

In these financially challenging times it is not unusual for people to find themselves struggling to manage their personal finances – a situation that often results in people falling into debt.

However, **by following sound and simple advice and learning to budget, people can overcome their debt burdens and get their lives back on track.** With this in mind, Credit Action has produced this self-help guide.

Dealing with debt is a practical manual that offers clear, step-by-step advice on addressing a range of debt issues such as:

- How to prepare a financial statement
- How to prioritise your debts
- How to negotiate with your creditors
- Where to go for further help

If you feel concerned or trapped by rising debt then this booklet can help you. Included are a large number of ready-made letters for using when writing to creditors and templates for preparing financial statements.

If you feel you would like more assistance, the **Consumer Credit Counselling Service (CCCS)** offers free and independent advice. They can be contacted on **0800 138 1111** (freephone) Monday to Friday 8am to 8pm.

“Not many consumers feel confident in managing their money, and yet there are few parts of our lives that carry the same degree of risk if it all goes wrong. These booklets by Credit Action are simply invaluable.”

Ed Mayo
Chief Executive, Consumer Focus



Don't get
down
about debt.
Take action.

Contents

Introduction	2
Practical Steps	
Step 1 Contact all creditors	4
Step 2 Decide priorities	5
Step 3 Prepare financial statement	7
Step 4 Maximise income	9
Step 5 Review expenditure	10
Step 6 Negotiate with priority creditors	11
Step 7 Negotiate with secondary creditors	15
Court proceedings	20
Conclusions	24
Some dos and don'ts	26
Helpful organisations	27
Notes	29

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Credit Action is a national money education charity dedicated to helping educate individuals and families in all aspects of money management. Credit Action works in partnership with another charity, Consumer Credit Counselling Service (CCCS), who answer all our helpline calls. CCCS is a charity dedicated to providing confidential, free counselling and money management assistance to financially distressed families and individuals.

This book is only a guide to managing money and we have had to simplify some issues and make general comments. Dealing with debt is often extremely complicated and so you cannot hold us responsible for any action you take, or do not take, based only on what is written in this book.

If you have serious problems with debt, you should get expert advice immediately.

Introduction

This booklet is designed to help you deal with personal debt because there are many things you can do to regain control of your financial situation.

Admitting that you are struggling and seeking help is an important first step towards resolving your debt problems. Don't be embarrassed or ashamed to disclose all your debts and financial difficulties because ignoring the problem and not replying to correspondence will only make things worse. Your problems will not go away without specific remedial action.

Here are some *positive* things you can do; most of which are explained in greater detail later in this booklet:

- Stay calm and try not to feel guilty or afraid, even when threats are being made. Advice and support is available to guide you through your situation.
- Don't be tempted to borrow more money to pay off existing debts – this eventually creates even more problems – unless first seeking independent advice.
- Make a list of *all* your creditors and debts.

“I can now get on with my life!”

John from London had suffered under the burden of debt for 18 years. Though his problem wasn't so serious as to force him into bankruptcy it was a constant battle to scrape together the money to pay off cards, bills and loans and he was never able to manage his finances well and really get on top of the problem. However he was then given Credit Action's '**Dealing with Debt**' moneymanual by a friend who could see the effect this was having on his confidence and social life.

Over the next year he worked stage-by-stage through the seven step process in the guide. This allowed him to take control, bring order to his finances and communicate effectively with his creditors to work out solutions where he was struggling. A year later he had reached his goal of being debt free. John wrote to us saying, "*Finally, I can now get on with my life!*"

- Prepare a statement of your financial position, detailing your income, living expenses and other commitments, and the balance (if any) available to clear your debts.
- Use the **Moneybasics Spendometer**, a mobile phone budgeting tool that allows you to keep track of your spending while on the go. It can be downloaded for **free** from the Credit Action website **www.creditaction.org.uk**
- Communicate with your creditors so that they are aware of your situation – they will usually respond sympathetically to genuine problems once they are aware of them.
- Communicate with your family and friends so that you can share your problems and work together towards a solution.
- Communicate with other agencies who can give you specialist advice – they do not charge for their services.
- Money problems often arise from or lead to family, health or emotional pressures and it is important that you seek professional help for these related problems too.
- **KEEP GOING!** Don't despair – clearing your debts can be a long process but the end result will be worthwhile and will put you back in control of your financial situation.

Useful contacts

Consumer Credit Counselling Service (CCCS) helpline on **0800 138 1111** (freephone) is available Monday to Friday 8am to 8pm.

