

# Help with Debt

## INTRODUCTION

This guide has been written to help you tackle your debt problems. But please remember that if you need further help you can always get in touch with us.

If you're in debt, don't panic. But it's important to do something, because the problem won't just go away. Don't ignore calls or letters from the people you owe money to (your **creditors**). Contact them to explain why you're having problems and follow the steps in this fact sheet to help you get back in control of your finances.

If you don't agree that you owe any money, or don't agree with the amount you've been asked to pay, get advice from an experienced debt adviser straight away, before following the steps in this fact sheet.

## STEP ONE – MAKE A LIST OF YOUR DEBTS

Before you can tackle a debt problem, you need to collect together information about your money affairs. Make a list of all your creditors. You will need the following information for each debt:

- the name and address of the creditor
- the account or reference number
- the amount you owe.

It's a good idea to keep the latest letter or statement for each debt together in one place so that you can easily find them if you need them. If you've received any court papers or letters that seem urgent, you may need to act quickly. If you're not sure what you should do next, get advice straight away from an experienced adviser.

Once you've made a list of all your creditors, you need to work out which ones to deal with first. You need to deal with some debts first before others because the consequences of not paying these debts can be more serious than for other debts. The debts you deal with first are called **priority debts**. The debts you deal with after your priority debts are called **non-priority debts**.

### **Priority debts**

#### **Priority debts include:**

- mortgage or rent arrears. If you don't pay these, you could lose your home
- fuel arrears. If you don't pay these, your fuel could be cut off
- council tax arrears
- court fines such as magistrates' court fines for traffic offences
- arrears of maintenance payable to an ex-partner or children. This includes Child Support you owe to the Child Support Agency
- income tax or VAT arrears.

**If you don't pay council tax arrears, court fines, maintenance, income tax or VAT arrears, bailiffs can take your belongings. As a last resort you could be sent to prison or made bankrupt.**

### **Non-priority debts**

#### **Non-priority debts include:**

- credit debts such as overdrafts, loans, hire purchase, credit card accounts and catalogue debts
- benefits overpayments
- student loans
- money borrowed from friends or family.

You can't be sent to prison for not paying non-priority debts. But if you don't make any offers to pay without explaining why, your creditors may take you to court. If you still fail to pay, your creditors can take further **court action against you**, which could allow them to send bailiffs round to your home.

## **BAILIFFS**

**County Court Bailiffs** – please read any creditors letters carefully, they are designed to scare you into paying. The County Court bailiffs will **NOT ATTEND YOUR HOME** unless you have a County Court Judgement (CCJ) already in place and you have not kept up to date with the payment to the court you promised to make.

**Warning - Council Tax Bailiffs** – the bailiffs in respect of Council Tax are a different matter, **THEY WILL ATTEND YOUR HOME**, if you have a visit from Equita or please seek advice from one the agencies listed.

**Warning - If you own your own home your creditors could turn a non priority debt into a priority by applying to the court for a Charging Order. Seek specialist advice immediately if this happens**

## **Step Two – work out your budget**

List all the income and expenses for your household. Be honest and make sure that the amounts are realistic. You can use a budget sheet to help you do this.

### **Under income, include:**

- earnings for your partner and yourself
- any benefits you are paid, including Child Benefit and tax credits
- maintenance from an ex-partner for you or your children. Include any Child Support from the Child Support Agency
- contributions from other members of your family and any lodgers.

Think about the ways in which you might earn extra money or increase your income. You may be able to claim benefits or tax credits.

**Under expenses, include:**

- housekeeping. Fill in realistic amounts for what you spend on all your expenses, including food, cigarettes and pet food
- housing costs. This should include mortgage or rent, a second mortgage or secured loan, service charges and life or endowment insurance cover attached to your mortgage
- council tax
- fuel and water charges
- telephone charges
- travel expenses. Include both public transport and the cost of running a car such as road tax, insurance, and maintenance
- insurance such as buildings and contents insurance on your home
- childcare costs
- TV licence and any TV rental costs
- clothes
- any other essential expenses
- money you set aside for emergencies.

When you've added up all the figures, you'll see if you have any money left over to pay your debts. You may even be able to see if you can make some savings. An advice agency can help you draw up a budget and help you increase your income if this is possible. **See Fact Sheet X Maximising your income.**

**Step three- sort out your priority debts**

When you've worked out how much you have left over after paying your expenses, contact each of your **priority creditors**. Show them your budget and try to make an arrangement to pay back what you owe. For example, you may be able to pay an extra bit each month until the arrears are cleared. Or you may not have any extra money at the moment but know you will have a lump sum in three months' time which will clear the debt completely.

