards



Payday loan



Personal loan



Store card



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

### Saving options for those on a low income



You can explain to your client that they have options if they are on a low income and would like to save some money, instead of using credit.

You can use the information in this table to explain the saving options to your client.

Program name	About the program	Who can get it
AddsUP	A matched savings plan (up to \$500).	People who have successfully repaid their No Interest Loan Scheme or StepUP loan.
Saver Plus	A matched savings plan (up to \$500) plus support and education about saving.	Families on low and limited incomes.

### Activities and stories



**Level 2:** *What types of credit can be used?*  
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**Level 2:** *Indira gets a No Interest Loan Scheme loan*  
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## 7: Types of credit

# C: The costs of different types of credit



### Key messages

- ▶ You pay interest, fees and charges to use credit.
- ▶ Interest, fees and charges will vary with the type of credit you borrow.

### Content for the worker

It costs money to borrow credit. The costs vary depending on the type of credit you borrow. Interest and fees are the biggest cost as these are added to the amount you borrow.

#### Fees

You can be charged more than one fee when getting credit, including:

- ▶ set-up fees for starting and setting up a loan or credit
- ▶ a fee you pay once a year (also called an annual fee and normally for credit cards but can be with other types of credit)
- ▶ late payment fees, which is an extra cost for when you pay late
- ▶ interest
- ▶ over-the-limit fees for when you borrow more than the maximum limit you are allowed on your credit card
- ▶ processing fees for handling payments and managing accounts.

### Interest and how it works

You need to pay back the money you borrow and will be charged interest by your lender for using their money. 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.

When you work out what credit will cost you, it is important to look at the interest rate. This is a big factor in what you have to pay back each month. Even a small difference in the amount of the interest rate can make a big difference to what you have to repay.

Lenders can set their own interest rates. What you will pay depends on the type of credit or loan and what the lender charges.

Credit cards tend to have a higher interest rate than personal loans. This is because the money is flexible and you can buy different things with a credit card. Home loans tend to have a lower interest rate than most other types of credit as the amount you borrow is much larger.

### Features of different types of credit

You can use the information in this table to explain to your client the different types of credit and the costs involved. It is important to remember that these are general examples and can change.

Type of credit	Costs involved
Car loans	Set-up fees Interest Late payment fees
Consolidation loans	Set-up fees Interest Late payment fees
Consumer leases	Monthly service fee Late payment fees Break fees
Credit cards	Annual fee Interest Late payment fees Fees for going over your credit limit
Home loans	Set-up fees Interest Late payment fees
Interest-free deals	Set-up fees Processing fee High amount of interest if not paid during the interest-free period Monthly service fee
Payday loans (short-term loan)	Set-up fees Very high interest Late payment fees
Personal loans	Set-up fees Interest Late payment fees
Rent to buy	Fees and charges
Store cards	Annual fee Interest Late payment fees Fees for going over your credit limit

## 7: Types of credit

# C: The costs of different types of credit

(continued)

### Activities and stories



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**Level 3:** *Peyman borrows to buy a new guitar*  
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## D: Difficulties paying back credit



### Key messages

- ▶ If you have problems paying back your credit, contact your lender.
- ▶ A debt collector will contact you if you do not pay your debt.
- ▶ Contact a free Financial Counsellor to get help.

## Content for the worker

### Speak with your lender

If you have problems paying back your credit, contact your lender. Speaking to your lender when you are having money problems can sometimes help.

Most people manage their money well. But sometimes things can happen like:

- ▶ losing your job
- ▶ working less hours
- ▶ dealing with a family break-up
- ▶ having a death in the family
- ▶ having a serious accident
- ▶ getting sick.

Your lender will assess your situation and help you if they can.

One way your lender might be able to help is to change your contract. You can, for example, ask your lender if it is possible to:

- ▶ make your contract longer, which means you pay less in each repayment, but for a longer time
- ▶ postpone your repayments, with interest being added to your loan.

