

ifs Level 3: Certificate in Financial Studies (CeFS) 100/3360/9

CeFS Unit 3 - Making Personal Financial Judgements (MAJ) J/102/2009

Thursday 1 July 2010

1 hour 30 minutes

Do NOT open this question paper until instructed to do so.

INFORMATION FOR CANDIDATES

1. This paper contains two questions worth 40 marks each; each question consists of four parts (1, 2, 3 and 4).
2. Please ensure that you have a copy of the case study material, and an answer book in front of you before the examination begins.
3. **Basic silent desktop calculators with + - x / % and memory functions are allowed. Scientific, programmable or calculators with any additional functions are NOT allowed.**

INSTRUCTIONS TO CANDIDATES

1. Read the instructions on the cover of the answer book.
2. The figures and products featured were correct at the time of writing. Use the information and interest rates provided in the case studies for your answers. You are NOT expected to know the current interest rates of specific products/services, or have a detailed knowledge of changes to particular products/services.
3. Please ensure that you note your answers in the appropriate section of the answer book.
4. **Answer ONE question only.**

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Unit 03 Making Personal Financial Judgements

This qualification is accredited by the regulatory authorities for England, Wales and Northern Ireland and is incorporated into the National Qualifications Framework: 100/3360/9

Answer **one** question.

1. Antonella must now make a decision on how to repay her £9,000 credit card debt. She is considering the **three** options detailed in the Product Table below.

Product Table:

	Virgin Money MasterCard	Tesco Personal Finance Personal Loan	Ocean Finance Secured Loan
Interest rate	0% APR for 16 months from date of card issue then 16.6% APR	8.0% APR	9.5% APR
Interest rate type	Variable	Fixed	Fixed
Monthly repayment	Minimum repayment of 1% of balance or £25.00, whichever is greatest	£218.54	£187.30
Duration or repayment period	Ongoing	Four years	Five years
Fee	Balance transfer fee 2.98% (min £3)	None	7.5% payable on completion of loan
Total amount repayable	Dependent on duration of repayment	£10,489.86	£11,238.00 + £675.00 fee
Access channels	Telephone and Internet	Telephone and Internet	Post or personal home visit
Additional features	<ul style="list-style-type: none"> Free worldwide travel insurance Online fraud guarantee Bill payment by direct debit (either minimum payment or full amount) 	<ul style="list-style-type: none"> 1,000 Tesco Clubcard points received on completion of successful application 	<ul style="list-style-type: none"> Receive a 'decision in principle' within 48 hours Application welcome from consumers with poor credit history or CCJs
Important terms and conditions	None	<ul style="list-style-type: none"> APR provided dependent on credit rating Minimum income £10,000 pa required 	<ul style="list-style-type: none"> Secured loan – home may be repossessed if repayments not completed

Source: (leaflets and websites of the three providers)

Required:

Question number

- 1 1** Investigate the advantages and disadvantages to consumers of approaching an adviser at a Citizens Advice bureau for help and advice regarding their debt problem compared with speaking to an employee of their financial services provider.

(5 marks)

- 1 2 Analyse the changes that have taken place since 1999 in the ways in which consumers borrow **and** manage their borrowings.

Note: Your analysis should include a consideration of the:

- ownership and use of credit cards and the implications of how they are used; and
- interest rates charged for the use of different borrowing products.

(10 marks)

- 1 3 *"Insolvency procedures, including IVAs and bankruptcy, are not easy options [for consumers], but they can be useful as a last resort for people who have no prospect of ever repaying their debts."* (Section 1 line 72 of the case study material).

Analyse how consumer debt problems impact both on consumers **and** on financial providers and other organisations.

Note: Your analysis should include the effect on:

- consumers with different personal circumstances and/or at different stages of the financial life cycle; and
- organisations such as Citizens Advice as well as financial services providers.

(10 marks)

- 1 4 Evaluate the **three** solutions shown in the Product Table and recommend the **most** appropriate solution for Antonella.

