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MONEY BOX: A GUIDE TO MONEY FOR YOUNG PEOPLE

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ALEXANDER: Hello. This week is a special edition of the programme: a guide to money for young people.

MALE 1: I've never had a credit card and I never will have a credit card.

FEMALE: I'm just panicking really about having enough money to buy a house and you know have children in the future and stuff like that.

MALE 2: Debt's not an option for me really. I don't do debt.

ALEXANDER: This time of year heralds a new start for school and college leavers and university graduates as they shuffle, step or maybe leap out of the home and into the start of their adult life and financial independence. We'll be finding out how to draw up a budget, how to borrow wisely, and we'll have the dos and don'ts of renting. And we're going to be learning from other people's mistakes. What could have saved you a lot of money if you'd only had the right advice when you were starting out? Have your say on our website: bbc.co.uk/moneybox. Joining me in the studio today is Hannah Jones, an education officer with MyBnk, a charity which runs money advice workshops with young people. Welcome.

H. JONES: Thank you.

ALEXANDER: And also Lynne Jones, a money adviser with National Debtline. Thanks both to you for coming in. First of all, let's hear some more about what's on the minds of young people.

MALE 1: Every time I get my money, I have to spend it straightaway. By the end of the week, I've only got like a tenner to myself and that's for food and that, so I have to find a way to make it by.

FEMALE: I was quite prepared and I was really happy at first when I started making money. You know you get all the money, but then you start realising once you start having to pay for everything, it's not quite so much as you hope or as you think it's going to be.

MALE 2: Going out and then spending money on ridiculous stuff and then you wake up the next morning and you're like why did I spend £50 in a club on drink and I poured most of it on the floor?

ALEXANDER: Well Hannah, there's an ongoing campaign to get financial education included in the national curriculum, isn't there? What sort of young people come on your money education courses and how much do they know about the basics?

H. JONES: We work with a lot of young people, ranging from age 11 to 25, and there's a variety of knowledge, so we work in schools, in colleges, youth groups, leaving care groups, children in care. And I think with regards to the financial knowledge they have, it's quite varied.

ALEXANDER: So some people really quite, maybe surprisingly savvy; other people quite basic. I know you yourself when you were starting out in life, you made some

quite basic errors you now think.

H. JONES: Yes, I did. And I think that was just from naivety. I didn't really have any ... well I didn't have any financial education. I was unsure of the right decisions to make, the repercussions of things. I took out overdrafts and didn't realise I had to pay them back. It sounds silly. I took out store cards and missed payments and just didn't realise the impact that that would have on my future, and I think that's something that we're really passionate about getting across to young people in what we do at MyBnk. And a lot of the young people that we talk to have some knowledge, but they don't always know how to direct it and they don't know how to actually you know cope with the knowledge that they have, so that's where we come in to sort of put everything in the right categories and tick the right boxes for them.

ALEXANDER: Well I suppose the first thing then you've got to crack is budgeting. How do you approach that in your workshops?

H. JONES: So we get our young people to do a budget and I think that's something that they ... Most young people understand what budgeting is. They understand that it's managing your money, but they don't ever really have experience in ever doing one. So even with mainstream school, the young people that we work with, we get them to do a budget and realise it's not always about going without, but it's about looking for alternatives and cheaper options. We get our students that are going onto university to do quite a thorough budget about the sort of things they're going to be spending their money on, which is always quite a shock to them.

ALEXANDER: Okay, well Lynne Jones from the National Debtline, I know you offer a lot of advice about budgeting, and then I guess the next thing is how to stick to a budget. But how do you talk people through? Practically speaking, if I sit down and think I'm going to do a budget, what should I do first?

L. JONES: Okay, I think the first thing is to actually separate out the things that you

have to pay for and the things that perhaps you want to spend. The things that we have to pay for ...

ALEXANDER: That's not necessarily easy, is it?

L. JONES: Absolutely not, and doing a budget is the one thing really that we should all do and it's the one thing that most of us don't do.

ALEXANDER: Would it maybe help to talk to someone you know and you can trust - you know maybe a relative or friend - and just say look, this is what I'm spending on. Can you see what maybe isn't an essential because to me I can't see what I can cut out?

L. JONES: Yeah, I think the first thing is to actually write down everything that you are spending. So it's not just you know perhaps rent or food. It could also be what you're spending on clothes, haircuts, that type of thing.

