

MODULE 6 Positive Debt Management

Learning objectives

By the end of the session you will...

Understand what debt is and how people get into debt

Understand what to do when difficulties arise

Know how to deal with organisations that are owed money

Be clear about getting out of debt and avoiding future difficulties

Activity

6.1 *Some facts about debt*

- *What is debt?*
- *Types of debt*
- *Consequences of not repaying*
- *Interest rates*
- *Cost of borrowing*
- *Causes of debt*
- *Credit rating*
- *Before you take on debt*

6.2 *Activities*

- *Sharing your difficulties*
- *Understanding your financial position*
- *Listing Priority debts*

6.3 *Dealing with creditors and debt collection agencies:*

- *Taking action: breaking through the barriers*
- *Preparing an Action Plan*
- *Writing letters*

6.4 *Your options when you can't pay*

- *Consolidation loans*
- *Lifestyle; saving and spending; increasing your income*

6.5 *- Bankruptcy and Individual Voluntary Arrangement (IVA)*

This Module will be of help to people who have particular concerns about how much money they owe, or who have difficulties keeping up with the regular payments on money borrowed.

6.1 What is Debt?

Debt is money that you owe to other people or organisations. These people or organisations are called your Creditors. Your Creditors have legal rights which allow them to take legal action against you for recovery of the debt if you fail to meet your repayment agreement.

In order to spread the cost of buying more expensive items over a period of time, most people borrow the money, and therefore get into debt. When we borrow money, we normally have to pay interest. There are different rates of interest, and Terms and Conditions, for different types of borrowing and with different lenders.

It is important to choose appropriate forms of borrowing for your situation, and arrange the best interest rate and Terms and Conditions.

You can see from Saving and Borrowing Module 5 that many of us borrow money, and there are different ways of borrowing money.

The problem arises when people cannot repay the debt or interest on that debt because

- They have too big a debt and not enough money to pay it off
- Circumstances have changed and they can no longer afford it
- They cannot control everyday spending and costs

Types of Debt & Organisations that lend money

Who lends money

Types of organisations

Who lends mortgage money?

Banks and building societies. This is normally secured against the value of your home and is used to purchase a property.

Who lends Homeowner loans?

These are secured against the value of your home, lenders include banks and building societies, and most other lenders in the marketplace.

Who lends personal loan money?

Banks and Building Societies
Credit card companies
Retail companies
Car companies / dealers
Credit Unions

Who lends money to you through a card?

Credit and debit card companies, including banks and building societies.
Large shops can issue a store card, for their shops only.

Who lends money to students?

Student Loan Company – specially set up to support students on special terms of interest, when and how to repay.
Banks lend students overdrafts and personal loans, usually unsecured.

Who lends money to buy on Hire Purchase?

Company connected with the items you are paying for. Hire Purchase means that you do not own the goods until you have paid for them. It is a form of borrowing frequently used to buy high value items such as cars or computers. Catalogues (Mail Order) will also lend you money, to buy from their catalogue, after checking your credit references.

Credit unions

Credit unions are financial co-operatives owned and controlled by their members. They offer savings and low interest loans, they are local, ethical and know their members needs.

Each credit union has a "common bond" which determines who can join it. The common bond may be people: living or working in the same area, working for the same employer; or who belong to the same association, such as a faith group or trade union.

www.abcuk.org/page/about/intro.cfm

Definition of secured and unsecured loans

Secured loans – the loan is secured normally on the home; this means that if it is not repaid, the home can be sold to clear the debt. Interest is usually lower on these loans.

Unsecured loans – there is no security for the lender, it is lent to people who are credit worthy (see section on credit references), and the interest rate is generally higher.

The consequences of not repaying your debt are illustrated in the table below:

| 6.1 Types of debt | Possible Action against you |
|--------------------|---|
| Rent arrears | Eviction from your home |
| Mortgage arrears | Repossession of your home (if the loan is secured against your home) / eviction |
| Secured loans | Repossession of your home (if the loan is secured against your home) / eviction |
| Council Tax | 'Distrain' (money taken from benefits or income) / imprisonment |
| Gas or electricity | Supply cut off |
| Hire Purchase | Repossession of goods |
| Credit cards | Penalty Charges / County Court Judgement / Bailiffs (your goods being taken to pay for the debt). |

How to compare interest rates

Different companies charge different rates of interest and it is important to compare the different rates. The interest rate on a credit or store card is often shown on a monthly basis, as low as 1% or 2%, which can be misleading. By law an annual rate of interest, APR, must also be shown.