If your money problems are long term, speak to a free Financial Counsellor by contacting 1800 007 007. You can also get help with managing your debt from a free Financial Counsellor.

### Free financial counselling services

You can make an appointment to see a free Financial Counsellor. Financial counselling is a free service offered by community organisations, community legal centres and some government agencies (Refer to Key Contacts section of the kit).

Financial counsellors can:

- ▶ help you organise your money and do a budget
- ▶ suggest ways to improve your money situation
- ▶ see if you can get help from the government
- ▶ talk to your lender about changing your repayments
- ▶ explain your options and what could happen
- ▶ help you apply for a hardship variation
- ▶ refer you to other services, for example family support, personal counselling, community legal aid or to places for special problems like gambling.

You can also get free legal help from community legal centres in each state and territory (Refer to Key Contacts section of the kit).

## 7: Types of credit

# D: Difficulties paying back credit (continued)

### Hardship variation

If you are having problems paying back your credit because something has happened, you can contact your lender and ask for a hardship variation.

With this your lender can vary the terms of your loan contract for a while.

After you apply for a hardship variation, your lender must respond to your request in writing within 21 days after they have received all of your paperwork.



You can tell your client that if their lender refuses their hardship application and they think this is unfair, they can complain to the lender's internal dispute resolution department. If your client is still not happy, they can go to an external dispute resolution service. This free service hears complaints and can help fix disputes. For more information, refer to the Key Contacts section of the kit.

### Default notices

A default is when your loan repayment is late, or when you do not pay. You will get a default notice when this happens. This is a legal letter. It tells you that you have missed a payment, how long you have to make the payment (usually 30 days) and where you can get help if you are having difficulty paying. If you do not do what the default notice tells you to do, you may have legal problems.



You can tell your client that if they receive a default notice they should go to a free community legal centre to get legal help. Refer to the Key Contacts section of the kit.

### Debt collectors

If you fall behind with your credit repayments and do not contact your lender, a debt collector will contact you.

A debt collector could be a lender collecting the debt themselves or a debt collection agency acting on a lender's behalf. Sometimes debts are sold and the buyer of the debts is the one doing the collecting.

Each state and territory determines what debt collectors can and cannot do. Generally, they should only contact you when they are:

- ▶ asking for you to repay
- ▶ making arrangements for you to repay
- ▶ finding out why you have not repaid
- ▶ reviewing your repayment plan after an agreed time
- ▶ inspecting or recovering goods (if they have a right to do so).

Debt collections are allowed to phone or meet you between 7:30am and 9pm on weekdays, and 9am to 9pm on weekends.

Debt collectors can only visit your home (or another agreed location) if they have no other way of contacting you.

If you can make arrangements with the debt collector to repay the amount you owe over the phone or by letter, there is no need for the debt collector to visit you in person.

Debt collectors should not:

- ▶ mislead you or deceive you
- ▶ harass or force you into paying
- ▶ go to your workplace unless you ask them to do so
- ▶ give information about your financial situation to others
- ▶ contact you by email, phone or letter more than three times a week
- ▶ contact you on national public holidays.

If you think you are not being treated right by a debt collector you can do a few things like contacting:

- ▶ your lender if you still owe them the money
- ▶ a free community legal centre
- ▶ the Australian Securities and Investments Commission on 1300 300 630 or the Australian Competition and Consumer Commission on 1300 302 502 to complain.

If you are having problems paying back credit, contact a free financial counsellor on 1800 007 007.

### Activities and stories








**Level 2:** *Jean rings a Financial Counsellor*  
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## 7: Types of credit

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## Activities and stories

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## 7: Types of credit

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*B: Different types of credit*

## What type of credit can be used?



You can use this activity to explain to your client that there are many different types of credit. You can use the information below to help your client understand what some of them are. Make a copy of the table on the next page for your client to write on.

**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.

**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.

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.

