



CREDIT, DEBT, AND BORROWING

WHAT IS CREDIT?



Credit is when you borrow money, and you promise to pay it back later. A credit card or a loan gives you that money now. But it's not free, usually with extra cost called **interest**.

Who Can Give You Credit?

- Banks**- if you have a stable income or good credit history.
- Buy Now, Pay Later Services**- No interest if you pay on time.
- Credit Card Companies**- If you pay your full balance every month, no interest.
- Payday Lenders / Fast Credit Companies**- they charge very high interest.

Warning: This type of credit is risky. Many people fall into a debt spiral because of it.



WHAT IS DEBT?

Debt is the total amount of money you owe. Case: You borrow 100 €, that's a 100 € debt. When you use credit and don't pay it off right away, your debt grows.



- **Good Debt** - Student loans help you get an education, home loans (mortgages) help you buy a place to live, and business loans help start or grow a business- all forms of good debt, usually with low interest and clear terms.



- **Bad Debt** - costs too much or grows too fast, like a payday loans with very high interest and short repayment terms, or unpaid bills that lead to penalties, late fees, and even legal trouble often used for things you don't really need.

WHAT IS BORROWING?

Borrowing means taking money from someone else and promising to pay it back. You can borrow from a friend, a family member, a bank, or an organization.

Some borrowing is informal. For example, borrowing €20 from a friend and returning it next week. There is no contract and usually no extra cost.

Other borrowing is formal. This is called a loan. A loan comes from a bank or another financial institution and always has a written agreement. Loans usually include rules about how and when the money must be paid back.



THIS AGREEMENT INCLUDES:

- the exact amount you borrow,
- how much time you have to pay it back (the term),
- how much extra you must pay (the interest),
- and what happens if you don't pay on time (penalties or legal action).

Loans are legally binding and are part of the **credit system**, they affect your **credit score**, which banks use to decide if they can trust you with future loans.



WHAT ARE FAST CREDIT COMPANIES?

Fast credit companies are businesses that give small loans very quickly, sometimes on the same day. People can often apply online, with little paperwork.

These loans are usually used for emergencies, when someone cannot get money from a bank.

Fast credit is expensive. The interest and fees are very high, and the money must be paid back in a short time. If payment is late, the debt grows quickly. Because of this, fast credit should be a last option, not something used for everyday expenses.



BANK LOANS VS. FAST CREDIT COMPANIES

BANK LOAN

What are they?

Money you borrow from a licensed bank or credit institution.

How it works:

- You apply, and the bank checks your ability to repay
- You sign a loan agreement with fixed rules
- You repay monthly with interest

Pros:

- ✓ Lower interest rates
- ✓ Clear legal protections (EU and national laws)
- ✓ Option to repay early
- ✓ Safer and more stable

Cons:

- ✗ Slower process (more documents)
- ✗ May not approve everyone – requires credit checks
- ✗ Sometimes requires collateral (e.g. car, house)

Good for:

- Long-term needs: education, housing, car, big purchases

FAST CREDIT COMPANIES

What are they?

Private companies that give small loans very fast – often online or via phone.

How it works:

- Very fast approval (sometimes in minutes)
- Minimal checks – even people with bad credit can apply
- Very short repayment time (often 15–30 days)

Pros:

- ✓ Fast cash, quick approval
- ✓ Easy process – less paperwork

Cons:

- ✗ **Very high interest rates** (can be over 100% APR)
- ✗ Hidden fees and penalties
- ✗ Risk of falling into **debt traps**
- ✗ Often target vulnerable people
- ✗ Less protection – not always regulated in same way as banks

Good for:

- Emergency situations (but risky!)
- Only when you fully understand the cost

TYPES OF LOANS



- Consumer Loan – for shopping or personal use



- Student Loan – to pay for education



- Auto Loan – to buy a vehicle



- Mortgage – for housing (long-term)



- Payday Loan – short, risky, very high cos



WHAT IS INTEREST?

Every loan no matter the type comes with a cost. That cost is called interest. It's how lenders make money and how your loan becomes more expensive over time.