Annual Percentage Rate (APR) is the "yearly cost of a mortgage or loan, including interest, any protection insurance, and the setting up fee, shown as a percentage."

The APR shows what it really costs you to borrow, shown on a standard basis, to make it easy to compare different loan or card offers. The higher the APR the more you will pay in interest.

The cost of borrowing

In the table are some examples of the real costs of debt

| Amount borrowed | Interest rate | Term | Monthly Payments | Interest | Total paid |
|--------------------------|---------------|------|------------------|----------|------------|
| £2000 – bank loan | 15% | 5 | £47.58 | £854 | £2854 |
| £2000 – home improvement | 17.9% | 3 | £86.73 | £599 | £2599 |
| £5000 – home loan | 5.9% | 5 | £96.43 | £785 | £5785 |
| £45000 – mortgage | 6.59% | 25 | £306.38 | £46913 | £91913 |
| £220 – store card | 29.3% | 2 | £12.22 | £73 | £293 |
| £220 – store card | 29.3% | 1 | £21.37 | £36 | £256 |

Term – is the period of the loan or length of time money is borrowed.

The cost of borrowing is determined by the interest rate and the length of time the money is borrowed.

The longer the period of the loan, the higher will be the cost of the interest. When you are considering a loan you must therefore consider the interest rate (APR), the length of the loan and the monthly repayments.

Causes of debt

It is worth considering what are the most common reasons for getting into debt. This may help you with some planning in the future.

- Lifestyle

This is about the way in which we live, where we live and on what we spend money. The 'Spending Perception Scale' in Module 2 may have given you an idea of where your lifestyle money habits come from or lead to. Many people live in a certain way, to be like people they admire, to escape from a childhood life, and to keep up with friends or family. The difficulty with choosing a certain lifestyle, is working out what to put in the 'Essentials' list and what on the 'Would like' list ("I would like this if I could afford it").

Having built up a lifestyle it becomes like scaffolding which props us up, and we think that if we stop living like that, the scaffolding will fall down and we will go with it.

- Life events

These are events which either happen to us, or we plan them – they all affect our money situation, usually for the worst, e.g. relationship breakdown, long term sickness or disability, having or adopting a child, a family bereavement, retirement, unemployment or sudden redundancy. If these events can be anticipated or that they might happen, it is worth re-looking at the Budget Calculator page [4/2](#).

It would be helpful if we could all find a way of saving some money when times are better financially, but this isn't always possible. Think carefully about recent lifestyle patterns, then start afresh with your money planning for this situation.

- Student loans

Most students leave University today, owing money on their student loans, and possibly other loans as well. Student loans don't have to be repaid until your earnings reach £15,000 a year or more; other debts are generally repaid as normal.

- Ill-health

Many different kinds of ill-health can lead people into debt. People sometimes have to give up their job, for short or long periods of time, or change to a lower paid job. Undiagnosed ill-health can start a downward spiral where people feel it is their 'fault' that they can't manage money.

Depression, or any illness which makes it hard to read letters and figures, addictions to alcohol, drugs or gambling, any symptoms which lead to loss of energy, and any illness which means that someone cannot earn money at work, or look after the family and home; are all possible causes of getting into debt.

- Response to adverts

Adverts today are so appealing, on the Internet, TV, magazines and newspapers, and can lead to an adrenalin rush in the physical body, as we think about the excitement of buying that item or holiday or loan, it means that we don't stop to work out the cost, or how we're going to pay. Even shopping in a supermarket, where the layout and shelf edge advertising is cleverly designed to make shoppers buy on impulse, can lead to a lot of extra expense.

- Credit or store card debts increasing

If you choose not to pay the interest or minimum payment on your monthly statement the amount you owe goes up even if you do not spend more.

Credit Card Debt - an example

Below is an example of the way in which the debt increases on your credit card, if you do not pay off the full amount borrowed on or before the payment date. Jane has spent £206 on her credit card. She could not pay off the whole £206 before the payment date, or pay the minimum payment, and therefore interest is being charged on a daily basis from the date of her purchase. The debt is increasing at the rate of 20% per annum.

Additionally, she did not send the minimum payment, and was charged £12 for failure to make the payment. She now owes the original purchase (£206), plus the £12 for being late, and interest on the previous months balance, together with the present month's interest, adding up to approximately £10.

| | |
|-----------------------|-------------|
| The debt | £206 |
| Interest (last month) | £10 |
| Late payment charge | £12 |
| Now owes | £228 |

She now owes £228 and interest is being charged on this amount increasing Jane's debt to the credit card company.