ALEXANDER: And what must you keep paying because I suppose the temptation might be to cut out some of the boring things that actually are maybe really important? I mean something like the TV licence, if you don't pay that, there can be severe repercussions, can't there?

L. JONES: We are seeing at National Debtline now more and more young people coming to us that have got arrears on their household payments, so that may be they've got arrears on their gas or electric or, like you say, TV licence.

ALEXANDER: Also your rent. I mean that's got to be a priority surely, hasn't it, because it's the roof over your head?

L. JONES: Keeping the roof over your head really has got to come first for everybody, so yeah. The type of things that you really do have to pay is your rent or

your mortgage and your household bills, so council tax, water, gas, electric, TV licence. And obviously you need money for food, but there may be also be some other essential things that you have to pay for, so that could be your travel costs, for example.

ALEXANDER: What about factoring in unexpected costs or maybe occasional costs like birthday presents and so on? How do you do that?

L. JONES: When we work through a budget with somebody, we look at the payments that they have to pay out every month. But we do then suggest putting money aside for things that you may only pay out once or twice a year, so that could well be birthdays and Christmas. It could also be car insurance, etcetera.

ALEXANDER: Okay, well Lynne Jones, thank you, and Hannah Jones. Do stay with me. We'll be coming onto how to deal with loans and credit cards shortly. But first, once you've figured out what your budget is, the next thing to think about is how to build up a credit history. We'll find out the ins and outs of that with a leading credit reference agency in a moment. But first, here's an opportunity to learn from others' mistakes. Money Box has been asking some of the top money minds what they wish they'd been told when they were starting out.

MUSIC: BIG SPENDER

BIRTLES: I'm financial expert, Jasmine Birtles, founder of Moneymagpie.com. And I really wish that I had understood the real value of compound interest when I was in my teens and in my twenties because basically all you need to do is to put money away regularly and over time you get interest on your interest, growth on your growth, and it just makes money for you.

HALL: I'm Alvin Hall and I'm an independent financial expert and financial educator. I made all the classic mistakes: I ran up my credit card balances, I had too

many credit cards, and I damaged my credit rating. After that, I learned my lessons very quickly - limit the number of credit cards that you have and pay off the balance every single month.

SOMERSET WEBB: I'm Merryn Somerset Webb, Editor-in-Chief of Moneyweek magazine. I really wish that I had understood in my twenties how much worry I could have saved myself in my forties by saving into a pension from the very beginning. In your twenties you've got so many things to pay for and so many things to think about, you don't really understand that if you were to put £2 a day or every last glass of chardonnay you didn't really need, if you put that money into a pension, the worry that you had later would go. You just can't see that in your twenties, but it's all too obvious in your forties.

ALEXANDER: Well hindsight is a wonderful thing, isn't it, but foresight even better. Hannah Jones, we heard a lot there about learning to save. What advice do you have to young people about learning to put just that little bit aside?

H. JONES: I think young people understand the importance in saving, but they don't really understand how to go about it. At MyBnk we do something called the 'demotivator', which shows how you can actually save a little bit at a time. It highlights something that you buy on a regular basis that's a non-essential item, and then we show the young people how much they're spending a year on, say, chocolate or Red Bull.

ALEXANDER: Okey-dokey. Well that sounds like good advice, but of course real life is a little bit more complicated.

FEMALE 1: I'm holding off on the credit card. I feel that that wouldn't be very good. But I think you need to sort of have something to have credit rating, but I'm going to wait until I'm loan debt free.

MALE: There's other ways to build up a good credit history. Paying your bills on time is one. I've got a contract phone, two contracts to get good credit. I've got a good credit history and I've never had a credit card and I never will have a credit card.

FEMALE 2: I do have a store card, but because I work full-time I've managed to pay it off. It's just to make sure I pay it off every month, which obviously I sometimes forget.

ALEXANDER: Could be a costly mistake. Once you reach 18 almost every financial move you make is recorded by three national credit reference agencies. Occasionally forgetting to pay your store card or credit card bill could make it harder to get credit in the future, but avoiding debt altogether is a risk in itself. Having what's called a 'thin file' doesn't look good to banks and other credit providers. This is a really important one to get right. So I've been talking to the Head of Consumer Affairs at one of the UK's three main credit reference agencies, Experian. He's called James Jones.

