

Dealing with Debt

A basic guide on your options and what to do

This booklet provides information about possible ways of dealing with your debts and gives details of debt advice services in Sheffield and national telephone advice lines.

Where should you seek advice?

There are lots of organisations who purport to “help” people with debt problems. Most of them are in the business of selling “debt rescue products” such as debt management plans, individual voluntary arrangements and consolidation loans. Occasionally, these “products” are appropriate, but you can not rely on organisations selling them to give you impartial advice about all your options – they are likely to try to sell you the product that makes them the most money – they don’t usually help you identify the strategy that is best for you.

The information below, and on the back page, gives details of advice providers you can rely upon for independent and impartial advice about all your options for dealing with your debts. If one of the “debt rescue products” mentioned above is appropriate, they will be able to refer you on to a reputable provider.

Neighbourhood Advice Centres

All neighbourhood advice centres provide advice on debt problems. Many of them have specialist debt advisers who, if necessary, will be able to take on your case and act on your behalf. They will normally be able to represent you at court hearings, for example, in relation to rent or mortgage arrears.

Specialist debt advice is available in the following advice centres. It will usually be necessary to make an appointment to see the specialist debt adviser. Home visits can normally be arranged when necessary:

See back cover for where to find debt advice...

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We do not offer a “drop-in” service at this address

Dealing with Debt – what are my options?

There are various ways to tackle debt problems and you will need to decide which is most appropriate for you:

Negotiate affordable payments with your Creditors

It is often possible to work out affordable offers to make to all your creditors. The information here helps you to work out your Personal Budget and gives advice on negotiating with different types of creditors.

Offer a nominal £1 per month payment to creditors

Creditors will be unlikely to agree to write off debts if your circumstances might improve or you have assets of some sort – for example you own your own home. If you have not got sufficient money available to make “pro-rata” offers to your creditors, you can consider making nominal £1 per month offers.

Administration orders

If you have debts of less than £5000 and at least one county court judgment against you, you can apply for an administration order. This lumps together your debts at the county court, enabling you to make one regular payment into court each month, which the court then distributes to creditors.

Debt Relief Orders

A Debt Relief Order provides for a one year moratorium on payments to your creditors, after which your debts will be written off unless your financial circumstances have improved. You may be able to apply if you have debts of not more than £15,000; do not own your home or have other substantial assets; and have disposable income of not more than £50pm.

Bankruptcy

Bankruptcy is a serious step to take but for many people with large debts it is a sensible solution.

Bankruptcy enables you to make a fresh financial start, usually within one year. It is always important to obtain detailed advice about how bankruptcy will affect you personally.

Individual voluntary arrangements

If you have a significant amount of monthly income to offer your creditors and/or you can raise a lump sum of money in some way, you may be able to obtain an individual voluntary arrangement. This can provide release from your debts after a specified period of time – often five years.

Debt management plans

There are some services that will negotiate reduced payments on your credit debts and administer payments on your behalf – you make one monthly payment, which they then distribute to creditors. These services will only provide limited advice on your priority debts. There are two services that provide this service free of charge.

Lump sum payments in full and final Settlement

Sometimes, creditors will be prepared to accept less than the full amount you owe, by way of a lump sum in full and final settlement.

Ask creditors to write off your debts

If you do not have enough income to make any offer of payment to your creditors and your circumstances are not likely to improve, for example, because you are retired or you have a long term disability, you can ask your creditors to consider writing off your debts. You are only likely to get credit debts written off in this way – priority creditors are unlikely to write off debts.

Will I be able to get credit again?

There's no such thing as a credit blacklist of people who won't be offered credit. But if you fall into arrears on credit agreements you may find it difficult to get credit in the future. This is because information about arrears may be registered with credit reference agencies. Most lenders will consult a credit reference agency before offering you credit.

You have a right to obtain copies of your credit reference files. Call the Information Commissioners Office on 0845 630 6060 for a helpful booklet that explains how to do this.

Working out your Personal Budget

It is usually a good idea to start by working out your Personal Budget. This helps you to:

- put all your income, outgoings and debts into a logical format;
- decide, which option for dealing with your debts is best for you;
- negotiate with creditors;
- plan your future spending.

The following information helps you to fill in the loose leaf Personal Budget.

Decide whether to use weekly or monthly figures. Don't mix the two. To convert weekly to monthly, multiply by 52 then divide by 12. All figures can be rounded to the nearest £1.

Income

Write down the income of you and your family.

If your income goes up and down, you will need to work out an average.

If you do not deal with your finances jointly with your spouse or partner you can include your own income only. But you will then need to divide up your essential expenses fairly between you.

