Hunsbury Park Primary School

A Parent's Guide

To

Debt Management

Finding yourself in debt is more common that you might think. But you don't have to face the worries alone. There are plenty of places that you can go to where you can get free advice on how to tackle debt problems. The Citizens Advice Bureau or the Money Advice Service are good places to start. You can also speak to fee free debt management advisors.

A Fee Free Debt Management Plan (DMP)

A DMP is an informal plan which enables people with (usually) up to £10,000 of debt to reduce their monthly debt payments into one single affordable amount. As a DMP is not legally binding, it can usually be set up in a matter of days. It's an agreement between you and your creditors to pay off all of your debts. You can either deal with creditors directly, or use a company that offers a Debt Management Plan. A DMP provider can sometimes negotiate with creditors to freeze or reduce any interest and charges on the debts within the DMP. Money that is paid to a DMP provider is then split and shared out between each of your creditors. Below are some of the main advantages and things to consider. Find out more on the pros and cons of a Debt Management Plan.

Advantages:-

- A DMP is an informal agreement that avoids the need for formal insolvency procedures such as a Debt Relief Order, Bankruptcy or an Individual Voluntary Arrangement (IVA).
- Make only one affordable repayment each month. However, consider that with lower payments comes a longer duration of plan.
- The repayment amount is calculated to ensure there is enough money left to cover household bills each month.
- A DMP offers additional support. A provider will review the plan at regular intervals to make sure that a DMP is still suitable. Should circumstances change, they can discuss the options available to deal with any changes. This may include changing payments.
- A DMP is confidential and not a matter for public record.

Points to consider:-

- You are responsible for your debts. Though your provider is managing the DMP, creditors can still choose to take legal action, even if they have agreed to an offer of payment. Remember that a DMP isn't legally binding.
- Interest and charges may be added; making this decision is up to creditors.
- Debts could increase if conditions of the DMP aren't completed or adhered to.
- If your payments are lowered for a change in circumstances then the term of your DMP will increase.
- Creditors will share the amount that is being paid with credit reference agencies. If less than the required monthly payment is being paid, then it will be harder to get further credit.

Administration Order

An AO is a repayment plan arranged by the Courts in England, Wales and Northern Ireland, for individuals with less than £5,000 of total debt and one or more county court judgments. Below are some of the main advantages and things to consider. Find out more about the pros and cons of an Administration Order.

Advantages:-

- An AO legally protects from creditors trying to recover debts.
- The court is paid one single payment each month and they will share this (minus their fee) among creditors.
- If your financial circumstances change for the worse, you can apply for your payment amount to be reduced.
- You can make a request to court to leave debts outside of the AO, for example, mortgage arrears and rent arrears.

Points to consider:-

- An AO is only issued if there are more than one Court Judgments and owe less than £5000 in total debts.
- Your AO will last until all of your debts have been repaid in full. Should your circumstances change, your case may be reviewed. This may include changing your payments.
- The AO may not be approved by your creditors. If this is the case you will need to consider alternative solutions.
- Administration orders will adversely affect your credit rating.

Bankruptcy

Bankruptcy is a court-based procedure in which all financial affairs are taken under the control of an “Official Receiver” or a “Trustee”, who has the power to sell assets to pay creditors. The duty of the Official Receiver and Trustee is to investigate and realise assets for the benefit of creditors. The Insolvency Service states that bankruptcy should always be a last resort. Below are some of the main advantages and things to consider. Find out more about the pros and cons of bankruptcy:-

- Creditor collection activity will cease.
- Debts could be written off after twelve months.
- When filing for bankruptcy, interest and charges on included debts will be frozen.
- Payments are made for a maximum 36 months.

Points to consider:-

- Bankruptcy is a matter of public record - details of the bankruptcy are listed on the Insolvency Service website, which the public can access.
- Assets other than those which are essential to domestic needs, tools of the trade, and vehicles needed for work could be lost. The main effect of this is that if homeowner’s equity in the property could be forced to sell.
- Bankruptcy may impact employment; your provider should always recommend checking employment contracts.

