

## **FINANCIAL SOLUTIONS AVAILABLE TO YOU**

You can also refer to the online government guide here: <https://www.gov.uk/options-for-paying-off-your-debts>

### **1. MANAGING YOUR FINANCES YOURSELF**

The first option is to try to manage your own finances.

- The advantage of this is:
  - You can look at your expenditure and make cut backs to your outgoings and meet your contractual repayments to your creditors. This won't damage your credit rating and you will not have to pay any professional fees.
  
- The disadvantage of this is:
  - If you are unable to maintain your minimum contractual payments, your creditors will begin to take further action against you which can include:
    - Default notices
    - CCJ's
    - Bailiff action
    - Attachment of Earnings
    - Charging Orders for homeowners only
    - And the possibility of bankruptcy
  
- The cost to you of trying to manage your finances in this way is nil as you'll be doing everything yourself.

### **2. INFORMAL ARRANGEMENTS**

The second option is to attempt to arrange informal arrangements with your creditors. This means that you contact the creditors yourself, explain your financial difficulties and try to negotiate with them.

- The advantages of informal arrangements are:
  - You can call your own creditors and explain your current financial difficulty
  - This allows the creditor first chance at helping you and will not have any costs attached.
  
- The disadvantages of informal arrangements are:
  - To be effective, it requires all creditors to agree to an arrangement.
  - This support they offer could be withdrawn at any time, and is often revisited every 3 to 6 months.
  - If you then deviate from the agreed arrangement, then legal action can be taken against you.
  - This option is possibly only postponing paying back the debt and there is no level of debt forgiveness.
  - Again, the cost to you of trying to manage your finances in this way is nil as you'll be doing everything yourself.

### **3. DEBT MANAGEMENT PLAN**

The third option for you is a debt management plan. This is an informal arrangement where a company will negotiate with creditors and manage your payments to them. The company must be licensed and regulated. Some Companies will not charge you and their fees will be paid by the creditors; others will charge you a fee for this service; these would be fully explained to you before you entered the plan.

- The advantages of a debt management plan are:
  - The creditors are more likely to agree to reducing your monthly contributions and to freeze or stop interest if they are dealing with a licensed debt management company.
  - One affordable monthly payment. The payment, less any management fee, is paid to your creditors within 5 working days
  
- The disadvantages of a debt management plan are:
  - To be most effective your plan would have support from all your creditors.
  - Support by your creditors can be withdrawn at any time.
  - You remain liable to repay your debts until they are paid in full.
  - It is not possible to guarantee how long the plan will be as creditors can renegotiate at any stage.
  - A debt management plan offers no legal protection from your creditors. If you don't keep up with the lowered repayments your creditors may take legal action against you including taking a charge against your property.
  
- The cost to you of this option may include set up costs, monthly management fees or in some circumstances, the fees may be paid by your creditors.

#### **4. EQUITY RELEASE**

The fourth option for you (if you own a home) is to try to release some of the equity you may hold in your property. This means trying to get a re-mortgage or secured loan to clear all of your unsecured debt. Depending on your age you may consider lifetime mortgage options; we recommend you take specialist advice.

- The advantages of equity release are:
  - If you are able to release enough equity to repay all of your unsecured debt, then the monthly secured repayment is likely to be lower than the unsecured debt repayments, due to being spread out over a longer repayment period of time.
  - If you cannot clear your unsecured debt your creditors may agree a lower settlement figure for your unsecured debts.
  
- The disadvantages of equity release are:
  - The increase on your mortgage or secured loan repayments needs to be affordable, or this could lead to further reliance on credit and lead to a worse position.
  - You will be turning an unsecured debt into a secured debt, and as such if you do not keep up with the re-payments you will be putting your home at risk.
  - You will be spreading repayment of the debt over a longer period of time.
  - There is no debt forgiveness; the full amount of the debt will need to be re-paid.
  
- The overall cost to you may be an increased mortgage payment and an arrangement fee.

#### **5. CONSOLIDATION**

The fifth option for you is to try to obtain a large unsecured loan to consolidate all of your debts into one.

- The advantages of obtaining a consolidation loan are:
  - You may be able to reduce your total repayments to a more manageable level.
  - Instead of multiple payments you have only one payment to make every month, which in turn helps you in managing your finances properly as well as reduces the chances of missed and late payments.
  - Dealing with one creditor also reduces the pressure you experience while handling multiple creditors.
  
- The disadvantages of obtaining a consolidation loan are:
  - If you do not consolidate all of your debts or take out more credit you may find yourself in a similar or worse position.
  - That the maximum unsecured loan amount is usually £25,000 however your credit rating will affect how much you can borrow and the cost of the repayments.
  - A consolidation loan allows you to pay low monthly instalments and interest rates, but it involves a longer repayment period. This means that you may end up paying back more in total.
  - That there is no debt forgiveness, the full amount of the debt will need to be re-paid.
  
- The cost to you would be the monthly repayments and may include an arrangement fee.

## **6. INDIVIDUAL VOLUNTARY ARRANGEMENT**

The sixth option for you is the Individual Voluntary Arrangement (IVA) which is a statutory contract between you and your creditors which is negotiated, monitored and administered by an Insolvency Practitioner.