Note: You are required to fully justify your recommendation and your answer should take into account:

- Antonella's personal circumstances and objectives;
- the different features of the three borrowing products; and
- trends in interest rates.

(15 marks)

(Total – 40 marks)

Question 2 begins on page 4.

Turn over

2. Andy and Amy must now make a decision on what solution to use for their holiday spending. They are considering the **three** options detailed in the Product Table below.

Product Table:

	Solution 1. Cash and Travellers' cheques from LloydsTSB current account	Solution 2. Caxton FX prepaid 'pay-as-you-go' US Dollar MasterCard (a pre-payment card)	Solution 3. Post Office Credit Card
Interest rate	None	None	<ul style="list-style-type: none"> • 0% APR on purchases for first 3 months then 18.3% APR purchases • 24.1% APR cash withdrawals
Monthly repayment	None	None	Minimum 2% or £5 per month
Fees	1.5% handling fee for purchase of currency and 2.5% handling fee for travellers' cheques (min £2, max £4.50)	<ul style="list-style-type: none"> • No initial fee (£100 initial loading on card required) • No fees on purchases • \$3 fee for every ATM withdrawal 	<ul style="list-style-type: none"> • 2.5% handling fee for cash advances • No fees applicable for any transaction outside the UK
Time taken to receive product	Four working days	Two weeks for receipt and initial loading to be processed	Four weeks from application completion to receipt of card and PIN
Accessibility	Balance of current account can be checked online or by phone	<ul style="list-style-type: none"> • Card can be loaded with funds online, by phone or text • Can be used as a debit card for purchases or withdrawing cash 	24 / 7 telephone helpline and online account management
Additional features	Travellers' cheques can be cancelled if lost or stolen and replacements issued	<ul style="list-style-type: none"> • Protected by Chip and PIN • Replacement card issued if lost or stolen (£5 charge) • Hotelclub - discounts on hotel accommodation and travel insurance • Best exchange rate guaranteed* • Check balance online or by text 24 hours a day 	<ul style="list-style-type: none"> • 0% on balance transfers for first 12 months • Free additional cardholder and replacement card assistance if lost or stolen • Protected by Chip and PIN

Important terms and conditions	None	<ul style="list-style-type: none"> • Minimum top-up £100 • There is a maximum daily ATM withdrawal limit of €500 or \$750 	Automatic Section 75 protection for purchases between £100 and £30,000
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*Caxton FX states: “we guarantee to give you the best exchange rates of the day on your Caxton FX currency card - or we’ll make up the difference. If you find a better exchange rate on the day you load your card, just let us know and we will refund your card with the difference (this offer excludes products with an initial purchase charge).”

Source: (leaflets and websites of the three providers)

Required:

Question number

2 1 Investigate the advantages and disadvantages for consumers of seeking advice from friends and family regarding how to take and use holiday money abroad compared to asking an employee of the Post Office.

(5 marks)

2 2 With the help of calculated examples, analyse the impact on consumers of the different costs and charges associated with obtaining and using the foreign currencies needed to finance holiday spending.

Note: Your analysis should include a consideration of the:

- potential differences in exchange rates for foreign currency, including travellers’ cheques and how they vary; and
- fees and charges associated with the use of payment cards abroad, and how they vary.

(10 marks)

Question 2 continues on page 6.

Turn over

- 2 3** “Pre-paid travel cards have become the modern rival to the travellers’ cheque.” (Section 2 line 67 of the case study material).

Analyse the impact of the introduction of pre-payment cards on consumers who need to access cash and make purchases whilst abroad.

Note: Your analysis should include the effect on:

- consumers with different financial circumstances and attitudes to travel money; and
- the existing products available from financial services providers and how providers may respond to this change. (10 marks)

- 2 4** Evaluate the **three** solutions shown in the Product Table and recommend the **most** appropriate solution for Andy and Amy.

Note: You are required to fully justify your recommendation and your answer should take into account:

- Andy and Amy’s personal circumstances and objectives;
- the different features of the three solutions; and
- trends in payment methods. (15 marks)

(Total – 40 marks)