Time to pay off the credit card and interest owed.

Below is the calculation provided by the Office of Fair Trading showing how long it will take Jane to pay off the debt and how much interest she will be charged, if she pays only the minimum allowed each month.

| | |
|---------------------------|----------------|
| The current balance | £206.00 |
| Interest 1.7% a month | |
| Monthly repayment of £9. | |
| Minimum repayment rate 3% | |
| Time taken 30 months | |
| Interest charges | £57.15 |
| Total payable | £263.15 |

Credit worthiness and credit rating

Credit agencies keep records of how people behave with their repayment of loans and mortgages. Organisations looking at new applications for loans, mortgages and credit or store cards, will look at the credit history of applicants through the agencies. They are seeking to reduce their risks in lending money, by checking on whether people are good at repaying loans, or less good.

Agencies collect information from the lenders, from the Electoral Roll, and from all applications made for credit.

Personal history

Your personal credit history is usually filed with three main agencies, and when you apply to borrow money in any form, your history will be checked. This includes any applications for mail order or catalogue goods. The history of other people living with you will also be checked.

Obtaining your file – getting information on your credit worthiness

The 3 main agencies are

Callcredit, Equifax and Experian.

You can obtain a copy of your file with them, by sending a cheque for £2 (they are not allowed to charge you more than that), together with your personal details; you should have your copy within 7 days.

They also have internet forms on their website, for viewing your credit file, but they charge more for these.

If you see anything on your file that is not true, or is out of date, you can write to them to put it right.

For contact details of the agencies, see page 6/21.

Impact of bad debts on your credit worthiness

When you want to borrow money, through any kind of loan, your credit history (or score as it is known) will impact on whether you are accepted as a borrower and the interest rate you will be charged. You may have to go to a lender who charges higher rates of interest, if another one refuses your application. The scores relate both to how well you have managed to repay your existing loans and cards, and also to whether or not you have any credit history. Different lenders are looking at different aspects of your credit history, to decide whether you are a good 'risk' in terms of paying back their money to them.

You can find tips on how to 'repair' a poor credit score, on the websites of credit reference agencies, or via their telephone help-lines; you can tackle this yourself or with help from a counsellor. Take care with companies advertising that they can 'repair' your credit file for you.

Thinking of borrowing?

Monthly payments, income and essential expenditure: before you take on debt go through the steps below.

Complete the survival budget exercise

(Page 6/8 – 6/10 in this module)



Only borrow if

- you have a surplus of income over expenditure
- you can give up non-essential spending in order to pay the monthly loan amounts

AND

you can arrange a loan which has monthly payments which are **NO MORE** than the monthly surplus or savings

OR

you are prepared to earn more
e.g. take a second job or take
in a lodger, to pay the loan



Compare the monthly loan payments with other essential spending, like food, children's school clothes. Can you see the loan costing a lot more each month than family food? – if so, it may be wise not to borrow.

6.2 What to do when difficulties arise?

Sharing your true situation with family, friends, doctor, counsellors

It may be difficult to share your true financial situation. Your ideas of how your friends and family see you may be connected to expectations of your financial ability to, for example: take them out for the day, buy them Christmas presents, or just pay the family bills.

If it's difficult to share with people who are close to you, you could start by seeing a counsellor at one of the debt management charities.

- **Can't pay enough or anything: Understanding your financial position**

It is very important that you understand you financial position. Until you do you can not effectively tackle your debts.

You need to work out your budget. Start with your current budget. Then work out what spending is essential and which is less important and could be saved: how much spending can you cut out and still

- keep your home
- feed yourself and your family
- get to work

In this way you will create a survival budget. Do the calculation below either on a weekly or on a monthly basis.

Income Sheet - Money coming in (per week OR per month)

| | |
|---|-------|
| Pay (after deductions) | ..... |
| Benefits or tax credits | ..... |
| Contributions from people who live in your home | ..... |
| Income support | ..... |
| Job seekers | ..... |
| Working tax credit | ..... |
| Child tax credit | ..... |
| Housing benefit | ..... |
| Council tax benefit | ..... |
| Disability benefits (if appropriate) | ..... |
| Any other income | ..... |
| Add all of these together | _____ |
| Total | _____ |

Now complete the following spending sheet. Again use weekly OR monthly – do not mix the two.