- The advantages of an IVA are:
  - The IVA will reduce the monthly payments you make to one affordable payment based on your circumstances and guidelines acceptable to creditors.
  - If the IVA is approved by 75% of your voting creditors (by value) anyone who votes against is still bound by it.
  - There is likely to be a proportion of your debt written off by your creditors.
  - Once the IVA is approved no further interest can be charged and on successful completion of the IVA, the balance of what you owe creditors is written off.
  - It offers legal protection from your unsecured creditors so they can't take any further action against you.
  - It is for a fixed period of time (usually 5 years; it may be extended to deal with any change in circumstances or if you have equity in your property).
  - You may be able to continue to run any business you have.
  - It offers you the ability to protect any assets you may have such as your house or car.
  
- The disadvantages of an IVA are:
  - Creditors may propose changes to the terms & conditions of your proposal, which may have to be accepted for your IVA to be approved.
  - The IVA may adversely affect your credit record for up to 12 months after your IVA has been successfully completed.
  - If you have a change of circumstances or are unable to comply with the existing IVA proposal, creditors may agree revised terms. If the creditors do not agree, the IVA is

likely to fail and you will remain liable for your debts and may be made bankrupt (although in most circumstances even when cases fail, we do not petition for bankruptcy).

- Your IVA is entered onto a public register.
  - You will remain liable to pay certain debts such as student loans, fines and some debts arising from family proceedings
  - No further credit can be taken without your Supervisor's approval.
- There is a Nominee's fee and a Supervisor's fee and these are explained and shown clearly in the attached proposal and are subject to agreement by creditors.

## **7. COUNTY COURT ADMINISTRATION ORDER (CCAO)**

A CCAO is the seventh option available for you but only if your debts are less than £5,000. You would make one monthly payment to your local court and the court would divide the money between your creditors. The court would decide how much of your debts you have to pay and how long the arrangement would last. The fee for a County Court Administration Order would be up to 10% of your total debt level.

- The Advantages of a CCAO are:
  - Your creditors cannot take any action against you.
  - Interest and charges are stopped.
- The Disadvantages of a CCAO are:
  - Your creditors could object and therefore be left out of the CCAO
  - If the court decides to make an attachment of earnings order then your employer will be notified about your debts.

There's a court fee each time you make a payment. This cannot be more than 10% of your debt. For example if you owe £5,000 the total fee cannot be more than £500.

## **8. BANKRUPTCY**

Bankruptcy is the eighth option. It is a formal procedure and is administered by the court.

- The advantages of bankruptcy are:
  - It is likely to be the quickest procedure. In the majority of circumstances, you would be discharged from bankruptcy within one year.
  - It offers legal protection from your creditors.
  - It offers debt forgiveness, so some of your debt may be written off.
  - Any income payments you are required to make are likely to be at a lower level than in an IVA, and over a shorter time. Never more than 36 months.
- The disadvantages of bankruptcy are:
  - You will lose control of any assets you own and these may be sold on behalf of your creditors.
  - Your bankruptcy may be advertised in your local press (although this is unlikely) and will be entered onto a public register.
  - It may adversely affect your credit file for up to 12 months after discharge.
  - You may not obtain any further credit of more than £500 without disclosing that you are an un-discharged bankrupt.

- There are certain jobs that an un-discharged bankrupt cannot do; this includes being a judge, an MP or an Insolvency Practitioner. There is also certain employment contract also prohibits bankrupt people from working and these are usually within the financial industry, some local government roles, and jobs associated with handling cash.
- If you wanted to become self-employed, you would have to trade under the name in which you were declared bankrupt so this can make it harder to set up on your own.
- You will remain liable to pay certain debts such as student loans, fines and some debts arising from family proceedings
- All restrictions remain until you are discharged, however an investigation into your financial affairs is conducted and this may mean that you may not be discharged within the normal 12 months.
- The costs that you would need to cover are approximately £680 to the court. There are discounts available in certain circumstances and there are services available where you can pay for assistance.

## 9. Debt Relief Order

The final option that may be open to you is a Debt Relief Order.

These are only open to people who do not own their own home, have less than £20,000 of debt and do not have any other assets of considerable value. You must also not have a disposable income greater than £50.

Where the household income is entirely benefits based or if the client is concerned that the monthly contribution may fall to £50 or below you may be eligible for this.

- The advantages of a debt relief order are:
  - Your debts will be written off at the end of the DRO, with certain exceptions (explained in the disadvantages section)
  - None of the creditors listed in the DRO application can take further action against you without the court's permission
  - It allows you to make a fresh start after 1 year
  - The fee (£90) is affordable and can be paid in instalments but the fee must be paid before the application can be made
  - You will keep your assets (must not exceed the value of £1,000) and a vehicle (must not exceed a value of £1,000)

The disadvantages of a debt relief order are:

- Your DRO is entered on a public register
  - You cannot have a DRO if you have an existing bankruptcy order, an IVA, are subject to bankruptcy restrictions or you have had a DRO in the last 6 years
  - You cannot have a DRO if you own a property, even if it has no equity
  - You will remain liable to pay certain debts such as student loans, fines and some debts arising from family proceedings
  - Your employment may be affected
  - Your DRO could be revoked (withdrawn) if you don't co-operate with the official receiver during the year your DRO is in force
  - You can't act as a director of a company or be involved in its management unless the court agrees
  - You will be committing an offence if you get credit of £500 or more without disclosing that you are subject to a DRO

- You may have a debt relief restrictions order made against you for 2 to 15 years if you acted irresponsibly, recklessly or dishonestly.
- The fee is £90 and can be paid in instalments but the fee must be paid before the application can be made.