J. JONES: Well I think the main challenge for youngsters is actually establishing a credit profile for the first time. So to help build a great credit history, some quick wins would be making sure you register on the electoral roll, perhaps taking out a mobile phone contract as long as you make payments on time every month. Consider even getting a credit card, but again you know you need some discipline; you need to make sure you're budgeting and you're not overspending on that. If you're a student and you've got a student bank account, there should be an overdraft facility linked to that, and again that's credit and that should help build up some positive information on your credit history as long as you stick to the agreement.

ALEXANDER: Why is it so important to build up a good credit history?

J. JONES: Lenders will use that not only to say yes or no when you approach them for some sort of credit agreement, but increasingly to decide how much you pay for

that as well. So the best credit scorers get the best deal.

ALEXANDER: What's going to get you a bad score?

J. JONES: Well obviously what lenders are looking for is evidence that you pay things on time and that you've not overstretched yourself, and you don't importantly miss any credit repayments, particularly in today's climate.

ALEXANDER: If you have a bad credit score, would a landlord look at it? I mean I've also heard that sometimes it might stop you getting a job even. Is this right?

J. JONES: Well some employers and some landlords can access limited information from your credit report. Usually public information, so if you've had a court judgment, for instance, they will certainly see that. But the credit repayment data that forms for most people the majority of your credit report, that's very strictly limited in terms of who can access it, so it's normally just lenders that can see that.

ALEXANDER: James Jones. It's also important to keep your eye on your credit record. Don't presume that because you're doing all the right things, your credit record reflects that. John, who's in his early twenties and is one of our listeners in the Midlands, got a surprise when he was turned down for a credit card and then took steps to find out why.

JOHN: We printed the summary of the credit report and found out that not just my credit report was there, but also my dad's had been included on it we saw could have been the problem. Was told they could do nothing, so then my dad rang the bank for advice and they told him to get in touch with the credit reference agency, see if he can get any of the errors corrected. They said they couldn't do anything or it wouldn't make a difference. So then my mother rang the bank to ask for a manual check, and after the manual check I got approved and I received the card in about a week.

ALEXANDER: So eventually John managed to untangle his credit history from that of his dad's, at least for that one credit card. But I asked James Jones of Experian how common is it that your credit record could be affected by that of your parents?

J. JONES: Well it's certainly something that used to happen in the past, but for the last few years credit checks have been tightened, so they only take place actually on people and can only incorporate information about other people if there's a financial link. So your credit report should only be about you. Of course if you've got two people at the same address with very similar details, there may be rare occasions where the data gets mixed up, but certainly if that happens and we're alerted to it, we should be very easily able to set the record straight and separate that data.

ALEXANDER: What about if you live in a house share? What are the risks there?

J. JONES: Credit checks these days are on people, not addresses, but you can link yourself, link your credit history to other people if you take on joint credit facilities. So if you are sharing a house with you know other young people, for instance, and you take on joint utilities or you open a bank account in joint names to pay the bills or whatever, then there's a very real chance that that can create financial links on your credit reports that will mean that when either of you applies for credit in the future, the other one's data might be taken into consideration. So you know we would urge people to read the terms and conditions on any agreement they sign, to make sure they understand you know what's going to happen to their data and what the consequences of those decisions are.

ALEXANDER: I suppose another thing to think about is that if you're in a house share and you set up the gas account under your name and then you move out, then leave your friends paying it, you've moved onto another property, you need to get that gas account put into someone else's name, don't you, but I think people quite commonly forget?

J. JONES: I think many people do fall into the trap. You know if something goes wrong in the future, although other people will also be morally responsible for part of the debt, the debt's in your name and it's you that will be chased by that lender, by that credit provider or by a debt collector, so you really need to enter into these things with your eyes wide open.

ALEXANDER: James Jones of credit reference agency Experian. And remember that that info remains on your credit report for 6 years and you can correct mistakes by contacting the relevant credit reference agency. Lynne from National Debtline, if you live in a house share, as we were hearing there, you've got to be so, so careful. I mean I know one of the Money Box producers made the mistake of leaving a student house without taking her name off one of the bills and her former housemates weren't so good at keeping up with the payments. Do you get calls about this kind of problem?

L. JONES: We do sometimes, yes. Most people are aware of their credit reference file, but they're not so aware of the fact that things like gas, electric and telephone can also affect your credit reference file. And also, like James said, if you move house, if you've moved away but the bill is still being paid by somebody else, if they don't pay you as the bill holder are the liable party.

