

# WHAT IS DEBT?

A few key points about how debt and interest work

## What is interest?

Interest is a percentage that a bank or credit card company charge you to borrow money to pay for something that you didn't have the money to pay for up front



## I've heard of APR, what does that mean?

APR is Annual Percentage Rate, so the rate of interest that you will be charged over the course of a year. But, that the interest that you get charged isn't added just once. They add a fraction of the interest amount every month. So if the APR is 34.9%, they divide that by 12 and each month, you get charged 2.91% on the total amount you have left to pay off

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## Minimum Payments

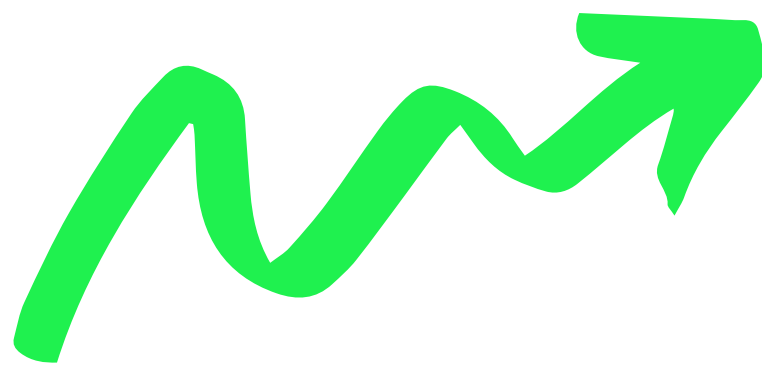
Minimum payments are the smallest amount that you are required to pay back each month. A typical minimum payment for a credit card is usually between 1-3% of the outstanding balance or £5-£25, whichever is the higher amount.

## Outstanding Balance

The Outstanding Balance when talking about a debt is the amount of debt that you still have to pay back to the credit card company

## Be aware

When you are making minimum payments, Credit card companies will always apply that to the interest first and then if there is anything left, they will take that off the outstanding balance you owe them. This means you could be paying £25 per month, but only paying off a few ££ from what you actually owe, so your actual debt doesn't get much smaller



## ACTIVITY

Follow this link to try out some credit card repayment calculations

[Moneysavingexpert.com](http://Moneysavingexpert.com)

Enter the following details:

Your card debt Amount £1000

Interest rate 34.9% APR

Percentage of outstanding balance 3%

With a minimum of £20

Then hit calculate.

How long will it take to clear the debt?

How much interest will you end up paying?

email or message us the answer with your name, school, year group and contact info to be entered into the draw to win a prize