monetary solutions
INDEPENDENT FINANCIAL ADVICE

A Guide to Finances for the young, free and single

A Guide to Finances for the young, free and single

With the level of national indebtedness at an all time high, student loans for college education, and the widespread availability of lending through overdrafts, credit cards, store cards and personal loans, debt management has never been more important.

Your financial priorities are likely to include managing your debts, starting to save regularly, and deciding if and how to get on the property ladder.

How you manage your debt will affect your credit rating. Lending companies will check your credit history before deciding whether to lend to you. If you have missed repayments in the past you may find getting credit harder, for example this may make it difficult for you to get a mortgage.

The key to managing debt is to live within your means and always have a clear plan of how you will repay the debt.

- Take the time to work out exactly how much you owe and what the payments are in total.
- Give yourself a budget for your out-goings so you can afford to make the payments.
- Find out what interest rates you're paying on any store cards, credit cards, loans and overdrafts - the rate marked "APR" is the one to compare.
- Shop around for a better deal – consider switching to a lower interest rate – for example many card providers offer interest free or very low interest rates on balance transfers for a period. Be realistic about the time it will take to pay off your debt and check the rate you'll pay when the offer ends.
- If you have a number of expensive debts for example on several credit cards, consider taking out a single loan to repay them. The structure of the loan will mean you will have a fixed and manageable single amount each month that will clear the debts if you keep up the repayments. Check that the interest rate on the loan is lower than the debts you are repaying.
- Make sure you make the minimum repayments on all your debt
- With any spare cash, pay off the debt with the highest interest rate first and when it is cleared close the account.

If you are in debt, a sensible rule of thumb is to prioritise repaying debt over any form of saving or investing. You may want to make sure you have access to emergency funds, for example with an agreed overdraft or an emergency reserve of accessible savings. When repaying debt, always check for any early repayment penalties that may apply.

If you are really having problems, and regularly cannot afford to make the minimum repayments on all your debts then you should take action quickly. Debts can soon spiral and become out of control.

Consider contacting a non-profit organization experienced in helping people in a similar situation, for example:

- National Debtline http://www.nationaldebtline.co.uk/
- Citizens Advice Bureau http://www.citizensadvice.org.uk/

- Consumer Credit Counselling Service http://www.cccs.co.uk/

Saving Regularly

If you have no or few financial commitments of any significance, the temptation can be to live very much for today. But this is exactly the right time to start to get into the discipline of regular saving.

According to Einstein "The most powerful force in the universe is compound interest". And the sooner you start to benefit from by saving regularly, the more significant impact it will have on your finances later in life.

The key to saving regularly is the discipline to keep it going. One good way to start is to thoroughly review all your income and outgoings and produce a budget. There are various tools on the web that can help you, for example:

http://www.moneymadeclear.fsa.gov.uk/tools.aspx?Tool=budget_calculator

Work out how much cash you've got left each month after essential spending such as bills and rent. Consider how much you're willing to save, and then set the balance as your spending budget. You might consider say 25-50% of your spare cash as money to save. Another rule of thumb is 10% of your gross salary. A good discipline is to set up a direct debit for your savings of a fixed amount every month.

When you're starting saving for the first time, think of using your savings and investment tax allowances first. Letting your savings and investments grow free of tax is an even more powerful way to build up wealth over time.

Consider

- Cash ISAs – these are offered by most banks and you can check the most competitive rates here http://moneyfacts.co.uk/compare/savings/accounts/cash-isas/

  Stocks & Shares ISAs – if you're happy to leave your money to grow for 5 years or more then consider investments that have the potential for better long term performance than cash.
- National Savings Index Linked Certificates – a great way to protect against inflation http://www.nsandi.com/products/ilsc

If your employer offers a pension scheme then consider joining if you haven't already. It is not usually a good idea to turn down a pension scheme to which your employer will contribute on your behalf.

The property ladder

If you don't yet own a property then deciding if and how to get on the property ladder may well be a big issue for you.

Being "off the ladder" means missing out on any appreciation in value, and it is often said that paying rent is "money down the drain".

However, the flexibility of renting or living with family may suit your lifestyle. Also there is no guarantee that house prices will keep rising, affordability is already quite tight, and you need to have saved a deposit. Plus buying and owning a home often comes with hidden costs - such as the cost of moving, and repairs and maintenance.

At the end of the day if you can afford it and you are happy to live there for a while you should consider buying a home. If not then keep saving regularly to leave the option open for the future.

If you are looking for a mortgage why not arrange a borrowing review with one of our expert mortgage advisers.

Another option is to buy a property to rent out – a "buy-to-let". This is not to be undertaken lightly as although it can be a good investment that will benefit from any appreciation in property values, it can also have serious financial consequences – for example, having to meet mortgage payments when there is no rent coming in from the property, and unexpected maintenance costs. Also, having a buy to let mortgage may affect your chances of getting a mortgage when you come to buy a home for yourself.

There are increasing numbers of lenders that have mortgages specifically designed for the buy to let market. Typically you will need to have saved enough for at least a 25% deposit. If you are interested in exploring the options for buy-to let mortgages why not arrange to discuss your options with one of our mortgage brokers.

For further information or to book an initial consultation, please call us free on 020 8760 9940.

Monetary Solutions Ltd is an appointed representative of Burns-Anderson Ltd.

Information given in this article is for guidance only and should not be taken as individual advice. We cannot assume legal liability for any errors or omissions it might contain. Specific advice should be taken before acting on any of the guidance set out in this article.

There may be a fee for mortgage advice. The precise amount will depend upon your circumstances and/or amount of borrowing. We will notify you of any costs before any advice is provided.

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.