

# Saving, Banking & Borrowing

## 1.5

# Saving

- Reasons for household saving
  - Future purchases
    - Rather than borrowing it might be better to put money aside for the future purchase of assets
  - Unforeseen events
    - In case of loss of income through illness etc... *“rainy day fund”*
  - Children’s Education
    - Second and Third level education costs are rising and families need to consider how they will fund it especially if a child needs to leave home to attend third level education
  - Income for the Future
    - Putting money into a pension

# Saving

- Why would you bother saving in a financial institution?
  - **To earn interest**
    - People might want a return on their savings
  - **For safety**
- Factors to Consider before deciding where to save
  - **Safety**
    - Will the money be safe?
  - **Interest Rate**
    - What rate of return will I get?
  - **Liquidity**
    - Will it be easy to access my money in cash?
  - **Tax**
    - Will I have to pay Deposit Interest Retention Tax (DIRT)
  - **Convenience**
    - Is the financial institution close by?

# DIRT

## *Deposit Interest Retention Tax*

- DIRT is a tax on interest earned from investments and savings
- Banks pay it “**at source**” to the Revenue Commissioners
- Eg;
  - €1,000 placed in a deposit account for 1 year at a rate of interest rate of 5%
  - Gross Interest earned is  $€1,000 \times 5\% = €50$
  - DIRT is charged at 35% of interest earned
    - $€50 \times 35\% = €17.50$
  - Net Interest earned is  $(€50 - €17.50) = €32.50$
  - At the end of Year 1 there is €1032.50 (1000+32.50) in the Deposit Account

# Saving

- Where can I save my money?
  - Commercial Bank eg [AIB](#), [Bank of Ireland](#)
  - [Credit Union](#)
  - [An Post](#)
    - No DIRT paid on certain investments in An Post but you must pay DIRT on deposit/saving accounts

# Bank Payments/Money Transfers

- **Standing Order**
  - An instruction to the bank to pay a **fixed amount** from the account at **regular intervals** to a specified creditor or business e.g. Rent/mortgage
- **Direct Debit**
  - This is **permission granted** by an **account-holder** to a **creditor** to withdraw **variable amounts** from the account **at any time**. E.g electricity/gas bill
- **Credit Transfer**
  - The once-off transfer of funds from one bank account to another
- **Bank Draft**
  - This is a cheque guaranteed by a bank and used when a buyer is unknown to seller/does not have a current account.

# Money Transfers

- **Paypath**

- The electronic payment of wages from an employer's bank account into an employee's bank account
- Benefits for employee:
  - More **secure** as they are not carrying cash
  - More **convenient** as they don't have to visit the bank
  - Prevents **impulse buying**
- Benefits for employer:
  - More **secure** as they are not holding large amounts of cash on the premises
  - More **convenient** as they don't have to count cash or write cheques

# Card Payments

- **ATM (Automated Teller Machine)**
  - Customer can withdraw cash/top up phone/check account balance with the card and PIN (personal identification number)
- **Credit Card**
  - Customer is given the card with a credit limit
  - Goods and services can be paid for up to this limit
  - Customer receives a monthly statement. Has 28 days to pay the balance. If the balance isn't paid, high interest rates are charged
  - Examples include Visa and Mastercard
  - €30 annual charge to the government for owning a credit card



# Card Payments

- **Laser Card/Debit Card**
  - Can be used by current account holders to pay for goods and services
  - Card is swiped at point of sale and customer is asked for their PIN.
  - Amount goes directly from customer's current account to seller's account.
  - A customer may also ask for cashback

# Spending Abroad

- Bureau de Change
  - Euros can be exchanged for foreign currency at most banks or credit unions
  - Foreign currency can also be exchanged for euros.
  - Commission charged by banks when changing money
- Credit Card

# Opening a Bank Account

- The following are required
  - Application form – name, address, occupation
  - Proof of Identity
    - Passport/driving licence
  - Proof of Address
    - Utility bill

# Types of Bank Accounts

- **Current Account**

- Used for **day-to-day** banking transactions
- ATM or Laser/Debit Card payments come from the current account
- Does **not** earn much interest
- Have access to money at all times
- Can avail of credit transfers
- May get an overdraft

- **Deposit Account**

- Used for saving money
- Earns a higher rate of interest than a current account
- Money may not be as accessible as in a current account

# Overdrafts

- Bank overdraft is where a person withdraws more money than is held in the account
  - An agreed limit is set by bank
  - Interest charged on overdrawn amounts
  - An overdraft can be repaid at any time in variable amounts and should be cleared as soon as possible
- Conditions that must be met before a current account can be overdrawn
  - Established customer
  - Creditworthy
  - Is able to repay
  - The account must be cleared of the agreed overdraft limit within the specified time or within one year

# Other Bank Services

- Loans
- Mortgages
- Strongroom facility
  - For storage of valuables
- Buying/Selling shares
- Internet/Telephone Banking
- Night Safe
  - Allows money to be lodged in the bank after the bank has closed.
  - Person/business must have a special numbered wallet and key.
- Financial Advice