You can also contact your local Citizens Advice at **www.citizensadvice.org.uk**

We will now look in more detail at the **PRACTICAL STEPS** you can take to resolve your debt problems.



Step 1

Contact all creditors

Creditors cannot help you unless they are aware of your difficulties and circumstances. You may also need to ask them to confirm full details of the amount owing, actual arrears, penalty charges etc. The following is a typical letter:

SAMPLE LETTER A

Your address

Date

Dear Sir/Madam

Account/Agreement Number

*I am currently experiencing financial difficulties due to.....
and I am therefore unable to maintain the full payment on my account. I am trying to resolve my situation and will send you a financial statement as soon as possible with the best payment offer I can manage.*

Please let me have the following information so that I can draw up a schedule of all my debts and make appropriate offers to my creditors:

Type of agreement (secured/unsecured)

Balance owing

Terms of repayment and interest/penalties accruing

Arrears

Any insurance policy attached to the agreement

I will write to you again as soon as I have received replies from all my creditors.

Yours faithfully

Let your creditors
know of your difficulties



When all the replies have been received draw up a schedule of your debts and divide them between PRIORITY and SECONDARY creditors (see STEP 2 below). It is essential at this stage to mark any debts where court orders (County Court Judgments or CCJs) have been made or a claim form received and seek specialist help as these debts need immediate attention.

Keep copies of all correspondence both sent and received. If any agreements are subsequently made by telephone get the name of the person you spoke to and ensure that the agreement is confirmed in writing.

It is important to check that you are actually responsible for all your debts. A husband and wife are not responsible for each other's debts unless they have both signed the agreement (except for Council Tax), and you cannot inherit a dead person's debts.

You should also check the amount being claimed to ensure all the payments you have made have been deducted, and challenge any excessive interest or penalty charges.

Step 2

Decide priorities

Some debts carry more severe penalties than others and this means that they must be dealt with first. Priority treatment is not determined by the size of the debt, the period or amount of arrears or the threats being made, but by the actual legal remedy the creditor has against you for recovery. A PRIORITY debt is usually defined as one where non-payment can result in you:

- being imprisoned
- losing your home
- losing essential goods or services.

On the next page is a list of priority debts and the legal consequences of non-payment.

Type of debt	Final sanction for non-payment
Mortgage/secured loan	Loss of house
Rent	Eviction
Gas/electricity	Disconnection/fitting of prepayment meter
Water	Since the Water Act, 1999, the supply cannot be disconnected, but we recommend that this is regarded as essential expenditure and treated as a priority payment.
Council tax	Taken from wages/benefits; bailiffs; imprisonment
Child Support Agency (CSA)/ maintenance orders	Taken from wages/benefits; imprisonment
Magistrates fines	Bailiffs; imprisonment
Inland Revenue and VAT	Bailiffs; bankruptcy, imprisonment

PRIORITY creditors must be dealt with before any offers or payments are made on SECONDARY debts. SECONDARY debts are all those which do not carry the above sanctions. For example:

Type of debt	Final sanction for non-payment
Credit/store cards	County Court Judgment
Personal loan (unsecured)	County Court Judgment
Bank loan/overdraft	County Court Judgment
Hire purchase*	Loss of goods
Credit sale	County Court Judgment
Catalogue**	County Court Judgment
Pawnbroker	Keep pledge
Loan shark***	Not legally enforceable unless licensed
Loan from family/friends***	County Court Judgment

* If the threatened goods are an essential requirement, for example a washing machine or car needed for work, such a debt must be treated as priority, but if you have paid less than one third of the total owed under the hire purchase agreement the creditor can repossess the goods without a court order.

** Catalogue debts may be difficult to enforce as it is not always standard practice to complete a formal credit agreement, and creditors should be asked to produce a copy of this if proceedings are threatened.

*** Individual circumstances may suggest some other debts be treated as priority, although not legally enforceable, e.g. money owed to family, friends or loan sharks.

Before you make offers of payment to any creditors you will need to prepare a financial statement – see STEP 3 below.

Prepare financial statement



It is essential that you now prepare a statement of your actual current financial position. A specimen is shown on the following page and can be adapted to suit your particular situation. Your statement must include *all* income received from whatever source and *all* money going out and to where. When completing this form use either weekly or monthly figures, but don't mix them and mark clearly on the statement which basis you have used.

- To change weekly figures to monthly, multiply by 52 and then divide by 12.
- To change monthly figures to weekly multiply by 12 and then divide by 52.

