Borrowing
(1.5 – Borrowing)

This means getting the money from a person or financial institution in exchange for a promise to pay it back with interest in the future (*agreed time)

1

Financial Cost
(1.5 – Borrowing)

1. Interest is the financial cost of borrowing.
2. This is the extra that has to be paid back on top of the loan.

For example, you borrow 10000 at 10% interest the financial cost is 1000

2

Instalment
(1.5 – Borrowing)

This is a fixed sum of money that must be paid back over several payments spread over an agreed period of time

3

Asset
(1.5 – Borrowing)

This is anything owned by a person or business that has a monetary value

For Example – Building, Vehicles

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Short Term
(1.5 – Borrowing)

1. Usually repaid back within one year
2. They are used it there is a budget deficit

For example – Bank overdraft and credit Cards

5

Medium Term
(1.5 – Borrowing)

1. 1. Usually repaid back between 1-5 years
2. They are used to purchase a car or washing machine

For Example, Medium Term Loan, Leasing and Hire Purchases

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Long Term
(1.5 – Borrowing)

1. This is usually paid back after 5 years
2. It is used to purchase a building

For example, mortgage

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Bank overdraft
(1.5 – Borrowing)

1. This is when the account holder is given permission by their bank to withdraw more money from their account then is in it.
2. It is an agreement with the bank to take out extra money up to a certain limit

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Credit Card
(1.5 – Borrowing)

1. Card holders can buy now and pay later.
2. This is an expensive source of finance as the interest charged can be very high.

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Medium Term Loan
(1.5 – Borrowing)

1. This source of finance can be arranged from banks, building societies and credit unions.
2. Borrower usually makes fixed repayment on a monthly basis over an agreed period of time.
3. This repayment includes the interest and the loan.

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Hire Purchase
(1.5 – Borrowing)

1. This is when the borrower pays a deposit and an agreed number of instalments.
2. Ownership of the asset doesn't pass to the buyer until they have paid the very las instalment.
3. There is no security required but it can be a very expensive source of finance

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Leasing
(1.5 – Borrowing)

1. This involves renting the asset. The person can use the asset straight away and will pay fixed regular payments to the leasing company.
2. They will never own the asset.

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Long term/Mortgage
(1.5 – Borrowing)

1. This is usually money borrowed to buy a house.
2. The borrower is entering into a contract with the bank to repay back the loan plus interest.
3. The house is usually used as collateral if the loan can't be paid back the house will be sold
4. These loans are usually repaid back between 15 and 25 years

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