Spending sheet – Money going out either weekly OR monthly

Rent/mortgage

Council Tax

Water rates

Gas

Electricity

Housekeeping

There may be additional outgoings such as:

Insurances

TV rental

TV licence

Child maintenance payments

Hire purchase

School meals

Meals at work

Telephone

Mobile phone

Childminding

Magistrate's fines

Other items

Add these up _____

Total _____

You now have your total income and total spending on a weekly or monthly basis.

Write your income total here Income.....

Now write down your spending total Spending.....

Take away spending from income

This leaves

The amount you can use to deal with debts

Now you have worked out your income and spending, ask yourself:

Which spending is essential (must be spent)? If so What?

.....
.....

Which spending is less important and could be saved? If so What?

.....
.....

Also are there any ways to increase your income? If so How?

.....
.....

Does this change what is left?

The amount you can use to deal with debts

• **Understand your priority debts**

The law gives people or companies that are owed money different ways of getting their money back. This means that some debts will be top priority for you, as non payment of these will have different consequences for you, such as eviction (losing your home), or having your gas or electricity cut off. Priority debts and bills are those that you have to pay first.

List below in priority order your debts (the money that must be paid) and the amount either per week or month.

Remember you may be asked by the creditors why these are your priorities.

| Priority Debts | | |
|---------------------------------|--------------|---|
| | Balance owed | Offer of repayment Monthly or weekly |
| Mortgage | _____ | _____ |
| Second Mortgage | _____ | _____ |
| Rent | _____ | _____ |
| Secured loan | _____ | _____ |
| Council tax | _____ | _____ |
| Utility bills | | |
| Electricity | _____ | _____ |
| Gas | _____ | _____ |
| Water | _____ | _____ |
| Telephone | _____ | _____ |
| Other | | |
| Magistrates' Court fine arrears | _____ | _____ |
| CCJ - County Court Judgement | _____ | _____ |
| Maintenance arrears | _____ | _____ |
| Unsecured loans | _____ | _____ |
| 1 - | _____ | _____ |
| 2 - | _____ | _____ |
| 3 - | _____ | _____ |
| HP payments | _____ | _____ |
| Total Priority (must pay) debts | _____ | _____ |

If you cannot pay the priority debts then seek advice as soon as possible. When you have these payments sorted out and agreed, then move on to other debts, like credit cards, catalogues, other loans. Use the form on the following page to list these debts and the amount per month which you can offer.

Credit Debts

| Creditor | Balance owed | Offer of repayment Monthly or weekly |
|----------|--------------|---|
| 1 | _____ | _____ |
| 2 | _____ | _____ |
| 3 | _____ | _____ |
| 4 | _____ | _____ |
| 5 | _____ | _____ |
| 6 | _____ | _____ |
| 7 | _____ | _____ |
| 8 | _____ | _____ |

6.3 Know how to deal with organisations that are owed money (creditors)

You can now understand more about your own financial position, have written your survival budget, and identified your total and your priority debts.

Now is the time for action. Ignoring letters, telephone calls and visits by your creditors or debt collecting agencies will make things worse. If you need help contact one of the organisations listed in our Resources Section on pages **6/21** and **6/22**.

Lenders and debt collectors – rules of conduct

The Office of Fair Trading (OFT) has guidance about the way creditors and debt collectors should behave. Their Consumer Credit Licences can be withdrawn if there are enough serious complaints about their conduct; (complaints to the firm and the OFT).

Creditors must pass on a good history of each case to debt collectors, and not use more than one debt collector at a time.

If someone who owes money has a genuine reason to ask for more information about the debt, companies must answer.

Debt collectors must respond to debt counsellors, (e.g. the CAB).

People have to be given reasonable time to pay, and be contacted only during reasonable hours (suggestion 8am – 9pm Monday to Friday).

Charges levied to debtors to collect the debt may be unfair, if people can only afford minimum payments, and if there is no contract about charging to collect the debt.

Visits to the workplace are unfair, unless agreed in advance.

Debt collectors should leave the home when asked to, and give people time to gain support from someone else.

Have a go at the activity on page **6/13** 'Break through the barriers' and then move on to the activity on page **6/15** 'Preparing your action plan'.

Break through the barriers that may stop you taking action about your debts

This is a way to help you break through the barriers that may stop you from taking action about your debts – be kind to yourself and have a go at this activity.

Strong feelings are frequently the reason why people don't talk about money that they owe. Money is talked about as if all the decisions that we make about money are made with sensible logic.

The reality is that our underlying emotions and attitudes are the main drivers, which push us in a certain direction.