Annual payments such as TV licence, road tax, insurance premiums etc. should be divided by 12 to give the monthly amount or by 52 for the weekly figure.

Also allow for irregular, and often unexpected, expenditure such as car and house maintenance, repairs and replacements.

It is important to take everything into account, but don't include payments for arrears or secondary creditors at this stage because you need to know the total money you have available (if any) to make offers to them.

Before finalising your statement you must review your INCOME to see if it can be increased in any way (see STEP 4 page 9) and consider your EXPENDITURE to ascertain if any savings can be made (see STEP 5 page 10).

Your financial statement (see over) will need to be constantly revised to reflect changes in your income and expenditure and to incorporate subsequent agreements for payments to be made to your creditors.



FINANCIAL STATEMENT			
Date prepared			
Name			
Address			
Number of adults in household		Number of children in household	
INCOME weekly/monthly			
	You	Partner	Total
Wages (take-home pay)			
Partner's wages			
Working Tax Credit/Child Tax Credit			
Part-time job			
Child Benefit			
Job Seeker's Allowance			
Disability and Sickness Benefit			
Pension			
Child Maintenance paid to you			
Rent or money from lodgers			
Other benefits			
Other			
Total Household Income			
EXPENDITURE weekly/monthly			
PRIORITIES		Amount spent	
Mortgage/Rent/Board			
2nd Mortgage/Secured Loan			
Endowment Policy			
Child Maintenance paid by you			
Council Tax			
Water Charges			
Electricity			
Gas			
Service Charges/Ground Rent			
Court Fines/County Court Judgments			
Vehicle Finance/Hire Purchase			
Television Licence			
Self Employed			
Income Tax			
National Insurance			
VAT			

LIVING COSTS	
Food and Housekeeping	
School Meals/Meals at Work	
Clothing/Footwear	
Vehicle Running Costs (Tax, MOT, Insurance, etc.)	
Petrol/Diesel	
Fares (Bus, Train, etc.)	
Telephone and Mobile	
Rentals (TV, Video, etc.)	
Prescriptions/Dentist/Optician	
Childminder/Nursery	
School Costs	
Cigarettes/Alcohol	
Life Insurance/Pension/Investments	
Building/Contents Insurance	
Other	
TOTAL HOUSEHOLD COSTS (1)	
TOTAL HOUSEHOLD INCOME (2)	
TOTAL LEFT AFTER TAKING (1) FROM (2)	

Maximise income

Be sure that you have included everything, and then consider if you can obtain any additional income. Possibilities might be:

- Job Seekers Allowance – if you are unemployed or have been made redundant.
- Child Tax Credit and Working Tax Credit – if you have children or if you are working but on a low income.
- Income Support – is available to people on low incomes and who meet certain criteria relating to work, sickness, age, savings etc.

Step 4

A copy of this financial statement and all the sample letters in this manual can be downloaded from the 'Dealing with Debt – read online' section of the Credit Action website – www.creditaction.org.uk/money-manuals.html

- Incapacity or disablement benefits, including mobility or attendance allowance.
- Income Tax – check your code, particularly if your circumstances have changed, as you may be entitled to a rebate.
- Maintenance – are you entitled to this? Contact the Child Support Agency.
- Housing Benefit and Council Tax relief. Your local council can advise on eligibility for these.
- What about part-time work or taking in a lodger?
- Can grown-up children or non-dependants contribute towards the household expenses?

Income maximisation is a very important part of the debt resolution process and creditors will want to be reassured that you have considered all the options.

Check out your entitlements



To find out more or to seek help about benefits, tax credits and other forms of support you can visit the **Money, Tax and Benefits** section of the Directgov website at www.direct.gov.uk

Step 5

Review expenditure

It is important to include all household expenditure and financial commitments in your statement, whether regular or irregular. Variable items such as fuel bills should be averaged out over the year and the use of budget plans, stamps or tokens may assist with this.

Creditors may challenge amounts spent on food, fuel, clothing, travel etc. so is there any way that you can reduce these to realistic levels in relation to the size and circumstances of your family? The cost of running a car may need to be justified

against using public transport. For example, is it essential for travel to work, school, shopping etc. as other means of transport are not available? Leisure and holiday costs may also be challenged by creditors, along with expenditure on cigarettes, alcohol, lottery, pets etc.

Once again check your expenditure carefully to be sure that everything is included and all reasonable savings have been made. Try and make your expenses less than your income, otherwise your debts will continue to grow. However, do be realistic, as you may have to live on this budget for several years, so concentrate on reducing non-essentials rather than basics such as food and heating.