ALEXANDER: So that's something important to remember. Okay, well of course bad marks on your credit record aren't always mistakes or the cause of other people's misdemeanours. It is easy to spend large amounts on the never-never and it can surprisingly quickly become a struggle to keep your head above water. Research from the think tank the Financial Inclusion Centre suggests that almost three quarters of people aged 18 to 24 have unsecured debts.

FEMALE 1: At the minute we have massive money worries and my partner and I have been off sick from work and we've got the mortgage and a few debts and loans to pay, so we're a bit stressed.

FEMALE 2: Taking out an overdraft, I think that's one of the things that always makes me worry because I know at some point I have to pay it back. But at the moment I can't pay it back because I have to spend everything, so yeah an overdraft's a bit of a nightmare.

ALEXANDER: So Lynne from National Debtline, I know you're across the phone calls there. What sort of problems are people phoning up with?

L. JONES: Very few people phone with secured debt in the 18 to 24 range, but unsecured debt we get a lot of people with overdrafts, mobile phone contracts, payday loans.

ALEXANDER: Tell me about mobile phone contracts. I mean phones are seen as an essential now, but if you don't watch it, they can be a big drain on your finances, can't they? Why? What common mistakes do people make?

L. JONES: I think more and more people are going into phone contracts because the new sort of range of phones now, smart phones, are very expensive and it can make financial sense to get into a contract. Because of the fact that the phones are more expensive, the contracts themselves are more expensive, and they last (in most cases) a lot longer; so whereas we used to see 12 month contracts, now we're seeing 2 year contracts with people.

ALEXANDER: Which just doesn't leave you much room to manoeuvre if your finances have changed or you've just taken on a bit too much really?

L. JONES: Definitely not. And what's specific about that age group is that they do tend to be less stable. People are going in and out of education, they're looking for work, they may be moving home and moving into rented property. So their circumstances are less stable than perhaps somebody in the older age bracket.

ALEXANDER: And what sort of credit can it be wise to consider though because credit isn't necessarily a complete no-no, is it? What should you be thinking about before you decide to borrow money?

L. JONES: Before you decide to borrow money, you need to work out how much you can afford to pay back. So it comes back to what we were talking about at the start - doing a budget, looking at what you actually spend, how much do you have left over to pay towards the debt, and make sure that whatever you do borrow fits in with that bracket. We do see a lot of people with payday loans that can be problematic for that very reason - that come the next month, they just can't afford to pay them back.

ALEXANDER: Okay. And Hannah Jones from MyBnk, I know you talk a lot to young people about this kind of thing and you yourself struggled understanding interest rates when you were younger. Can you give us a simple explanation of you know what is an APR? What should people be thinking about when they're looking at taking out some kind of credit and the interest?

H. JONES: Well we talk a lot about APR and AER and most people recognise APR as a term. They don't really understand what it stands for and they don't realise how it is actually linked to interest, so we just highlight the different forms of borrowing, the different APR rates attached to each of those forms of borrowing. People are often shocked at some of the things that we reveal and the APR rates for some payday lenders which is often a surprise to a lot of young people.

ALEXANDER: So just think about it and maybe speak to someone who is experienced in finance before you take the plunge?

H. JONES: Definitely, definitely.

ALEXANDER: Okay Hannah, thank you very much. Well we've saved the most expensive until last: renting. This is likely to be your biggest monthly outgoing and it

can be a financial headache. I've been to see Angelique, a tenant in Basingstoke.

ANGELIQUE: My lounge diner.

ALEXANDER: Oh lovely. I love it. You've got French windows at the back out onto this ...

ANGELIQUE: Yeah, oh I tell you what, it was a saviour trying to get the sofa in definitely.

ALEXANDER: Lovely.

ANGELIQUE: Lovely garden, so ...

ALEXANDER: It's so sunny.

ANGELIQUE: I know. I'm so lucky.

ALEXANDER: Your house is lovely, but there have been problems getting it.

ANGELIQUE: Yeah, there have been a few glitches along the way. It's not been the best experience, I have to say. We discovered that the Basingstoke renting market is ferocious, absolutely ferocious. I mean everywhere we tried to look at, either letting agents wouldn't get back to us or things were gone the day they went up, that sort of thing. It was really fierce. And we came across this place and it was perfect. We inquired to the letting agent, asked to look around. It was great. Stupidly we didn't ask about fees first. (*laughs*) So we're like yeah, yeah, okay, fine, it looks absolutely perfect. I spoke to my partner, you know we discussed it. Everything was ... So we went well what's the fees? £540 including VAT.