Have a look at Module 2 'Attitudes to Money', to learn more about this. Try the activity on page **2/3**; 'Spending Perception Scale' exercise, to understand some more about yourself.

If you are in a relationship – it would help you to ask your spouse or partner to have a go at this as well, and then you may understand each other better.

Stress can lead to us taking no action, feeling paralysed. Here is a way of overcoming it – and it helps to write this down, there is a form below for you to use.

What is my money situation about which I am worried?

Example – store card debt

I haven't paid the monthly amount on my store card for 3 months, and they have written to me, but I haven't responded.

What would my 'money friend' say I could do for the best?

e.g.

Telephone the store card company, say sorry for not answering the letters or making payments, make a realistic offer to pay an initial amount, and then increase the monthly payment until I have cleared the back payments.

Cut up the card, so that I don't use it again.

Tell my spouse or partner what I have done.

Money Friend - a real or historical person, who is wise about money, someone you admire for their money skills, a resource for you.

What are the possible outcomes if I take this action?

Best outcome

The store card company accepts my offer.

My spouse or partner supports me in taking actions and sets up a calendar to remind me of what I need to pay and when.

Most likely outcome

The store card accepts my offer and asks me to return my (their) card.

My spouse or partner says that they thought there was something wrong, but didn't like to ask me because I get so bad tempered about money questions.

Worst outcome

The store card company doesn't accept my offer and I have to ask for help with contacting them to re-negotiate this.

My spouse or partner is not surprised at my story and tells me to hand the card over to them to cut up.

What are the possible outcomes if I don't take this action?

Best outcome

The store card company rings me up, and I am forced in to making a quick decision about what to offer in payments.

Most likely outcome

The card company doesn't hear from me, stops my card and sends another letter, which I can't open.

Worst outcome

The card company takes me to court and gets a County Court Judgement for me to pay them via the court.

Now compare the best case and worst case, and decide which would be the better action to take for each debt that you owe using the format below:

| | Action I can take | Taking no action |
|---------------------|-------------------|------------------|
| Best outcome | | |
| Most likely outcome | | |
| Worst outcome | | |

- **Preparing your action plan**

You can now see and understand more about what action you can take for each of your debts. An essential part of this is to work out how much you can offer to pay each month to your priority creditors and your other creditors.

Below is an Action Plan, which has been filled in as a guide to you producing your own Action Plan.

You will see that there is a 'completed by' column: this helps you to see your Action Plan moving along.

Aime.g. to get my debts and bills in a way that I can manage them

And

First step Prepare a budget of your income and spending **Fill in the dates**
Ideal date to do this by ✓ when done

Note You have three main options with your debts:

- reduce spending to make payments
- increase income to make payments
- pay off those debts which have the highest costs / consequences

Complete options for each debt, and your ideal date for completing each action by

Next step Identify essential spending and prepare your survival budget

Next step Make your priority / must pay debt list

Next step Get advice if your priority debts are more than your income: **immediately**
Ring for appointment at Citizens Advice Bureau (CAB) / or go to a CAB office
Ring the National Debt Line

Next step Write to / or contact Priority Debt creditors **immediately**
Request lower or token repayments and Freeze interest and charges.

Next step Check every letter from you has been replied to **2 weeks**
Get advice if you do not understand the reply **immediately**

Next step Write again if you have not received a reply **immediately**

Next step Check that you can pay the token / lower repayment and arrange regular payments **immediately**

Next step Check amounts are being paid

When you are in control of your debts, the interest and charges have been frozen, and you are maintaining the reduced payments, you have achieved your Aim..... Well Done!

Prepare your own Action Plan below:

| | |
|-------------------------|---|
| My Action Plan | Date: |
| My Aim (s) | |
| | |
| First step | Fill in the dates |
| | Ideal date to do this by ✓ when done |
| Next step | |
| Next step | |
| Next step | |
| Next step | |
| Next step | |

Now re-visit your Budget sheets (page 6/8 and 6/9) before writing your letters

• **Writing letters**

You will need to write letters to your creditors and enclose your personal budget. Doing things in writing gives you a file for each company with whom you are dealing and you can refer back to previous letters. Keep a copy of your letters, and the receipts for any payments made. This is easier than making a note of a telephone conversation, and cheaper than some of the expensive telephone numbers used by some debt collectors. Sample letters that you could use are set out below:

Suggested model letters – please use these as they are or adapt

Letter asking for information from your creditors

CREDITOR COMPANY
 THEIR ADDRESS
 YOUR ADDRESS
 Date
 Reference
 Dear Sir / Madam ,
 Re: ACCOUNT NUMBER:

I am writing to you about the agreement (reference above), as I am currently in financial difficulties. I cannot afford the agreed monthly payment because *give your story about what changes have happened to you*

Could you please send me the current balance of the account and a breakdown of how this has been calculated including repayments I have made to date. This will help me to check my current position. Then I can work out positive proposals to repay the amount owed. I am putting together a personal budget sheet showing my current financial position and, when I have received the up-to-date information from each of my creditors, I will post a copy to you. The information being sent to me will enable me to send my proposal for repayment to you; I am trying to make a fair offer to each creditor from my available income.