Expenses

Write down how much you and your family need to cover your basic living expenses.

Be realistic! If you do not budget enough to cover your essential expenses, you won't be able to keep up with any payments you arrange with creditors.

Your housekeeping expenses should include not only food but also toiletries, cleaning materials, cigarettes, pet food and something to cover reasonable leisure expenses. As a very rough guide, we would suggest the following:

Single person: £40 - £70 per week

Couple: £70 - £130 per week

Each child: £20 - £40 per week

It is important to allow an amount for clothing and shoes. As a very rough guide, we would suggest £4 - £8 per person, per week.

If you run a car, remember to budget for road tax, insurance, maintenance / MOT, road club and petrol. If the car is on a hire purchase or conditional sale agreement, you will need to include the monthly payment in your list of expenses.

The list may not cover everything – try to think if you have any other essential expenses.

Priority debts

Some debts are more important than others because the law gives these creditors stronger powers to force you to pay.

Rent arrears: Your landlord could take court action to evict you from your home if you have rent arrears. Try to agree an amount to pay on top of your normal rent. If you are on benefit or a low income, this should normally be about £3 per week.

If you are on income support, pension credit, income-related employment and support allowance or income-based jobseekers allowance you may be able to arrange for payments to be made directly from your benefit. A standard amount (£3.25pw as at April 2009) will be deducted for arrears plus an amount to cover any water, fuel or service charges not met by housing benefit.

Mortgage arrears: Your mortgage lender could take action to evict you from your home if you have mortgage arrears. Try to agree an amount to pay on top of your normal mortgage payment. Your mortgage lender may be prepared to accept repayment of your arrears over the remaining period of your mortgage if this is all you can afford.

Secured loan/second mortgage arrears: These are normally dealt with in the same way as mortgage arrears (see above). However, if you cannot afford the normal payments, it may be possible to persuade the lender to accept reduced payments. If it is not possible to agree an affordable payment with the lender it may be possible to apply to court for a "time order" to reduce the payments and reduce or stop interest charges.

Council tax arrears: Your Council can, after obtaining a "liability order", take action to have money deducted from your wages or certain benefits; they can instruct bailiffs to visit you; or they can apply for a legal charge on your home or to make you bankrupt. As a last resort they can ask the Magistrates' Court to consider sending you to prison

for non-payment. You should try to come to a to cover your ongoing council tax plus an amount you can afford to your arrears.

Gas and electricity arrears: As a last resort, the fuel company can cut off your supply. Try to agree a repayment arrangement to cover the gas/electricity you are continuing to use plus an amount to reduce your arrears.

You can ask the fuel company to install a card or token meter so you pay for your gas/electricity in advance. The meter will be set to recover any arrears – try to make sure the fuel company set the meter to recover an affordable amount to any arrears.

If you are on income support, pension credit, income related employment and support allowance or income-based jobseekers allowance, you may be able to arrange for payments to be made directly from your benefit. An amount will be deducted to cover the gas/electricity you continue to use plus a standard amount (£3.25pw as at April 2009) to your arrears.

Some fuel companies have set up charitable trusts that can make grants to pay off your arrears. Ask your fuel company if they have a charitable trust that might help you.

Water charges arrears: Although water companies can only take court action against you in the same way as for credit debts (see below), we suggest you treat them as a priority debt. This is because you need to budget for your ongoing liability as well as

payment arrangement any arrears. Try to agree an affordable payment arrangement with the water company to cover your ongoing water charge plus an amount to reduce any arrears.

Many water companies have set up charitable trusts that can make grants to pay off your arrears. Ask your water company if they have a charitable trust that might help you.

Hire purchase or conditional sale arrears: If you have bought goods on HP or conditional sale (usually a car), the finance company can take action to repossess the goods if you get into arrears. If you want to keep the HP goods you will usually need to make arrangements to pay off any arrears as well as keeping up with ongoing payments.

Credit debts

“Credit debts” are things like loans, overdrafts, credit cards, mail order and credit sale agreements.

You need to work out how much, if anything, you have available to offer, after budgeting for your essential expenses and any priority debt payments. Write down the full amount you owe to each of your creditors. Don't worry about what you should pay them at this stage – the purpose of working out your Personal Budget is to decide what, if anything, you can afford to pay.

Your options – explained

After working out your Personal Budget you will be better placed to decide which option for dealing with your debts is most suitable for you.

The information below explains your options in more detail:

Negotiate affordable payments with creditors

Your Personal Budget will help you to work out how much you can afford to offer creditors. You need to consider how long it will take you to repay your creditors at the rate you can afford. If it is likely to take many years, it is probably worth considering other options, such as bankruptcy, or a debt relief order.