**Credit card**

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.

**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.

## 7: Types of credit

### B: Different types of credit

#### What type of credit can be used? (continued)

##### Payday 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.

##### Rent to buy

Rent to buy is 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.

Ask your client to look at the items to buy below. Then ask them to identify the best type of credit to use to buy the item. They can write their answer in the table below. The answers are listed on the next page.

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.

##### Store card

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.

Item to buy	What type of credit can be used?
To hire a television for 12 months	
To buy an item that costs \$200 and pay back the money in a short time	
To buy an item from a retail store	
To hire a computer and then buy it at the end of the hire period	
To buy a car	
To buy a fridge where you can take it home before you pay for it	
To buy some clothing	

## B: Different types of credit

## What type of credit can be used? (continued)

## Answers

Item to buy	What type of credit can be used?
To hire a television for 12 months	Consumer lease
To buy an item that costs \$200 and pay back the money in a short time	Payday loan, credit card
To buy an item from a retail store	Store card, credit card
To hire a computer and then buy it at the end of the hire period	Rent to buy
To buy a car	Car loan
To buy a fridge where you can take it home before you pay for it	Interest-free deal
To buy some clothing	Credit card, store card

 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 types 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 types of credit.	 You can help your client work through the <b>Level 2</b> activities and stories again.
Your client has no or limited understanding of the concept of types of credit.	 You can watch the photo story and listen to the audio story again with your client.

## 7: Types of credit

### B: Different types of credit

#### More information for your client

Contact your lender to apply for a hardship variation.



For more information about problems paying credit back you can tell your client to contact a free Financial Counsellor on 1800 007 007 or tell them to visit the MoneySmart website, [www.moneysmart.gov.au](http://www.moneysmart.gov.au).

You can also tell your client to call a Financial Information Service Officer on 13 23 00 who will help them better manage their use of credit.

If your client is having legal problems with a credit contract, you can tell them to 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. To find the closest free community legal centre, visit [www.naclc.org.au/directory](http://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?

*B: Different types of credit*

## Indira gets a No Interest Loan Scheme loan


**Level 2**

Indira has a washing machine that is leaking. She calls a repairman who says it is too old to fix and says Indira needs a new one.

Indira is worried as she does not have enough savings to buy a new washing machine. Indira goes to her bank to get a loan for \$500 to buy a washing machine she saw at the shop.

The bank tells Indira they will not give her a loan for this amount.


**What could Indira have done?**

Indira calls her local neighbourhood house and tells Angela, a worker, her situation.

Angela tells Indira to call Eric, a community worker, about the No Interest Loan Scheme, also called NILS. Eric knows all about NILS. Angela gives Indira his phone number.

Indira calls Eric to see when she can meet him and learn more about the NILS. Eric asks Indira to come to see him and bring her Centrelink card.

When Indira meets Eric he explains that NILS is for people who get a Centrelink payment and need safe and fair access to credit they can afford. He says NILS is to buy essential household items like washing machines, computers or furniture. Getting the loan means Indira has to pay back the money, but she does not have to pay interest.

Eric and Indira work out that Indira can afford to repay \$20 a fortnight for 12 months. Eric organises a loan for \$500 so Indira can buy a washing machine.

Indira is happy because her new washing machine is much better and she can pay back the \$500 over the next 12 months.



# 7: Types of credit

## B: Different types of credit



### 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 types 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 types of credit.	You can help your client work through the <b>Level 2</b> activities and stories again.
Your client has no or limited understanding of the concept of types 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 No Interest Loan Schemes you can tell your client to visit the MoneySmart website, [www.moneysmart.gov.au](http://www.moneysmart.gov.au).

You can also tell your client to call a Centrelink Financial Information Service Officer on 13 23 00 to talk about managing their use of credit.