Please stop taking or pursuing any actions until I have had the opportunity to fully assess my circumstances and liabilities. I would also ask that you put the account on hold and stop charging me interest or other charges which would increase my debt levels. Thank you for your help in this matter.

Yours faithfully,
 Your signature and name

Letter to creditors asking for the loan interest to be frozen

CREDITOR COMPANY

THEIR ADDRESS

YOUR ADDRESS

Date

Reference

Dear Sir / Madam ,

Re: ACCOUNT NUMBER:

Thank you for sending me the details of the above account and my payments made to date. Please find enclosed my personal budget sheet, showing my total income from all sources and my total home outgoings.

You can see that I only have £..... (**OR** no money) left to pay my creditors.

Because of these circumstances, please accept that at the moment, I can pay nothing to you. Please consider a moratorium on my debt, I would also ask that you put the account on hold and stop charging me interest or other charges which would increase my debt levels.

Please accept that I am working hard to increase my income (give examples, or explain why you cannot increase your income).

When my circumstances change and my priority debts are cleared, I will get in touch with you again. I need a paying in book / standing order form to send you regular payments.

Thank you for your help, and I look forward to receiving the paying book / standing order form.

Yours faithfully

Your signature and name

~~~~~

**Letter to creditors offering reduced payments**

CREDITOR COMPANY

THEIR ADDRESS

YOUR ADDRESS

Date

Reference

Dear Sir / Madam ,

Re: ACCOUNT NUMBER:

Thank you for sending me the details of the above account and my payments made to date.

Please find enclosed my personal budget sheet, showing my total income from all sources and my total home outgoings.

You can see that I only have £..... (**OR** no money) left to pay my creditors.

I have made offers to my creditors, working out a reduced payment to each one; (**OR** no payments). With this in mind, I am offering £..... per month to repay your account. I would also ask you to confirm that you have put the account on hold and stopped charging me interest or other charges which would increase my debt levels.

Please accept that I am working hard to increase my income (give examples, or explain why you cannot increase your income).

When my circumstances change and my priority debts are cleared, I will get in touch with you again. I need a paying in book / standing order form to send you regular payments.

Thank you for your help, and I look forward to receiving the paying book / standing order form.

Yours faithfully

Your signature and name

#### 6.4 Getting out of Debt and Avoiding Future Difficulties

If your action plan has not been accepted or has failed you should seek advice from one of the organisations listed in our Resources Section on pages 6/21 and 6/22. The further actions you may have to consider are:

- **Consolidation Loans**

Some companies may offer you one large loan, called a consolidation loan, so that you can repay all your creditors and have only one loan. You should think very carefully about using a consolidation loan and look carefully at the interest rate and terms and conditions. It is just another form of debt but it might work for you if:

- you use all of it to repay all your other debts at the best resettlement figure you can get
- you cut up your cards
- you apply for no other loans whilst you are repaying the consolidation loan
- you take out an unsecured loan (higher interest rate) or really understand what you are doing if you take out a loan secured on your house; take advice first
- the interest rate is lower than you are already paying on your debts
- you shop around for the best terms
- you get the loan from a reputable lender
- you can repay the loan faster by increasing your monthly payments, or paying a lump sum early without penalties

As part of your Action and Repayment Plan to get out of debt (and to avoid debt difficulties in the future) you will need to review your planning every month / 3 months, by looking at your:

- lifestyle choices: making decisions about changing your lifestyle to help you make regular payments to clear your debts and keep out of difficulty
- saving and spending: identifying essential and desirable expenditure and only spending on desirable items when you can afford it
- income, options to increase it, e.g. by taking a second job or working overtime

- **Generating more income**

With your spouse, partner or family, unless you live on your own, (ask some friends to help, they'll probably appreciate the chance to think about their own money!) try a free idea storming session about how you could raise money or earn more money; (get a big sheet of paper, like wallpaper lining, big pens, everyone calls out their ideas, with no criticism from anyone else).