Sometimes it is the little things that you buy that soon add up – and it is likely that you spend more on them than you think. One very easy way to keep track of your spending is Credit Action's **Moneybasics Spendometer**. It's a mobile phone budgeting tool that allows you to set budgets and track your 'spending speed', so you don't overspend during the day. It can be downloaded for **free** from the Credit Action website www.creditaction.org.uk

On completion of your income and expenditure review you can now finalise your financial statement before sending it to your creditors as part of your negotiations with them (see STEP 6 below and STEP 7 page 15).

Step 6

Negotiate with priority creditors

On completion of your financial statement deduct your total expenditure from your total income to see what money (if any) you have towards clearing your debts.

If you are in arrears you will first need to negotiate with your priority creditors (see STEP 2 page 5 for definition) and this should be done quickly to prevent implementation of their sanctions. Even if legal proceedings for recovery have commenced *it is never too late* to make an offer and seek a voluntary agreement.

List all your priority debts and send this schedule, along with your financial statement, to each priority creditor. This letter should detail the reasons for your financial difficulties and include a reasonable offer for payment of arrears, provided there is surplus money available. A suggested letter is shown on page 12.

SAMPLE LETTER B

Your address

Date

Dear Sir/Madam

Account/Agreement Number

*I am experiencing financial difficulties because.....
I enclose a financial statement detailing my current situation together
with a schedule of all my priority creditors.*

*You will appreciate that it is necessary for me to make an offer to each
of these creditors therefore I am able to pay you £..... per week/month.
If you will confirm your agreement in writing I will commence payments
immediately. Please also advise me of the method and due date for such
payments.*

Yours faithfully

When negotiating with your creditors:

- You should not offer all your available income to one creditor.
- Start your negotiations with the debt nearest to its final sanction.
- Don't feel obliged or pressurised to pay more than you can afford, as it is important to sustain the payments once agreed.
- Do not divulge account and reference details to anyone other than the creditor concerned.
- Even if creditors don't agree to your initial offer start paying as it will begin to reduce your arrears and may persuade them to change their minds if they see that you are serious in your intentions.
- Ensure that you get a receipt for all payments made and any verbal agreements must be confirmed in writing.

As payment is agreed with each creditor you should include this in your financial statement so that other creditors can see your current situation and you can adjust to living within your new budget.

If you have no surplus income for priority creditors after re-assessing your budget you must still contact them and support your position with your financial statement. You should remember that some creditors have the legal right to make direct deductions from wages or income support via the Department for Work and Pensions (DWP).

For 'fuel' debts, pre-payment meters allow the arrears to be collected over a period of time and are a way of avoiding disconnection.

For dealing with housing debts such as mortgages or secured loans the following options should be explored:

- Never abandon your property or hand the keys back to the lender.
- Always contact your mortgage lender at the first sign of a problem and continue to keep them informed of any changes in your circumstances.
- Consider 'Interest only' or other reduced payments for a limited period of time.
- Capitalise the arrears. For example: Mr A had arrears of £2000 on his mortgage of £40,000. He started a new job and demonstrated that he could now make increased payments. So his mortgage lender added his arrears to his existing mortgage which then became £42,000 and Mr A made slightly higher payments each month.
- Seek to repay the arrears over an agreed period of time If your financial situation is improving.
- Consider re-mortgaging on a different basis, e.g. transferring from an endowment to a repayment mortgage, but be careful to check and compare terms and conditions, initial and longer-term interest rates, early redemption penalties, administration charges etc.
- Think about a voluntary sale of the home as this can usually produce a higher price than forced sale after repossession, but consideration must first be given to alternative accommodation as the local authority may decide that you have intentionally made yourself homeless. Such a sale may not always produce sufficient equity to clear the outstanding mortgage/loan and you may still be legally liable for the balance, even if the lender agreed to the sale.