### 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: The costs of different types of credit

## Zeljko buys a plane ticket using his credit card


**Level 2**

Zeljko was missing home and decided to visit his family and friends in Croatia. He rang his mother to tell her and she told him he should save the money for his plane ticket. Zeljko said this would take a long time and he wanted to visit soon.

Zeljko used his credit card to buy the plane ticket. This cost \$2,000. He was excited to see his family and did not think about paying his credit card debt while he was in Croatia.

Zeljko arrived back in Australia after 4 weeks. He had received a lot of mail while he was in Croatia, including his electricity bill, gas bill and credit card bill. He did not have enough money to pay for everything and so decided to pay his gas bill and electricity bill first. This meant he could only pay the minimum credit card repayment of \$40.

Zeljko went to the MoneySmart website and used the credit card calculator.

**?** If Zeljko only paid the minimum amount of \$40 a month, how long do you think it would take him to pay off his credit card debt?

- a) 12 months
- b) 5 years
- c) 33 years

Zeljko was upset to see it would take him 33 years to pay his credit card debt. He worked out he would have to pay \$3,400 extra in interest, fees and charges.

If Zeljko paid an extra \$20 a month on top of his minimum repayment (\$60), it would take him 4 years to pay the debt and would cost him \$1,050 extra in interest, fees and charges.

Zeljko was worried. It would have taken less time to save the money for the plane ticket than it is now going to take him to pay back his credit card debt. In fact, the interest of \$3,400 he might have had to pay is much more expensive than the \$2,000 he paid for his plane ticket.

**?** What could Zeljko do next time?

He could do a budget and plan how he could save money and not have debt. After planning his budget he could go to the MoneySmart website and use the credit card calculator to find out the best way to repay any credit card debt.

In the end, Zeljko knew his mother was right. He should have saved for the plane ticket before visiting Croatia.



## 7: Types of credit

### C: The costs of different types of credit



#### 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 types 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 types of credit.	 You can help your client work through the <b>Level 2</b> activities and stories again.
Your client has no or limited understanding of the concept of types 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 hardship variations contact your credit provider (lender)



For more information on problems paying credit back you can tell your client to contact a free Financial Counsellor on 1800 007 007 or you can tell them to visit the MoneySmart website, [www.moneysmart.gov.au](http://www.moneysmart.gov.au).

You can also tell your client they can call a Centrelink Financial Information Service Officer on 13 23 00 to talk about managing their use of credit.

If your client is having legal problems with a credit contract, you can tell them to 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. To find the nearest one, visit [www.naclc.org.au/directory](http://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?

## 7: Types of credit

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## C: The costs of different types of credit

## Peyman borrows to buy a new guitar


**Level 3**

Peyman is worrying about how to pay his bills because he bought a new guitar. Peyman is a member of his church band and his other guitar was old and needed to be fixed. He saw an ad that says 'Get a same-day payday loan' and applied for this loan.

Peyman checks his account and sees that \$450 was transferred into his account the same day. He knows he is supposed to pay the loan back in 25 days in 5 payments of \$110 each.

**?** **How much debt does Peyman owe? What things should he have thought about before taking out this loan?**

Peyman realises he should have thought about if he could manage to pay back this loan. He knows he owes a total of \$550, which includes the \$450 loan and \$100 in fees, charges and interest. He should have known he would be charged high interest to get the loan so quickly.

Peyman also should have looked at the terms of the loan more closely to understand the late fee charges he would also have to pay if he did not make each payment on time.

Over the next few weeks Peyman needs to pay for some other things like his phone bill. And he has to buy a birthday present for his friend. Peyman does not pay back the \$450 debt.

**?** **What do you think happens?**

Peyman is charged a \$40 late fee each time he misses a payment. This is added to the amount of the loan. After 4 weeks his debt is a lot more – \$750.

Peyman is worried because he knows the more money he owes the more interest he will have to pay.

He also knows he may have legal problems if he does not pay his debt. Peyman thinks about taking out another loan to pay this loan off. But he realises this would not help. It would just make things worse.