e.g. go through the house, wardrobe, garage and attic to see what you could sell at:-

- car boot sale
- garage sale
- eBay on-line auction
- local auction

Remember to ask a valuer to look at anything that may be valuable, like they do in the TV programmes 'Cash in the Attic' and 'Flog It!'

Other forms of income generating:-

- Overtime
- Second job
- Local work in your neighbourhood - gardening, cleaning, ironing
- Join your local LETS (Local Exchange Trading Systems) group, whilst you may not earn cash for your input, you can regain your self esteem, which can lead to paid work.

- **Use the exercises in Alvin Hall's book e.g. a daily spending diary**

## 6.5 Bankruptcy and Individual Voluntary Arrangement

**N.B. Laws relating to debt and insolvency are different in Scotland to those in England and Wales**

Where repayment of debt is not achievable by debt management alone, there are two other ways that you may consider, both of which involve the County Court and usually Insolvency Practitioners.

### Individual Voluntary Arrangement (IVA)

This is a legal process, through the County Court, whereby there is a formal agreement between you and your creditors (those to whom you owe money). You repay as much as you can afford, usually over a 5 year period, after which the balance of the outstanding debt is written off.

To achieve this you must maintain the regular monthly payments agreed.

IVAs do not carry the stigma of Bankruptcy, but you are supervised and it is unlikely that you will be allowed credit without your Supervisor's permission.

The process needs professional help as a meeting of your creditors needs to be convened and it requires 75% of them to agree to your offer. The agreement is binding on all parties.

Generally an IVA is only suitable for those with debts in excess of £15,000.

### Bankruptcy

Bankruptcy is another way of dealing with debts you cannot pay.

You can make yourself bankrupt or one of your creditors can make you bankrupt. This is a legal process and is heard in larger county courts.

If you make yourself bankrupt then you need to obtain a form from the County Court, complete and submit the form and pay the fees. The Registrar or District Judge will consider your petition and if an Order is made then you are

required to see the Official Receiver who will go through all your financial assets and liabilities and apply the rules of bankruptcy.

A creditor can make you bankrupt if you owe £750 or more. You can also be made bankrupt if the Individual Voluntary Arrangement has failed.

Once you are bankrupt your assets may be sold in order to raise money. You can retain clothing, bedding and domestic goods. You may also be able to retain your car, if you can prove it is necessary for you to get to work.

The Official Receiver has powers to obtain as much money as possible for the creditors from your assets and income.

The consequences of Bankruptcy are:-

- You must close your bank or building society account
- You can only have a 'cash only' account (no credit or borrowing) with permission of the Official receiver
- Gas and Electricity companies usually want you to pay in a way that does not involve credit
- Your employment may be affected
- When the bankruptcy period has ended you may find it difficult to get credit, as the bankruptcy is registered with credit agencies for 6 years
- Details of your bankruptcy may appear in your local paper

Whilst Bankrupt, it is a criminal offence to:-

- Take out credit of more than £500 without telling the lender you are bankrupt
- Use a new business name without revealing the name you were made bankrupt under
- Act as a director of a company without permission

Under the Enterprise Act 2004 you will usually be discharged from bankruptcy after one year. However, the Court can make a Bankruptcy Restriction Order, if the Official Receiver feels your behaviour has been dishonest in some way. This Order can last for between 2 and 15 years. And if you break the order it can be a criminal offence.

Unfit conduct would include:-

- Not keeping proper accounts in the 2 years before Bankruptcy
- Gambling
- Trading whilst knowing you cannot pay your debts
- Taking out credit which you know you cannot pay
- Giving away assets to avoid them being included in the bankruptcy
- Paying some creditors over others
- Failing to co-operate with the Official Receiver
- Concealing property from the Official Receiver

You should get advice before deciding to apply for Bankruptcy.

## Resources

**UK credit repair** gives out free help and information on cleaning up your past credit history:  
[www.ukcreditrepair.co.uk](http://www.ukcreditrepair.co.uk)