Step 7

Negotiate with secondary creditors

After agreeing offers of repayment for all your priority debts, your financial statement should be updated to see if you have any disposable income to pay your non-priority debts (see STEP 2 page 5 for definition). The fairest way to divide this amount (if any) amongst the secondary creditors is in proportion to the total amount they are owed. List these remaining debts on a summary sheet (see example overleaf) and add up the total of the secondary debts. The total available disposable income is then apportioned to these creditors by the following method:

$$\frac{\text{Individual debt}}{\text{Total debts}} \times \text{Disposable income} = \text{Offer}$$

The example given below assumes you have £100.00 per month available for all secondary creditors:

SCHEDULE OF SECONDARY CREDITORS

Name:

Date:

CREDITOR	AMOUNT OWED	OFFER (per month)
	£	£
ABC Catalogue	2,000.00	20.00
Northern Loans	3,000.00	30.00
Right Car Finance	1,000.00	10.00
Flexible Credit Card	4,000.00	40.00
TOTAL	10,000.00	100.00

Using the above formula the calculation for the Flexible Credit Card would be:

Homeowners Mortgage Support (HMS)

HMS helps people who are having difficulties meeting their mortgage repayments, but are likely to get their finances back on track in the near future. To be eligible for HMS, you must have had a temporary drop in income and be unable to meet your monthly mortgage payments.

If you are accepted for HMS, your lender will delay some of the monthly interest due on your mortgage. This will reduce your payments for up to two years. The money isn't written off – you'll have to pay it back eventually. This is also known as 'deferring' your repayments.

Mortgage Rescue scheme

The Mortgage Rescue scheme is a government scheme which is run by your local housing authority – the organisation that manages housing for your council. If you are eligible, you could get financial help to stay in your home. You make your application for help from the scheme to your local council. To be eligible for the scheme your household must include someone in 'priority need'. When you apply for the scheme, your local housing authority will talk you through some other criteria that you'll need to meet.

Where to go for further information

Further information on the Mortgage Rescue scheme and the Homeowners Mortgage Support scheme as well as other helpful advice to do with rent arrears, repossessions and evictions can be found in the **Home and Community** section on the Directgov website – www.direct.gov.uk

Shelter also provide help and advice to those facing repossessions or eviction – http://england.shelter.org.uk/get_advice/ They can also be contacted on (freephone) **0808 800 4444** 8am to 8pm Monday to Friday; 8am to 5pm Saturday and Sunday.

The Citizens Advice service helps people resolve their legal, money and other problems by providing free, independent and confidential advice. To find out where your local Citizens Advice centre is go to www.citizensadvice.org.uk

$$\frac{£4,000.00}{£10,000.00} \times £100.00 = £40.00$$

You may find it helpful to use a calculator to complete this schedule.

Using the figures you have calculated you can make an offer to each secondary creditor. A typical letter is shown below and this should be supported by a copy of the debt schedule and your financial statement.

SAMPLE LETTER C

Your address
Date

Dear Sir/Madam

Account/agreement number:

You will be aware from my earlier letter that I am experiencing financial difficulties due to.....

I enclose a copy of my current financial statement which includes payment of arrears to my priority creditors. I also enclose a schedule of all my secondary debts from which you will see the available money has been apportioned on a pro rata basis.

I ask that you will accept this offer of £..... per month and stop interest or other charges accruing in order that the payments will begin to reduce the debt.

Please confirm your acceptance in writing and advise me how the payments should be made.

Thank you in anticipation.

Yours faithfully

It is important that creditors can see that you have treated each of them fairly so don't be pressurised or threatened into increasing individual offers at the expense of other creditors. There is usually a reluctance to freeze interest and other charges but there is little point in paying if the outstanding balance continues to rise so try writing again as follows:

SAMPLE LETTER D

Your address
Date

Dear Sir/Madam

Account/agreement number

Thank you for accepting my offer of repayment but I am disappointed that you have not agreed to freeze the interest on the account. As you will appreciate, if the interest is not stopped then the balance on the account will continue to rise and I will never be able to repay the debt. I would ask, therefore, that you reconsider your decision and advise me accordingly.

Yours faithfully

If your bank is a secondary creditor it may be necessary to open an account elsewhere if possible and redirect your wages so that you can have access to them. Direct debits will also need to be transferred as the bank may stop paying them.

Start payments as soon as they are agreed in writing with your creditors and remember that **keeping up regular payments is essential**, even if they are small.

If your circumstances deteriorate further and you cannot sustain payments then prepare a revised financial statement, re-calculate your offers in line with your current available disposable income and write to your creditors again explaining the change in your circumstances.

If a creditor will not accept your initial offer you can write to them as follows:

SAMPLE LETTER E

Your address
Date

Dear Sir/Madam

Account/agreement number

Thank you for your letter dated.....

I am sorry that you feel unable to accept my offer. The majority (or all) of my other creditors have accepted and payments to them have commenced. I cannot offer you more as you will see from my financial statement that I have only £..... in total to divide between all my creditors and it would be unfair to favour your company at the expense of others who have agreed to my offer.

Please reconsider your decision in the light of what the other creditors have accepted.