Interest is the **extra money** you pay when you borrow.

If you borrow €100, and pay back €110, the extra €10 is **interest**.

You take a loan of €1,000 with **10% interest per year**.

After 1 year, you must pay: €1,000 (loan) + €100 (interest) = **€1,100**



TYPES OF INTEREST:

- **Simple Interest:** based only on the original amount.



- **Compound Interest:** You borrow 10 dollars and don't pay it back. After one month, the bank adds 1 dollar, so you owe 11. If you still don't pay, the next month the bank adds interest to 11, not to 10, and you owe 12. Because interest is added to the total every time, the debt keeps getting bigger faster.



WHY DOES INTEREST EXIST?

- It's the cost of using someone else's money.
- It covers the risk for the lender.
- It makes lending a business.

Important to Know:

- The **higher** the interest rate → the **more** you pay back.
- The **longer** you take to repay → the **more** interest you pay.
- Credit cards and fast loans often have **very high** interest.



WHAT IS APR?

- APR means Annual Percentage Rate. It shows the real cost of borrowing money for one year.
- APR includes not only the interest, but also fees and extra charges. A loan may say it has 10% interest, but when fees are added, it can cost more.
- APR helps you see the full cost of a loan and compare different offers more easily.



You borrow €1,000.
Interest: 10% + €50 fee.

Without APR, it looks like:
“10% interest = €100 cost”

With APR, it includes the fee:
 $€100 + €50 = €150 \rightarrow €150$ is
15% of €1,000 \rightarrow APR = 15%

CREDIT SCORE – WHY IT MATTERS

What is a credit score?

In most countries, there are credit registers or credit bureaus that collect information on whether you have repaid loans and bills on time, and whether you have had late payments or unpaid debts. Banks check this information when deciding whether to grant you a loan.



Why Is Your Credit Score Important?

If your credit history is clean, the bank considers you a lower risk. This usually means easier approval.



WHAT IS OVER-INDEBTEDNESS?



Over-indebtedness means being unable to meet your debt obligations on time, even after covering basic living costs.

How It Happens:

- Borrowing more than you can realistically repay
- Relying on new loans to pay old ones
- Unexpected events (job loss, illness, rising interest rates)
- Poor financial planning or lack of budgeting



CONSEQUENCES AND SUPPORT



Consequences of Over-Indebtedness:

- **Financial:** Late fees, rising interest, defaults, wage garnishment
- **Social:** Relationship stress, reduced access to housing or services
- **Psychological:** Anxiety, depression, loss of control
- **Credit Impact:** Long-term damage to credit score.

What You Can Do:

- Seek **debt advice early**.
- Contact lenders to **renegotiate repayment terms**
- Create a **realistic budget** and cut non-essential expenses



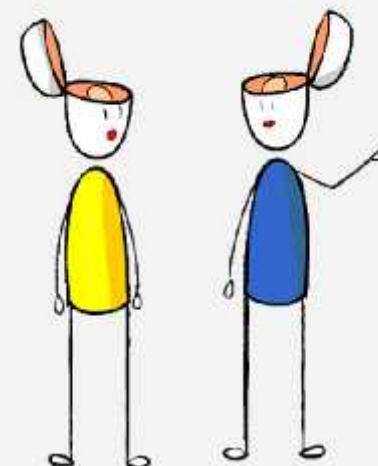
EU CONSUMER RIGHTS IN LENDING – KNOW YOUR PROTECTIONS

I. Right to Clear and Transparent Information

Before signing any loan agreement, lenders must provide:

- Total loan amount
- Annual Percentage Rate (APR)
- Duration and frequency of payments
- Total cost of credit (fees, interest, etc.)
- Consequences of missed payments

This information must be presented in a **Standard European Consumer Credit Information (SECCI)** form.



II. Right to Cancel (Withdrawal Period)

- You can withdraw from a credit agreement within 14 calendar days.
- You only need to repay the borrowed sum and any interest for the days the credit was used.



MORE KEY CONSUMER RIGHTS IN THE EU

3. Right to Early Repayment

- You can repay your loan early in part or in full at any time.
- The lender may charge a fair and limited compensation.