If your Personal Budget shows you have some money left over after your essential expenses and

any priority debt payments, you need to divide this amount up fairly between your credit debts. The way to do this is “pro-rata”. Divide each individual credit debt by the total of your credit debts and then multiply by the monthly amount available for all your credit debts. Offers can be rounded to the nearest £1.

You will first of all need to negotiate affordable payments with your priority creditors. This can sometimes be done by telephone, but if the creditor won't agree to the offer you have worked out, send them a copy of your Personal Budget to show them you can't afford more.

You should then write letters in respect of all your credit debts and enclose a copy of your Personal Budget. Write something along these lines:

“Dear Sir/Madam

Account No:

*I am unable to maintain payments to you at the previously agreed rate because
[give a brief explanation of why you are in financial difficulty].*

I enclose a Personal Budget sheet that shows my income, expenses and debts.

I regret that I am only able to offerper month to you.

I would be grateful if you would stop any interest and other charges.

I will contact you again if my circumstances change.

I look forward to hearing from you as soon as possible.

Yours faithfully”

It is quite normal for creditors to put pressure on you to pay more than you have offered. Your account may be passed to the company's debt collection department or to a separate debt collection agency. Sometimes their letters can sound quite frightening. It is important not to let creditors persuade you to pay more than you have offered. If you do, you risk not being able to pay other creditors or not having enough money to live on.

If you have an overdraft on your current account or a loan account with the same bank, it will usually be necessary to open a fresh bank account elsewhere in order to get control of your money. It may not be possible to open a full current account if you have debts, but it is usually possible to open a basic bank account without cheque book and cheque guarantee facilities.

Very often, your creditors will threaten to take court action against you. Usually, this is just to frighten you and they have no intention of taking court action. If a creditor does take court action against you, you will receive a “Claim Form”. If you admit you owe the money, you can make your offer of payment on the “Admission Form” that is attached. The court will decide how much you should pay from the information you provide on the Admission Form. You do not have to attend court in person, but if you disagree with the order for payment made by court, you can ask for an appointment, at your local county court, so you can explain your circumstances to a district judge in person.

Creditors sometimes try to give you the impression that they can send bailiffs to visit you or have money taken out of any wages. They can only do these things if you fail to pay as ordered by court – not before.

It is best to deal with your creditors in writing and to keep copies of all letters. If creditors contact you by telephone, they can be quite threatening. It is a good idea to keep a note of the details of any telephone calls – date, time, who you speak to and what is said. This might be helpful if you need to make a complaint about the way you have been treated.

Ask creditors to write off your debts

If your Personal Budget shows that you have no money available to offer creditors and it is unlikely your financial circumstances will improve, for example, because you are retired or have a long term disability, it may be best to ask creditors to write off your debts. It is unlikely that creditors will write off very big debts if you own your home because they will see your home as an asset from which payment could be obtained, perhaps following your death. It is also unlikely you will be able to get priority debts written off – only credit debts. Creditors do not like writing off debts so you will have to convince them that you are really never going to be able to pay. Send them a copy of your Personal Budget. Explain in detail about your circumstances and enclose any medical evidence to show that your circumstances will not improve.

Offer nominal £1 per month to your Creditors

If your Personal Budget shows that you have no money available to offer your creditors, but your circumstances may improve, it is often best to make a nominal £1pm offer on your credit debts. Send your creditors a copy of your Personal Budget to show them you can only afford a nominal £1pm payment. See the section above on “negotiate affordable payments with your creditors” for more information.

Administration orders

If you have debts of less than £5000 and at least one county court judgment against you, you can apply, at your county court, for an administration order.

An administration order lumps together all your debts, enabling you to make one regular payment to the county court. The court then distributes payments to creditors. The court can make an order

that you pay less than the full amount you owe – a composition order. This means that once you have made payments for a set period of time (usually three years) you are deemed to have satisfied the order in full and do not have to make further payments.

Only an individual can apply for an administration order. So if you have a spouse or partner, you will need to check whose name each debt is in. A spouse or partner's debts cannot be included in your administration order but they may be able to make their own application.

An administration order can be particularly helpful if you have a lot of creditors putting pressure on you to pay more than you can afford – because they must stop chasing you for payment. To apply for an administration order, you need to fill in an application form available from your local county court or advice centre.