A Debt Relief Order (DRO)

A DRO is a legal procedure administered without court involvement by the Insolvency Service. An application for a DRO must be made through an approved DRO intermediary. In order to apply for a DRO, you must meet certain conditions including having debts less than £20,000* (*Debt levels differ in Northern Ireland), not owning/having an interest in any property/assets over the value of £1,000 and having a disposable income of less than £50 per month. Further information can be found here on the Gov.uk website. Below are some of the main advantages and things to consider. Find out more about the pros and cons of a Debt Relief Order. The fee to enter into a DRO is relatively low at £90 and can be paid in monthly instalments. However, a DRO cannot begin until the £90 has been paid.

Creditor contact relating to debts included in the DRO will stop.

It is quick - all included debts are written off after 12 months.

Outstanding personal tax liabilities can be included in a DRO.

Points to consider:-

- A DRO is a matter of public record - details of a DRO are listed on the Insolvency Service website, which the public can access.
- An improvement in financial circumstances during the DRO term could result in the DRO being revoked, meaning alternative arrangements to repay debts would need to be made.
- If you have had a DRO in the last six years, are in an IVA, are going through bankruptcy proceedings or have bankruptcy restrictions, you cannot have a DRO.
- Only debts included in the DRO will be discharged at the end of the 12 month period. Any other debts will remain outstanding.

An Individual Voluntary Arrangement (IVA)

An IVA is a legal agreement between you and your creditors. It enables you to prepare an offer of what you can realistically afford to repay over an agreed period of time, typically five or six years. This offer needs to be agreed/approved by 75% of your creditors (by value) in order to be put into place; your creditors do not have to agree. On completion of the IVA, your remaining debts are written off. It is a formal insolvency procedure. Regardless of who you choose to implement an IVA, fees will be charged for the work done in setting it up and managing it throughout its duration. In an IVA, all fees are agreed by your creditors in accordance with an industry-wide structure.

Advantages:-

- Possession of property will still be held, (as long as mortgage/any secured loan payments are kept up), however homeowners may need to release equity from the value of their homes to pay off debts, and a remortgage may attract higher interest rates, or if
- no remortgage is available, an Individual Voluntary Arrangement may be extended for 12 months (In line with expenditure restrictions of an IVA).
- Creditors will not be able to take any legal action against you relating to your debt once the IVA is approved. Apart from sending regular statements, they will not be able to contact you regarding your debts.
- No upfront payment is required to access the solution with ClearStart, other providers may charge fees. A Nominee fee and Supervisory fee are both payable once the solution is active. These are taken from the monthly contributions and any assets you pay into the Arrangement.
- Outstanding personal tax liabilities can be included in an IVA.

Points to consider:-

- An IVA is a matter of public record - details of the IVA are listed on the Insolvency Service website, which the public can access.
- A failure to meet IVA repayments or obligations could result in the IVA failing and creditors may decide to order bankruptcy proceedings.
- Only unsecured debts that are included in the IVA will be discharged at the end of your plan's duration. Any unsecured debts not included will remain outstanding.
- An IVA must be approved by your creditors (75% by value of your creditors). In instances where creditors do not approve your IVA proposal alternatives solutions will be considered with you.

Remortgage

A remortgage is releasing equity from your home. This could be by remortgage, secured loan or 'equity release'. Below are some of the main advantages and things to consider. Find out more about the pros and cons of a remortgage.

Advantages:-

- Releasing equity in a home by remortgaging can be used to pay off unsecured debts.
- A remortgage will be one single payment which puts all debts and mortgage into one.
- The interest charge for a secured loan is typically lower than that applied to unsecured credit agreements.

Points to consider:-

- Your home is at risk if you do not keep up with mortgage payments. More may be paid back over time by moving unsecured debt amounts to a mortgage – lower interest rates on a remortgage spread over a longer period of time can result in much more being paid back than by keeping debts unsecured over a shorter term.
- When remortgaging, there may be an early settlement charge ('Early Redemption Charge') as the current mortgage is paid off before the end of its term.
- Remortgaging to pay off debt could affect future remortgaging/moving house. Mortgage rates may rise in future, and extending the mortgage now could lead to higher rates when remortgaging/buying being offered in future.

All of the options above will affect your credit rating and may affect your future ability to obtain credit. Formal Insolvency Solutions may impact your job, and you should look at your employment contract.