Yours faithfully

SAMPLE LETTER F

Your address
Date

Dear Sir/Madam

Account/agreement number

I am experiencing financial difficulties because.....

I enclose a copy of my financial statement from which you will see that after meeting essential expenditure there is no available income with which I can make you an offer except a token payment of £1 a month as a gesture of goodwill. I enclose the first payment and ask that you send me a payment book.

If my circumstances improve in the future I will contact you again but in the meantime will you freeze the interest charges and consider whether you will write off the debt?

Yours faithfully

Often creditors will agree to reduced payments for a limited period of time, for example three to six months. If your circumstances haven't improved by the end of this period then let them know and continue existing payments. Otherwise prepare an updated financial statement and re-calculate your offers as explained above.

If you have **no disposable income for secondary creditors** then write and inform them explaining your circumstances and sending your financial statement to confirm your situation. Agree to contact them again if your circumstances improve. In the meantime ask them to freeze interest charges. You could ask them to consider writing off the debt or accepting a reduced settlement, although they are unlikely to do so in the early stages. Make a token offer of payment to each creditor of £1 per month. Include the first payment with the letter and continue to make monthly payments. This shows that you want to do what you can to pay what is due. You could write as follows:

“I can now sleep at night again.”

Sandra from Essex, rang to say that her health had been adversely affected by worries about money. Although her financial affairs were not in a completely desperate state she felt that they were always on the brink of being out of control. After using some of Credit Action's **‘Dealing with Debt’** material on understanding her credit issues and keeping a budget she was able to say, *“The help I got has helped me think through my whole approach and take charge of my money, rather than letting my money take charge of me! I can now sleep at night again.”*

Court proceedings

The aim of this booklet is to help you avoid court proceedings but what happens if negotiation fails and your creditors resort to legal action? It is not a crime just to owe money and with certain exceptions (see STEP 2 page 5) you can't go to prison if you are unable to pay. Your case will normally be heard in the county court which is not a criminal court. The court is not there to punish you but to ensure fairness between the borrower and lender. So don't be afraid of court action – it can often help solve your problem because you do have some legal rights.

Always complete and return court documents within the specified time so that the court is aware of your problems and overall financial situation and will be able to take these into consideration when making an order.

Always attend court hearings to ensure that your case is properly represented. The case will normally be heard in a private room with officials who are used to dealing with these matters – they are not there to serve the interests of the creditor alone.

If court action is taken against you:

- You will receive a claim form stating what your creditor claims from you.
- If you do owe the money, return the form of reply attached to the claim form to the creditor saying how much you can pay. Complete the financial statement on the back of the claim form and make sure you explain your circumstances fully.
- If you dispute some or all of the debt say why on the form provided.
- If the creditor accepts your offer they will tell the court and you will then get an order (a judgment – CCJ) from the court telling you to pay at the rate you offered.
- If the creditor refuses your offer the court decides how much you pay from the information you have provided. If they tell you to pay more than you have offered you can ask for a hearing to explain your situation in more detail. You have fourteen days to ask for this.
- Special considerations apply if the court hearing is for re-possession of or eviction from your home – seek immediate help as there are still things you can do at this stage.
- If necessary, seek advice in dealing with court documents but don't ignore them otherwise a decision will be made without the court being aware of your actual circumstances and financial situation.

It is helpful to be represented in court, but don't worry if you cannot afford a solicitor, just contact your **Community Legal Advice** centre who will provide advice and assistance and may be able to arrange free legal aid if you are entitled to it. They can be contacted via their hotline on **0845 345 4 345** Monday to Friday 9am to 8pm and Saturday 9am to 12.30pm or at <http://www.communitylegaladvice.org.uk/en/legalaid/index.jsp>

CCCS (freephone **0800 138 1111**, Monday to Friday 8am to 8pm) can also provide free, independent advice and help with court proceedings.

Directgov also have useful information in their **Home and Community** section on evictions, repossessions and other housing advice – www.direct.gov.uk

Debt recovery procedures

Other aspects of **debt recovery procedures** which you may become involved with are:

Debt collection agencies

Rather than accept your offer of repayment the creditor may refer your account to a debt collector. Do not be pressured, bullied or threatened by them into paying more than you can afford. Stand firm on your offer and refer to the financial statement sent to the creditor. Collectors have no legal right of entry to your home and cannot remove goods. Undue harassment is illegal and should be reported to your local Trading Standards Department – www.tradingstandards.gov.uk

Bailiffs

If you fail to make payments under a CCJ (England and Wales) or a Decree (Scotland) the court will grant Warrant of Possession Order or Summary Warrant respectively. Bailiffs or Sheriff Officers may be directed by the court to implement the order by removing goods to the value of the debt and costs, dependant upon the administrative actions conducted by the creditor via the court.