Debt relief orders

A Debt Relief Order (DRO) is a form of insolvency for people who have relatively low liabilities, little surplus income and few assets. A DRO provides for a one year moratorium on payments after which your debts will be written off, unless your financial circumstances have improved. You may be able to apply if:

- The total of your 'qualifying debts' is not more than £15,000.
- You do not own your home or have gross assets of more than £300 (but a vehicle up to the value of £1000 and essential household items don't count).
- You do not have more than £50pm left over after paying normal household expenses.

Some debts are not included in the DRO. These include: magistrate court fines; student loans; and child support/maintenance.

There is a £90 fee to apply for a DRO. The application has to be made online, with help from an "approved intermediary". Most of the advisers listed on the back of this booklet are approved intermediaries.

Bankruptcy

Bankruptcy may be worth considering if you have large debts and it would take you a very long time to pay them off.

When you go bankrupt, a "trustee" is appointed (usually the Official Receiver) to deal with your bankruptcy. Your creditors have to stop chasing you for payment and make their claim to the trustee. The

trustee may interview you to see if you have any income or assets that could be used to raise money for your creditors. This is often done on the telephone.

Your home: If you own your own home, there is danger that this would have to be sold. If you rent your home, there is not normally a problem although this may depend on who your landlord is and what it says in your tenancy agreement.

Other assets: Your basic household belongings and tools of the trade should not be taken. If you own a car, this could be sold if not needed for work or certain other essential purposes. If it is worth more than the cost of a reasonable replacement the Official Receiver can sell it and leave you with enough to buy a more modest vehicle.

Employment: Your employer may find out that you have gone bankrupt as your tax code changes. You will need to consider whether bankruptcy might affect your employment in any way. Check your contract of employment or speak to any staff welfare officer or trade union.

Monthly payments: The trustee will consider asking you to make monthly payments from your income. They will only do this if you have a reasonable amount of money left over after you have paid all your household bills and living expenses. If you cannot come to an agreement as to how much should be paid, the trustee can apply to court. Any income payment arrangement or order would last for three years.

How long does bankruptcy last: You will normally be "discharged" from bankruptcy within one year.

Future credit: Your bankruptcy will be registered with credit reference agencies and remain on file for six years from registration. This will make it difficult for you to get credit from most lenders.

Bank accounts: Any bank accounts you have when you go bankrupt may be frozen. You may need to open a fresh basic bank account after the order has been made.

Court fee and deposit: You need to pay a court fee of £150 and a deposit of £360 (as at April 2009) when you make your application to go bankrupt. You can apply for the court fee to be waived if you can't afford to pay it but the deposit must be paid.

Because bankruptcy can have serious implications, we strongly recommend you seek advice before going ahead.

If you decide that bankruptcy is the right option for you, you will need to contact your local county court

to get the forms and to arrange an appointment to make your application.

Individual voluntary arrangements

If you have a significant amount of money to offer your creditors either by way of instalment payments and/or a lump sum, you may be able to obtain an individual voluntary arrangement (IVA). This can provide release from your debts after a specified period of time – usually five years.

An IVA can help you make a fresh start whilst avoiding some of the drawbacks of bankruptcy. However, there are disadvantages, for example:

- If you don't keep to the terms you could be made bankrupt.
- If you own your home, it is normal for an IVA to include a clause whereby this is valued after a set number of years. You then have to pay an amount equal to your share of any equity (the house value less any mortgages) in your property.
- If you are unable to keep up with payments on an IVA, you may find that most of what you have paid has gone on the insolvency practitioner's fees.

Because insolvency practitioners make a profit from setting up and administering IVAs, you should not rely on them to provide best advice. You should always seek independent advice about an IVA before signing.

We cannot recommend specific insolvency practitioners but there are two companies who have established a better reputation than most:

Payplan; Tel: 0800 716239

Grant Thornton; Tel: 0800 783 4582

Both these companies operate nationally.

Debt management plans

There are some services that will negotiate reduced payments on your credit debts and administer payments on your behalf – you make one monthly payment, which they then distribute to creditors. These services will normally only provide limited advice on your priority debts. There are two services that provide this service free of charge – they get paid by creditors agreeing to pay part of the money recovered through the distribution service back to them.

These services are:

Payplan; Tel: 0800 716239

The minimum level of debt they will administer is £5000 and you must be able to pay at least £100 per month (in total).

Consumer Credit Counselling Service;

Tel: 0800 138 1111

The minimum payment is £5 per month per creditor. So, for example, if you have five creditors, you would have to be able to pay a minimum of £25 per month.

Because these organisations obtain their income from the money they recover on behalf of your creditors they are not independent and you should not rely on them for best advice about your options for dealing with debt generally. However, if you have decided that a debt management plan is the right option for you, they can provide a very useful service.