# Interest Calculations

- Simple Interest
  - €1000 on deposit at 5% interest for 3 years
  - $€1000 \times 5\% = €50 \times 3\text{Years} = €150$  interest earned
  - €1150 (1000+150) in the account at the end of the three years
- AER(Annual Equivalent Rate)/Compound Interest Year 1
  - $€1000 \times 5\% = €50$  interest earned
  - Year 2
    - $€1050 (1000+50) \times 5\% = €52.50$  interest earned
  - Year 3
    - $€1102.50 (1050 + 52.50) = €55.13$
  - Interest earned over 3 years = €157.63 (50+52.50+55.13)
  - €1157.63 (1000+157.63) in the account at the end 3 years
  - Interest gets added to the principal at the end of each year and the interest is then calculated on the (principal+interest)

Borrowing



# Factors to be considered before borrowing

- Do we **need** the goods or services?
- Can we **meet the repayments**?
- What **security/collateral** can we offer the lender?
- What is the **rate of interest** (APR)?
- **Length** of repayments
- **Amount** Required
- **Job security**
- What financial institution best suits our needs?

# Collateral

- This means you hand over some valuable asset to the lender to secure a loan
- The lender will hold the asset (or ownership of the asset) until the loan is repaid
- The asset may be liquidated by the lender if the borrower fails to repay
- Examples include:
  - Deeds of a premises/property
  - Share certificates
  - Guarantor

# Guarantor

- A guarantor is someone who pledges that a loan or other type of debt will be paid.
- A guarantor agrees to pay another person's debt should that person fail to do so.
- For example a parent may be a guarantor for their son/daughter if they are taking out a loan

# Factors a bank will consider before lending

- Can you meet the repayments?
- Creditworthiness
  - Loan history
- What security/collateral can you offer the lender?
- Duration of loan
- Amount Required
- Job security

# Lending Agencies

- Commercial Bank
  - AIB, Bank of Ireland, Ulster Bank, KBC
- Credit Union
  - You must be a member of the credit union and have a savings record to qualify for a loan. They lend a multiple of the amount saved
  - [Credit Union Loans](#)

# Rights of a Borrower

- A borrower has the right to know the following for all loans:
  - APR (True Interest Rate)
  - Number of Instalments
  - Amounts of each instalments
  - Cash Price
  - Credit Price

# Types of Borrowing

- **Short Term** borrowing is where the debt is cleared **within a year**
- **Medium Term** is where the debt is cleared between **1 and 5 years**
- **Long Term** is where the debt is for **longer than 5 years**

# Types of Borrowing – Short Term

- **Overdraft**

- This is where you go into a **negative bank balance**. You withdraw more than is in the account.
  - You must have permission from the bank to be overdrawn.
  - You can overdraw to a certain limit
  - You will be charged a high rate of interest on the overdraft.
  - It is generally to be paid off within one year
- [AIB personal overdraft](#)

- **Credit Card**

- Customer is given the card with a credit limit
- Goods and services can be paid for up to this limit
- Customer receives a monthly statement. Has 28 days to pay the balance. If the balance isn't paid, high interest rates are charged
- Examples include Visa and Mastercard
- €30 annual charge to the government for owning a credit card



# Types of Borrowing – Medium Term

- **Medium Term Loan**

- A loan that is taken out usually for a fixed period of between one and five (1-5) years
  - Could be used for cars, furniture, college fees.
  - Must be repaid with interest.
- [Bank of Ireland Personal Loans](#)

- **Leasing**

- Leasing is where you **rent an asset** from a company for a period of time.
- The leasing company is responsible for the maintenance of the asset during the period of the lease
- For example a school may have a 5 year lease with a photocopying company, instead of purchasing the copiers.
- The company is responsible for all the maintenance of the copiers during that period and the school pays the company a monthly/annual fee.
- Families often do this with [Motor Vehicles](#)

# Types of Borrowing – Medium Term

- Hire Purchase Companies
  - Buying goods on credit by paying an initial deposit and paying the balance owed by regular instalments over an agreed period of time
  - The buyer obtains the immediate use of the goods but does not become legal owner until the last instalment is paid.
  - It is expensive as hire purchase companies charge a flat rate of interest
  - [Harvey Norman Hire Purchase](#)
  - Hire Purchase Agreement must show
    - Cash Price of goods
    - Hire Purchase Price
    - Interest Rate
    - Number of Instalments
    - Amount of Each Instalment
  - Advantages of Hire Purchase
    - Immediate possession and use of goods
    - Security is not required
  - Disadvantages
    - Ownership acquired only after paying final instalment
    - Could encourage overspending

# Types of Borrowing – Long Term

- Mortgage (Long Term)
  - A mortgage is a loan to purchase a property
    - Usually for a period of between 5-35 years.
    - Bank will hold the deeds as collateral
    - [CCPC Mortgage Calculator](#)

# Interest

- Interest is the price you pay for borrowed money
- FLAT RATE interest is where the interest is charged on the original balance of the loan for the entire duration of the loan
- APR (Annual Percentage Rate) is where interest is charged in the reducing balance of the loan after each payment is made
- [CCPC Loan Calculator](#)