ALEXANDER: For what?

ANGELIQUE: Well I'll be honest, I haven't actually had full justification for it. It was check-in fees, that sort of thing, so to draw up the tenancy.

ALEXANDER: Checking your credit history?

ANGELIQUE: Yeah, yeah, background checks, that sort of thing. And we were like what? (*Laughs*) And I just got, "Oh well, it's just our fees. We're one of the cheapest in Basingstoke." And I was like right, okay.

ALEXANDER: And that's on top of a deposit, I presume?

ANGELIQUE: Yeah. The rent's £900 and then we had these agency fees on top, so we're looking at about three grand. (*laughs*) So it's a lot of money to come up with. It's kind of tipped me over the edge to my final overdraft limit.

ALEXANDER: Well we were put in touch with Angelique by the housing charity Shelter. Antonia Bance is its Head of Campaigns and is in our Oxford studio. Antonia, how common is Angelique's experience?

BANCE: Well at Shelter we're seeing people who are having these experiences all the time. Everyone needs somewhere to live, but finding it can be a struggle and certainly affording it, particularly for young people, can be a struggle. Renting is a way of life for many young people and with the way that the housing market is changing, it's not really a stepping stone to something better. At Shelter we think we need a new deal for renters to stop them ending up in situations like Angelique.

ALEXANDER: So the sorts of fees that Angelique has had to pay, you've heard about that before, have you, and how can you challenge fees like that if you feel they're too high?

BANCE: Unfortunately with the housing market the way it is, with so many people

looking for somewhere to live, with so much competition, it's very difficult for would-be tenants to challenge these sorts of fees.

ALEXANDER: Are letting agents and landlords regulated?

BANCE: Letting agents are not regulated in the same way that, for example, estate agents are. It is possible to challenge really unreasonable fees, but for the most part challenging fees will just mean that you're not successful in getting the property.

ALEXANDER: But how do you take those first steps then? If you think well no, you know I'm willing to take this on as a fight, how do you challenge fees?

BANCE: Well what you would do is you would go to Trading Standards at your local council, but do be aware it may not result in the outcome that you want. What we would suggest is that people try to save a little bit of extra money, so that if they need to, they can move on. For the most part, it is expensive renting and there isn't a lot of security for renters these days.

ALEXANDER: I understand one of the biggest issues you hear about on the Shelter helpline is landlords withholding deposits, but Shelter has campaigned on this and you've had some success.

BANCE: That's absolutely right. So recently we won a change in the law to make sure tenants have more rights about their deposits. Now your landlord has to protect your deposit in one of three government schemes. That means when it comes to moving out of your home at the end, you have access to a disputes process if there's any disagreement about whether there should be any deductions and you know that that deposit has been kept safe for you to get back.

ALEXANDER: But equally, I mean tenants do need to remember that they need to treat a property with respect, don't they? I mean maybe not have that big party after

all?

BANCE: Absolutely they do. But I think the number of people that are calling the Shelter helpline - it's a number that's gone up by 80% in the last 2 years - says to me that some landlords are seeing the money that their tenants pay in deposits as an additional extra bonus for them to help with the costs of changing between the tenancies. What's important is that tenants check that their deposit is protected. They can do that on our website, it's an easy process. If it's not protected, they may be eligible for compensation from their landlord.

ALEXANDER: And if you've got a grievance about your deposit, just very briefly who do you go to first? What do you do?

BANCE: Well the first thing that you do is you ask your landlord if it's protected.

ALEXANDER: Okay. Antonia Bance, thanks very much for that. I'm sorry to cut you a little bit short there. That's all the time we've got for today. That was the Money Box Young Persons Guide to Money. Thanks to today's student guests: Hannah Jones of MyBnk; and Lynne Jones from National Debtline. We've put useful links and telephone numbers on our website, bbc.co.uk/moneybox, and it's there that you can download the programme. Next Saturday Mike Robinson presents a new four part series, Fixing Broken Banking. In the first episode he looks at what the PPI mis-selling scandal tells us about what's gone wrong with the big British banks. Today the producer was Lesley McAlpine and I'm Ruth Alexander.