**?** **Why do you think Peyman thinks this?**

Peyman decides it is not a good idea to get another loan because he will only be putting his debt from one loan to another loan. He does not know what to do and so asks his parents for help. He knows his parents will be disappointed in what he has done. Peyman has learned his lesson.

**?** **What do you think he has learned?**

Peyman has learned that:





- ▶ there are more costs with instant loans
- ▶ he needs to understand the terms of a loan before he signs it
- ▶ he needs to make better decisions about what to buy and when
- ▶ he should do a budget so he knows what other expenses he has to pay.



## 7: Types of credit

### C: The costs of different types of credit

#### Has your client got a better understanding?

Result	Next steps
Your client has a higher level of understanding – completely understands the concept of types 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 types of credit.	 You can help your client work through the <b>Level 2</b> activities and stories again.
Your client has no or limited understanding of the concept of types 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 on problems paying bills, you can tell your client to contact a free Financial Counsellor on 1800 007 007 or tell them to visit the MoneySmart website, [www.moneysmart.gov.au](http://www.moneysmart.gov.au).

You can also tell your client to call a Centrelink Financial Information Service Officer on 13 23 00 to talk about managing their use of credit.

If your client is having legal problems with a credit contract, you can tell them to 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. To find the nearest one, visit [www.nacclc.org.au/directory](http://www.nacclc.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: Difficulties paying back credit*

## Jean rings a Financial Counsellor



Jean goes to a women's sewing group at her local neighbourhood house. She has made some good friends there. She goes once a week when she is not working part time as a nurse. Jean works because she has to look after her children.

While at the neighbourhood house Jean sees a leaflet. The leaflet is about getting help with money problems and managing your debts. Jean has just paid for her children to attend the school camp and knows her electricity and phone bill are due next week.

The leaflet said to ring a free Financial Counsellor. Jean calls the number and speaks to Angelique, a Financial Counsellor.

This is how the conversation goes.

- Angelique** A Financial Counsellor helps people who have money problems. Sometimes things happen in people's lives that affect their financial situation. Like if you lose your job, get sick or have relationship problems. It could also be just that things are getting more expensive and your wage is not going up at the same rate.
- Jean** What sort of things can you help with?  
Do you lend money?
- Angelique** No we do not lend money.  
We help you make a budget. And we help you make a plan for paying back money you owe.  
We also help you claim concessions you can get.
- Jean** What are concessions?
- Angelique** Good question. Concessions are for people on a low income. They are a discount on some things. For example, in winter people on a low income can claim a reduction off their heating bills.
- Jean** What else do Financial Counsellors do?
- Angelique** We know that money problems can cause stress. We try to take the stress away by helping you in different ways. This includes doing things for you. For example, we look at your money situation. Then we tell you what you can do – what your options are. We also help you make a plan and help you do the plan.  
We also tell you where to go for more help.
- Jean** Like where?
- Angelique** Well if you have legal problems because you have not paid your money back in time we can tell you about a free community legal service. And if you are feeling upset about your money problems we can get you other help.

## 7: Types of credit

### *D: Difficulties paying back credit*

#### Jean rings a Financial Counsellor (*continued*)

**Jean** How much do you charge?

**Angelique** Nothing. Our service is free because we are a community service.

Our service is also confidential which means we do not tell other people about your situation. So you can feel comfortable coming to us.

**Jean** Can I make an appointment?

**Angelique** Yes. You can come and see me next Wednesday at 10am. Is that okay?

**Jean** Yes. That is a good time because I will have dropped the children off to school by then.

**Angelique** Can you bring in all your bills and any letters you have received about your money situation.

Thanks, and I will see you next week.

Jean was happy after speaking to Angelique. Angelique was very kind and knew what she was talking about.



Can you remember some of the things that a free Financial Counsellor can help with?