**It is very important you pay any extra money towards your priority debts before your non priority debts**

**If you can't afford to pay anything to your priority creditors and your situation isn't likely to get better, the outcome may be very serious. Get advice straight away.**

#### **Step four- sort out your non-priority debts**

How you deal with your non-priority debts will depend on whether you have any money left over from dealing with your priority debts and paying for essential household expenses like housing costs and food.

**If you have money to spare**, after you have made arrangements to pay you priority debts, you may have several options for dealing with your non-priority debts.

### **Important**

If you own your own property creditors can apply to court to turn a non priority credit debt into a priority by applying for a **Charging Order**. **See the Charging Order fact sheet in this pack**. If any of your creditors will not accept your offers and send you letters which threaten a Charging Order and/or you receive court papers regarding a Charging Order please contact one of the organizations listed to make an appointment to see a specialist Debt Advisor.

#### **Step five - What you can do**

If you have little or no money left after you've done your budget, have nothing of value to sell and think your circumstances are unlikely to get

better soon, you will have limited options for dealing with your non-priority debts. The options you'll have are:

- **Write off your debt**

Explain your circumstances and why you won't be able to make any payments for a long time in the future eg if you are a lone parent with young children, or your circumstances will never improve, for eg if you are elderly, if you have a long term illness.

- **Token payments**

Write to all your creditors asking them to suspend all interest and accept token offers, this may be as little as £1 per month. At the back of this pack there are sample letters to help you, you can either photocopy them, type them or handwrite them. Some of them will accept. Once you have made this offer make the token payments and if possible also make payments to the creditors who have not accepted. Please remember the only other option they can follow is to apply for a County Court Judgement. If you receive a court summons (on blue paper) seek advice, make an appointment to see a debt advisor.

**Token payments review** – After 3 months or 6 months your creditors will request a review of your situation. There is a sample review letter included with this pack.

- **Administration Order**

applying to court for an **Administration Order**. This would mean you only have to pay off a certain amount of the debt. You can apply for an Administration Order if you have at least one **county court judgment** against you and debts of less than £5000

- **Debt Relief Order**

[More info to follow](#)

- **Bankruptcy**

You may be waiting until you have the bankruptcy fee, if this is the case your caseworker will have written to all your creditors explaining this. **If you continue to receive letters from your creditors please do not worry**, your creditors will continue their debt recovery procedure until you declare yourself bankrupt. Keep the letters in a safe place until you

complete the bankruptcy forms. If any creditors telephone you need to explain firmly but politely that they have been advised by CAB that you cannot make an offer and will be shortly declaring yourself bankrupt. Fact sheet included in this pack or seek advice from the Insolvency Service, contact information included in the useful contacts sheet.

### **If you do have some money left over after you have paid all your household bills and priority debts**

- **Pro rata payments**

If you are able to offer more than token offers you need to offer pro-rata payments, this means the more you owe a creditor the bigger the chunk of the disposable income they will receive. There is a fact sheet included in this pack which explains how to calculate a pro rata payment.

**Pro rata payments review** – After 3 months or 6 months your creditors will request a review of your situation. There are sample review letters to help you to send updates of your situation to your non priority creditors. If your financial statement has changed and therefore the amount you can afford to pay, please use the calculation sheet in this booklet to re-calculate amended payments.

- **Individual Voluntary Arrangement (IVA)**

This is a legal agreement between you and your creditors about how you'll pay off your debts. Get more advice from an experienced adviser about IVAs

### **Remember - Don't pay more than you can afford**

The offers of payment in your personal budget are fair to all your creditors and the most you can afford. If you allow one creditor to persuade you to pay more than is shown, you will not have enough for your outgoings and other creditors.

When reviewing your budget **DO NOT CUT DOWN UNREALISTICALLY** - you may have to live on this budget for quite a while.

### **Making payments**

It is important to keep making the payments you have promised. If you can't do this write to the creditor with a new budget sheet explaining the situation. **See Fact Sheet 3 Dealing with people you owe money to**

If you do not pay, your creditors are allowed to keep reminding you from time to time but they must not act illegally. If they threaten or harass you to try and make you pay, they may be committing a criminal offence. **See the Harassment Factsheet in this pack.**

## **LAST WORDS**

If you feel you need help at any stage then please contact us.

An advisor will be able to explain any procedures in this Fact Sheet you are not sure about.

It is very important to keep to the agreements you make. If you find that you cannot keep up the payments then act quickly - get in touch with your creditors again - seek advice. The quicker you act the better it will be.

### **Further help**

**The organisations listed on the Financial Inclusion Partnership Information Sheet or the other helpful organizations fact sheet**