4. Right to Assess Your Creditworthiness

- Lenders must assess whether you can afford the loan before approving it.
- This protects you from taking on unaffordable debt.

5. Right to Access Your Credit Data

- You have the right to know what personal credit data is being used to assess you.

6. Right to Complain or Take Legal Action

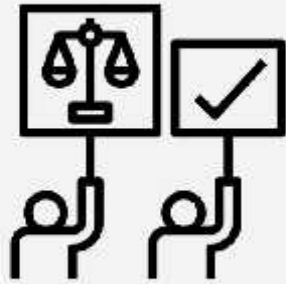
- If a lender violates your rights, you can file a complaint with a **consumer protection body**.
- You also have access to **Alternative Dispute Resolution (ADR)** mechanisms and the **European Consumer Centre (ECC)**.



CONCLUSIONS

- Not all debt is bad **good debt** helps you build long-term value (education, housing, business).
- Always check the **APR**, not just the interest rate. Fees and conditions matter.
- **Fast credit companies** offer speed but at a high cost.
- **Bank loans** are usually cheaper and safer but may require more paperwork and a good credit score.
- Missing payments affects more than your wallet it damages your **credit reputation**.
- **Read every loan contract**. If you don't understand something, ask before signing.





- **You have rights, use them.**

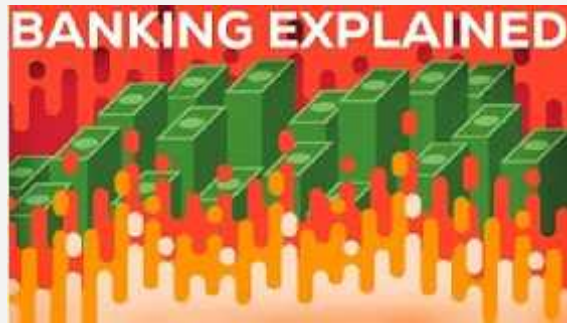
EU law protects consumers with rights to clear information, fair contracts, data access, and early repayment. Learn your rights and assert them.

- **Plan your budget** before taking a loan. Don't rely on future income you can't guarantee.



- **Start building good financial habits early.** Your future depends on it.

Recommended Videos



How a Normal Family Falls into Over-Indebtedness - A Real-Life Example

Emil is 12 years old. He lives with both his parents. His mother earns €1,000 per month. His father earns €1,200 per month. The family's total monthly income is €2,200.

Their regular monthly expenses look like this:

Rent – **€850**

Electricity, water, internet – **€300**

Food – **€750**

Transport and school costs – **€200**

Total expenses: **€2,100.**

Money left: **€100.**



One month, the refrigerator breaks.

A new one costs **€1,100**. The family has no savings, so they buy it with a loan.

The monthly payment is **€170**.

From that moment, the budget no longer works:

Income – **€2,200**

Living expenses – **€2,100**

Loan payment – **€170**

They are short **€70 every month**.

To cover the gap, they start using a credit card for food and bills, paying only the minimum amount. After a few months, the credit card debt reaches **€1,500**.

Now the family pays every month:

€170 for the refrigerator loan

€90 minimum credit card payment

Total debt payments: **€260 per month**.



How could this have been prevented?

- If the family had saved even three months of expenses, they would not have needed the loan.
- If they had reduced spending after taking the loan, they would not have used the credit card.
- If the monthly payment had been lower and matched their real budget, the problem would not have grown.

This is over-indebtedness. It does not start with luxury or bad behavior. It starts when a family lives at the limit and has no financial buffer. One normal expense is enough to push them into debt.



Top 3 Steps to Stop Over-Indebtedness

1. Stop taking new debt immediately.

No new loans, no credit cards for daily expenses. Using new debt to fix old debt only makes the problem bigger.

2. Cut spending to essentials only.

Rent, food, utilities, school. Everything else waits. This creates real money to reduce the debt, not just move it around.

3. Make one clear repayment plan.

Know the total debt, the monthly payment, and the end date. Pay more than the minimum whenever possible to actually shrink the debt.





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