## D: Difficulties paying back credit

**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 types 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 types of credit.	 You can help your client work through the <b>Level 2</b> activities and stories again.
Your client has no or limited understanding of the concept of types 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 hardship variations contact your lender.



For more information on problems with paying credit back you can tell your client to contact a free Financial Counsellor on 1800 007 007 or you can tell them to visit the MoneySmart website, [www.moneysmart.gov.au](http://www.moneysmart.gov.au)

To help your client plan a budget, you can tell them to visit the MoneySmart website, [www.moneysmart.gov.au](http://www.moneysmart.gov.au).

You can also tell your client to call a Financial Information Service Officer on 13 23 00 who will help them better manage their use of credit.

**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?

## 7: Types of credit

# Glossary

<b>Bank</b>	An institution for depositing money, lending, exchanging and safeguarding money.
<b>Borrow</b>	Take and use money from a person or a lender and agree to pay it all back.
<b>Building society</b>	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.
<b>Buy now, pay later</b>	Payments you do not have to be make until the end of an interest-free period. Then you pay the full amount, plus fees and charges.
<b>Car loan</b>	A loan to buy a new or used car. You cannot use the money you borrow for anything else.
<b>Consolidation loan</b>	When several loans are combined into one, with the aim of reducing repayments.
<b>Consumer lease</b>	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.
<b>Credit</b>	Money you borrow that you have to pay back. It lets you get goods or services before you pay for them in full.
<b>Credit card</b>	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.
<b>Credit contract</b>	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.
<b>Credit limit</b>	The maximum amount of credit you can use.
<b>Credit provider</b>	See Lender.
<b>Credit union</b>	A place that operates like a bank. It is where bank accounts are held and where money is kept safely. It is owned and controlled by people who use its services.
<b>Debt</b>	Money you owe and need to pay back.
<b>Debt collector</b>	A person who collects debts from people who owe money. If you fall behind with your credit repayments and do not contact your lender, a debt collector may contact you.
<b>Fees and charges</b>	A cost by an organisation to customers for various services and penalties.
<b>Financial counsellor</b>	A Financial Counsellor provides free, confidential and independent help with your finances.

<b>Fixed rate</b>	A fixed rate that allows you to have an interest rate on your loan that stays the same.
<b>Hardship variation</b>	When you are having problems paying back your credit because something has happened, you can contact your lender and ask them lender to vary the terms of your loan contract for a while. You can ask for a hardship variation if, for example, if you lose your job or get sick for a period of time.
<b>Home loan</b>	A loan to buy a property or a home. It cannot be used to buy anything else.
<b>Instalments</b>	Payments you make for a regular schedule (for example, car payments you make each month on the Internet).
<b>Interest</b>	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.
<b>Interest-free deal</b>	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.
<b>Interest-free loans</b>	Loans where you are not charged any interest.
<b>Interest rate</b>	The amount you pay to borrow money or the amount you charge to lend money.
<b>Late payments</b>	Making a payment after it is due.
<b>Lease</b>	See Consumer lease.
<b>Lender (credit provider)</b>	An organisation you enter into a credit agreement with.
<b>Mortgage broker</b>	A person who arranges for borrowers to get money from a lender who looks for the best mortgage.
<b>Payday loan</b>	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.
<b>Personal loan</b>	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.
<b>Rent to buy</b>	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. At the end of the rental period, you pay an amount to finalise the purchase.

## 7: Types of credit

### Glossary (continued)

<b>Repayments</b>	Regular amounts of money you pay back for your own loan (includes the amount of money you borrow, interest, fees and charges).
<b>Rewards program</b>	Earning 'points' for every dollar you spend on your credit card and then using the points to buy goods or services.
<b>Secondary card</b>	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.
<b>Short-term loan</b>	See Payday loan.
<b>Store card</b>	Some large stores or retail groups issue their own cards. You use them like credit cards but you usually pay higher interest for doing so. Some big stores in Australia offer these cards.