**Callcredit** – [www.callcredit.co.uk](http://www.callcredit.co.uk)

**Callcredit plc**

One Park Lane

Leeds

West Yorkshire

LS3 1EP

Tel. 0113 244 1555

**Experian** – [www.experian.co.uk](http://www.experian.co.uk)

**0844 481 8000** Consumer Help Service, PO Box 9000, Nottingham, NG80 7WP

**Equifax Plc** - [www.equifax.co.uk](http://www.equifax.co.uk)

Credit File Advice Centre

PO Box 1140

Bradford BD1 5US

**UK Information Commissioner's Office**

Free booklet – 'Credit explained' – phone 08453 091 091 to receive a copy, or download it from their website - [www.ico.gov.uk](http://www.ico.gov.uk)

**[www.moneyexpert.com](http://www.moneyexpert.com)**

An independent website on all aspects of money

**Student loans**

[www.sl.co.uk](http://www.sl.co.uk) or the helpline on 0845 0738 891

**Local Exchange Trading Systems**

[www.letslinkuk.net](http://www.letslinkuk.net) – a way of offering and receiving services without using cash

**Credit Action**

[www.creditaction.org.uk](http://www.creditaction.org.uk)

National money education charity

**National Debt Line** – National Debtline is now part of the **Money Advice Trust**. The service is free, confidential and independent. The service has existed since 1987.

[www.nationaldebtline.co.uk](http://www.nationaldebtline.co.uk). Phone for advice 0808 808 4000

There is a suite of sample letters in which you can complete your personal details, then download and print them off to post to your creditors

**The Consumer Credit Counselling Service** is a registered charity whose purpose is to assist people who are in financial difficulty by providing free, independent, impartial and realistic advice.

[www.cccs.co.uk](http://www.cccs.co.uk). FREEPHONE helpline is open from 8am to 8pm Monday to Friday. 0800 138 1111

**Citizens Advice Bureau**

Citizens Advice Bureaux provide free, confidential and independent advice from nearly 3,400 locations including in bureaux, GP surgeries, hospitals, colleges, prisons and courts.

[www.citizensadvice.org.uk](http://www.citizensadvice.org.uk) or – local number in Telephone Directory.

**Get Out of Debt with Alvin Hall** – paperback book £4.99

**Publisher:** Hodder Paperback, **ISBN:** 0340833572

**Financial Services Authority – regulator of financial services companies, extensive pages of advice**

[www.moneyadeclear.fsa.gov.uk](http://www.moneyadeclear.fsa.gov.uk). 0300 500 5000. Call rates may vary.

The FSA does not deal with specific consumer complaints, recommend firms or give legal advice, however, the Consumer Helpline can answer general queries about financial products and services.

[www.moneyadeclear.fsa.gov.uk/tools.aspx?Tool=loan\\_calculator](http://www.moneyadeclear.fsa.gov.uk/tools.aspx?Tool=loan_calculator)

Loan calculator is very helpful to compare real cost of borrowing, amount of interest paid over the term of the loan and the monthly payments for different terms.

Poem called The Stalker – about debt

[www.stress-counselling.co.uk/sunflower/STRESS/debt.htm](http://www.stress-counselling.co.uk/sunflower/STRESS/debt.htm)

**Debtors Anonymous** – a fellowship of men and women who share their experiences about debt, free to join.

Their primary purpose is to be solvent and stay solvent. You can hear recorded information about Debtors

Anonymous in the UK on 020 71177533 – with 3 options including lists of their meetings

[www.debtorsanonymous.org.uk](http://www.debtorsanonymous.org.uk)

### **The Motley Fool**

The Fool is an independent company and the website is free to use.

[www.fool.co.uk](http://www.fool.co.uk) – also has a discussion board on getting out of debt for people to share their stories and tips

Free 'Get out of Debt' handbook available from the website

**The Bankruptcy Association** – independent advice, small fee for membership

[www.theba.org.uk](http://www.theba.org.uk)

01539 469474, 10:00-12:30 Mon-Fri

**The Office of Fair Trading** – [www.offt.gov.uk](http://www.offt.gov.uk)

Consumer Direct advice service on 08454 04 05 06

Guidance about the way creditors and debt collectors should behave

### **Money management software packages**

Microsoft Money or Quicken.

free alternatives at: [www.download.cnet.com](http://www.download.cnet.com); [www.tucows.com](http://www.tucows.com)

### **Credit Unions**

ABCUL

Holyoake House

Hanover Street

Manchester M60 0AS

Phone: 0161 832 3694

Fax: 0161 832 3706

Email: [info@abcul.org](mailto:info@abcul.org)

[www.abcul.org](http://www.abcul.org)

UKCU

Credit Union House

15 Greenfield Street

Haslingden

Rosendale

Lancashire BB4 5TG

Phone/Fax: (01706) 215082

Email: [info@ukcu.coop](mailto:info@ukcu.coop)

[www.ukcu.co.uk](http://www.ukcu.co.uk)