You do not have to let a bailiff into your home and they cannot break in (unless they have entered previously for that debt). They can legally enter through a door or window that you have left open. Only bailiffs recovering debts owed to the State (e.g. Income Tax and VAT) can force entry to your home. Even at this late stage it may be possible to negotiate satisfactory terms for payment with the bailiff. As an alternative the court can grant an Attachment of Earnings Order to deduct money directly from your wages.

Further information on dealing with debt collection agencies and bailiffs can be found in the **Money, Tax and Benefits** section of the Directgov website at www.direct.gov.uk

Credit reference agencies

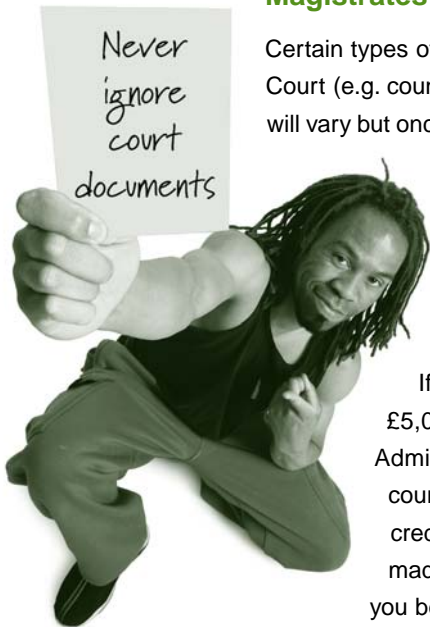
They keep records of some unpaid debts and a register of all county court judgments. Most companies will check with an agency before giving credit. You can obtain a copy of your record from the Agency and if it is wrong it can be corrected and when you pay off a CCJ you can have your record marked accordingly. Please refer to the credit reference agencies listed in the Helpful Organisations section on page 27 of this manual if you need to find out your credit record.

Magistrates Court

Certain types of debt can be recovered through the Magistrates Court (e.g. council tax arrears and unpaid fines). The procedure will vary but once again you must respond to all court documents and immediately seek professional advice. The magistrates have the ultimate sanction of imprisonment for some debts, although this is only used as a last resort.

Administration Orders

If you have a number of small debts (maximum £5,000 in total) you can apply to the court for an Administration Order. This means that you pay the court one regular amount and they distribute it to the creditors on your behalf, although a small charge is made. A court judgment has to be entered against you before you can apply.



Insolvency

Bankruptcy

Bankruptcy is a way of dealing with debts, enabling you eventually to make a fresh start and, at the same time, making sure your assets are shared out fairly amongst your creditors. A number of assets are automatically protected under Bankruptcy/Sequestration with the Official Receiver having discretion over others. However, you will probably lose some of your assets, there will be costs involved in the process and restrictions on your future activities so the situation needs very careful consideration and you should seek professional advice before making a decision. Your creditors can also petition for a Bankruptcy Order and, if this is the case you need to seek help immediately.

Individual Voluntary Arrangement (IVA)

An IVA is another way of resolving a debt problem. The equivalent in Scottish Law is a Trust Deed. Certain criteria must be met and you must also have some means of making an offer to creditors. You can apply to court for an IVA, where you formally agree to pay part, or all, of your debts over a period of time. You'll need an insolvency practitioner to set up the agreement and bear in mind that IVAs take several months to organise, and you may have to pay a large administration fee.

Debt Relief Order (DRO)

A DRO is a new way of dealing with your debts. A DRO may be able to help you if you do not own your home, have few assets and little available income to pay your creditors. It is a cheaper option than bankruptcy. If your DRO application is successful, then none of your creditors can take action to recover your debts for 12 months. The debts are then written off after the 12 months are up. There are strict rules that you have to meet to qualify for a DRO and only certain debts can be included. To find out more contact the organisations below.

The Consumer Credit Counselling Service (CCCS) offers free and independent debt advice: **0800 138 1111** (freephone) Monday to Friday 8am to 8pm.

The National Debtline provide free, confidential and independent advice on how to deal with debt problems. They can be contacted on (freephone) **0808 808 4000** Monday to Friday 9am to 9pm and Saturday 9.30am to 1pm.