There are many companies who charge you a fee for managing your debts. They often advertise in newspapers and on cable/satellite television. We do not usually recommend using fee charging debt management companies as you can obtain the same kind of service, from the organisations above, free of charge.

Lump sum payments in full and final settlement

Sometimes, creditors will be prepared to accept less than the full amount you owe, in full and final settlement. This might be the case where you have been making reduced payments for a period of time and your circumstances are unlikely to improve. If you are able to raise a lump sum, but not enough to pay off your debts in full, this can be offered in full and final settlement.

For example, if you have debts totalling £10,000 and a relative or friend is prepared to lend or give you £2000 to help, you could make an offer to pay lump sums in full and final settlement. In this example, you would be able to offer 20% (one fifth) to each creditor. You could write to your creditors to explain about your circumstances and include something along these lines:

"I may be able to raise the sum of £2000 if a payment of 20% of the outstanding balance were to be accepted by all my creditors.

I would be grateful if you would advise me if a payment of £[20% of the debt] would be acceptable to you, in full and final settlement."

Creditors won't usually accept a lump sum in full and final settlement offer if you've got the money already – they're likely to say you should pay this to them anyway.....and then discuss how the remainder is to be paid.

Where to Find Debt Advice in Sheffield

Castle Advice Service

207 Duke Street, Sheffield S2 5QP.

Tel: 279 5280

Debt Adviser: Dave Gwynn-Jones/Gemma Oddy

Darnall and District Advice Service

626 Staniforth Road, Sheffield S9 4LN.

Tel: 243 4400

Debt Adviser: Philip Howarth

Firth Park Advice Centre

9 Stubbin Lane, Sheffield S5 6QG.

Tel: 296 0005

Debt Adviser: Jane Knight/Catherine Fisher

Foxhill & Parson Cross Advice Service

552-524 Wordsworth Avenue, Sheffield S5 9JG

Tel: 245 0287

Debt Advisers: Luke Oliver/Emma Highley

Heeley Advice Centre

Heeley Green Centre, 344 Gleadless Road, Sheffield S2 3AH.

Tel: 258 8751

Debt adviser: Neil Cutts

Hillsborough and Area Advice Service

Proctor Place, Hillsborough, Sheffield S6 4HF.

Tel: 285 2020

Debt Adviser: Linda Evans

Manor Rights and Advice Service

300 Prince of Wales Road, Sheffield S2 1FF.

Tel: 264 2576

Debt Adviser: Maggie Middleton

Pitsmoor Citizens Advice Bureau

30 Spital Hill, Sheffield S4 7LG

Tel: 275 5376

Debt Advisers: Michael Grayson/Maura Spooner

Sharrow Citizens Advice Bureau

416 – 418 London Road, Sheffield S2 4ND.

Tel: 258 3322

Debt Adviser: Jayne Shepherd

South East Sheffield Citizens Advice Bureau

77 Queen Street, Sheffield S20 5BP.

Tel: 248 0043

Debt Advisers: June Avison/Suzie Goddard

Woodseats Advice Centre

714 Chesterfield Road, Sheffield S8 0SD

Tel: 258 4384

Debt Adviser: Rachael Clayton

Sheffield CAB Debt Support Unit

1st Floor, The Old Dairy

Broadfield Road

Sheffield S8 0XQ

Tel: 250 1144

Sheffield CAB Debt Support Unit has an adviser specifically to assist disabled people with debt problems:

Debt Adviser: Paul Wright

There are also two advisers to assist ex-Service people and their dependents:

Debt Advisers: Eileen Burn and Helen Coates

National Telephone Advice Services

Community Legal Advice – 0845 345 4345

If you are eligible for free “Legal Help” (this is what was called legal aid) you can be provided with specialist advice and practical assistance. The adviser will not be able to represent you at any court hearings though. You will be entitled to free Legal Help if you are on income support, income-based jobseekers allowance, income-related employment and support allowance related or guarantee pension credit. You may also be entitled to free Legal Help if, after paying housing and childcare costs, you have a low enough disposable income.

National Debtline – 0808 808 4000

National Debtline can provide ongoing advice and “self-help” information to help you to deal with your financial situation. They will not normally contact creditors on your behalf.

National Debtline is a free service and is available regardless of what income you have.

“One-off” Advice and Referral – Sheffield Advice Link

Sheffield Advice Link can provide “one-off” advice and referral to any of the specialist advisers listed above.

Sheffield Advice Link

North Gallery, Castle Market, Exchange Street, Sheffield S1 2AJ.

Tel: 0845 123 23 50