

## Dealing with people you owe money to

If you're in debt, it's important to keep in contact with the people you owe money to (your creditors). If you're very worried about your debts, you may be afraid to contact them, but you can get help to do this. If your creditors don't know you're having financial difficulties, they'll assume you don't want to pay and start taking action against you. For example, they could take you to court or, in some cases, they could send bailiffs round to take away your belongings. It's almost never too late to start talking to your creditors and most creditors will appreciate it if you contact them.

When you contact your creditors, explain why you're in debt. If the first person you speak to is unhelpful, ask to speak to someone more senior. Explain that you're trying to deal with your debts and you will contact them again shortly when you're in a position to know how much you can afford to pay. Ask them if you can stop paying interest on your debts in the meantime. This is called freezing the interest.

If you have to carry on paying interest, your debt will just keep on growing.

Don't ignore creditors' letters or phone calls. Keep copies of all the letters you write and make a note of all telephone calls or meetings. This should include the name of the person you spoke to and what you agreed.

### **Work out how much you can afford to pay your creditors**

Make a list of all the people you owe money to and how much you owe them. Then work out how much you can afford to pay. To do this, you'll need to draw up a budget, listing all the income and outgoings of your household.

[See fact sheet 2 for a budget sheet](#)

Once you've worked out how much you've got left over after paying your outgoings, you'll be in a position to go back to your creditors and explain how you can pay off the arrears.

## **Deal with the most important debts first, these are called priority debts**

It's important to deal with certain debts first. These are called priority debts because the consequences of not dealing with them can be very serious. Priority debts are things like rent, mortgage and council tax arrears. When you contact your priority creditors, give them your budget sheet so they know your financial situation. 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'll have a lump sum in three months' time which will clear the debt completely.

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.

## **How to deal with the less important debts, these are called non priority debts**

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

You should divide your money fairly amongst all the people you owe less important debts to. These are called non-priority creditors. Your payments should be based on how much money you have to spare and how much money you owe to each non-priority creditor. Give each creditor your budget sheet so they know your financial situation.

Don't be talked into making payments you can't afford. You won't be able to keep them up and you'll just get into more debt.

Once your creditors have accepted your offer to pay, start making payments straight away. Even if a creditor doesn't accept your offer immediately, you could still start making payments. This will show them you are acting in good faith and may help with negotiations later on.

If you can't offer any money to your non-priority creditors, explain why. Ask them if they'll let you stop making payments for three to six months. Say you'll contact them as soon as your situation changes and you're able to start payments again. Or you could try making a token offer of £1.00 a month to all your creditors.

If you can't reach an agreement with one of your creditors, contact an experienced adviser. Don't be persuaded to increase an offer to one creditor. This would mean you had less money to pay to the others. If creditors don't think you're treating them all fairly, they can refuse your offer to pay altogether and start court action against you.

Some creditors may suggest you take out a further loan with them to consolidate your debts. Don't take out a loan until you've had financial advice. If you're unsure what to do, get expert debt advice.

### **If your circumstances change**

If your circumstances change, draw up a new budget and make new offers to pay based on how much you can now afford. Write to all your creditors explaining the reasons for the new offer and send them a copy of your new budget.

Most **non-priority creditors** will only accept payments for a limited amount of time. This will usually be three or six months. Provided you have made regular payments, they will contact you again at the end of the period to find out whether your circumstances have changed. You may have to send them an updated budget.

### **Information about the debt recovery process**

**If you have not kept up to date with your non priority credit debts your creditors will start their debt recovery action, this may include passing your debt to a debt collection agency to deal with.**

## **Debt Collection Agencies**

If your creditors transfer your account to a debt collection agency, do not worry it is normal procedure.

To enable your creditor to release your file to a Debt Collection Agency you will receive, or have received, a **Default Notice and/or Formal Demand** for payment of your account. This is a process which has to be carried out by law, under the Consumer Credit Act 1975, in order to transfer your debt. Please do not let these letters worry you. They are computer generated standard letters designed to make those who can pay, but won't pay, clear their debts and should not really concern you.

If your account is transferred to a Debt Collection Agency you need to send a further offer letter to them quoting their reference number.

Don't let debt collectors pressure you into making arrangements you can't keep up. There are guidelines that debt collectors have to follow. For example, they are not allowed to intimidate you, harass you or pretend to have more legal powers than they really have. They are not allowed to discriminate against you because of your race, sex, disability, sexuality, or religion. A debt collector must be very careful when dealing with someone who has a physical or mental illness. For example, a debt collector should not continue with a home visit if it is obvious that someone is suffering from a mental illness.

If debt collectors don't follow these guidelines, action can be taken against them. If you're being harassed by debt collectors, get further advice from an experienced adviser.

If any creditors or Debt Collection Agency do not accept your offer, there is a sample letter attached asking them to reconsider. If this does not persuade them continue to make payments of the token or pro rata offer. **Please remember that the only other option available to them is a**

**County Court Judgement.** Please seek advice if you receive a county court judgement.

### **How to deal with court action**

A creditor may threaten to take you to court. However, they usually have to send you a written notice first, warning you that they will start court action if you don't settle your debt.

If court action has started, make sure you always reply to letters from the court within the time limit. Get advice if you don't know how to fill in these forms.

If you agree that you owe the amount claimed, fill in the admission form, which you'll get with the other court documents. You'll have to give details of your financial situation. If you've already worked out a budget, you can use this to help you fill out the form. If you've already worked out how much you can afford to pay your creditors, you can offer to make payments for the same amounts.

If your offer is refused or you don't accept that you owe the money, you should get advice from an experienced debt adviser.

### **BAILIFFS**

Please read any creditors letters carefully, they are designed to scare you into paying. **Remember the county court bailiffs will NOT ATTEND YOUR HOUSE unless you have a county court judgement already in place and you have not kept up to date with the payment to the court you promised to make.**

**Warning** - The bailiffs in respect of **Council Tax** are a different matter, if you have a visit from **Equita** please come into the bureau.

### **Further help**

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