Unlicensed lenders and loan sharks

A 'loan shark' is anyone who is lending money without having a licence to do so from the Office of Fair Trading (OFT). Loan sharks typically charge extremely high rates of interest and also add other 'charges' to loans whenever they want and they may often resort to violence to ensure people meet repayments. **If you have borrowed money from a loan shark you are under no legal obligation to repay the debt.**

The Directgov website has an informative and helpful section on dealing with loan sharks and what to do if you have borrowed from a loan shark. **There is also a contact hotline available for reporting loan sharks to the government's illegal money lending teams – 0300 555 2222 or you can visit the Directgov website www.direct.gov.uk for further information.**

Conclusions

The future

The path to clearing your debts, or even avoiding them, may be quite short for some.

On the other hand, you could be faced with several years of hardship before you are able to clear them. In either case you need to identify the

cause of your problem. Most people fall into debt through no fault of their own. It is often as a result of redundancy or reduced working hours, illness or marriage breakdown. However, it may be that you found using credit cards was too easy or you were unable to resist offers of interest-free credit.

One of the key things to remember is that family pressures will arise. Not only will you have less money, but your stress and anxiety levels are likely to increase. It is important to realise that this is perfectly natural and understandable so please don't be afraid to seek help and medical advice if necessary. Try to keep yourself occupied. You might find it helpful to join a local support group if there is one in your area.

Opposite are a few practical suggestions for saving money and staying out of debt in the future.



Suggestions for saving money

- Only buy on a cash basis – if you can't afford something save up for it.
- When you go to buy something ask yourself whether you really **need** it or just **want** it. Try waiting for thirty days before you buy anything and if you decide you are going to buy it try and obtain one or two quotations to compare prices.
- When you go shopping prepare a list and keep to it. Use the **Moneybasics Spendometer** to set yourself spending limits and try to stick to them. It can be downloaded for **free** from the Credit Action website www.creditaction.org.uk
- Keep your financial statement up to date and live within it.
- Look for ways to improve your income whilst trying to reduce your expenditure.
- Keep your own accounts and always check your bank statement.
- Budget for non-regular bills and expenses. By paying some bills, for example gas and electricity, by direct debit you automatically receive a small discount.
- Educate all members of your family in managing their own finances – you could be preventing much heartache in future years.
- Start a regular savings plan – no matter how small the amount. Credit Action has further information and resources on savings and investments on its website – www.creditaction.org.uk

REMEMBER – if debts start to build up again seek immediate help before things get too far out of hand.

Some dos and don'ts

DO be realistic – face up to your true situation and resolve to deal with it – using the help available to you.

DO get in touch with your creditors immediately to explain your difficulties.

DO give priority to those debts which may result in you losing your home, fuel supplies or your liberty.

DO remember that your creditors prefer small payments regularly rather than larger, irregular payments that you cannot sustain.

DO reply to creditors' letters and court documents within the time period specified and let them have all the facts.

DO keep copies of all correspondence, financial statements, debt schedules etc.

DO attend and/or be represented at court hearings and take all relevant correspondence with you, including your current financial statement.

DON'T ignore the problem – it won't go away.

DON'T give up trying to reach agreement with your creditors even if they are difficult and refuse your initial offers.

DON'T be threatened or bullied into making promises which you cannot fulfil.

DON'T borrow more money to pay off your debts, especially by taking on more credit or store cards.

DON'T be afraid to ask for specialist advice – it's FREE (see telephone number in the INTRODUCTION to this booklet).



Helpful organisations

Debt counselling and money advice

Citizens Advice

The Citizens Advice service helps people resolve their legal, money and other problems by providing free information and advice, and by influencing policy makers.

Website: www.citizensadvice.org.uk

Community Legal Advice

Community Legal Advice is a free and confidential advice service paid for by legal aid.

Phone: 0845 345 4 345

Website: www.communitylegaladvice.org.uk

Consumer Credit Counselling Service (CCCS)

As the leading debt-counselling charity, CCCS provides free and confidential advice on debt issues.

Phone: 0800 138 1111

Website: www.cccs.co.uk

Credit Action

We are the national money education charity promoting better thinking about money. We produce a range of guides to help people to achieve this.

Phone: 0207 380 3390

Websites: www.creditaction.org.uk

www.moneybasics.co.uk

Directgov

Directgov is the website of the UK government for its citizens, providing information and online services for the public all in one place.

Website: www.direct.gov.uk

National Debt Line

Offers free debt counselling over the phone.

Phone: 0808 808 4000

Website: www.nationaldebtline.co.uk

