

Self help guide

A step-by-step guide to help you
work your way out of debt





By picking up this booklet, you've already taken the first step in getting out of debt - well done! Debt can feel overwhelming, but there is a way out of your situation.

To get out of debt, the first thing you need to do is take a deep breath and be totally honest with yourself and your partner about how much you owe. You will have to open all the letters you are receiving from your creditors. Once you have faced the truth, you are on the right path to tackling the problem.

The second thing to do is to stop borrowing. Don't take out any more credit and cut all your credit cards up. Tell someone you trust about your debt - you'll feel so much better and they can support you through this process.

**John Kirkby,
Founder of Christians Against Poverty.**

Stage one: List your income and expenditure

Work out what money you have coming in (income), what money you spend each month (expenditure) and how much you owe (your debts).

Stage two: Make your financial statement balance

You may have more going out than coming in. If so, you will need to prioritise essential bills and money for food and try to ensure there is something left to pay your debts.

Stage three: Affordable payments to your creditors

Contact your creditors to tell them your situation and your repayment offer. This shows you are serious about dealing with your debts and can often reduce the hassle you get from them.

Stage four: Set up your payments

It's important to start making affordable payments as soon as you can, as this shows your creditors that you are serious.

Stage five: Stick to your budget

It's important that you stick to your budget. It takes discipline, but it's worth it.



Guide to symbols

There is a calculation for you to do. Each calculation has an example for you to follow.



Top tips to help you out.



This indicates questions and answers.

List your income and expenditure

The first thing you need to do is list the money you have coming in (income), the money you spend on everyday living (expenditure), and the money you owe (debts). This is called a financial statement. At the end of this process, your financial statement should balance, giving you enough money for food and essentials but also allowing you to gradually repay your debts.

How to fill in your financial statement

1. Pull out the blank financial statement from the centre of this booklet.
2. Find all your financial paperwork. This will include any bills, bank statements, wage slips, benefits letters or statements for your debts.
- 3a. Decide whether to plan your financial statement on a weekly or monthly basis depending on how often your money comes in.
- 3b. If you choose to plan on a monthly basis, you will need to convert any weekly or fortnightly amounts into their monthly equivalent. To do this, follow the simple calculations below.

Weekly amount	=	£100
Monthly amount	=	$£100 \times 4.33 = £433$
Fortnightly amount x 2.165	=	amount monthly
Fortnightly amount	=	£70
Monthly amount	=	$£70 \times 2.165 = £151$

Now write these new figures in the 'amount monthly' column.



4. Enter all the money coming in (income) on your financial statement (only include money from overtime or bonuses if you know you will get it regularly).

Advice about irregular income

If your job does not provide you with regular work, you may want to consider looking for a job that would. In the meantime, add up your last three months' earnings and divide the total by three (if your income varies a lot due to seasonal work patterns, you may want to work out a twelve month average instead). This will give you your average earnings to enter on the financial statement. When you earn more than this average, you should save this in a separate savings account to make up for months when you earn less.

Top tip

Do your calculations on a separate piece of paper to make sure you've got it right before you fill in your financial statement.



List your income and expenditure

Ideas for increasing your income

- Are you receiving all the benefits you are entitled to? Check on turn2us.org.uk or speak with a local benefits adviser.
 - Could you work or get a second job to supplement your income? You can earn a limited amount even on some benefits – check with a local benefits adviser.
 - If you have a spare room in your house, could you take in a lodger?
 - Can your children contribute financially? If they are over 18 and are still living with you, then they should be making a contribution to cover their living expenses.
5. List what you spend each month or week on everyday living and essential bills. Work out any weekly or fortnightly amounts as monthly amounts (see calculation on page 3). You will see that there is nowhere to put money for cigarettes, alcohol, lottery tickets, etc. Creditors are unlikely to accept these as essential living costs, so you need to include them in your leisure or food box and cut down where you can.

Top tip

Remember to include amounts for irregular expenditure such as road tax, car MOT and maintenance.

If you pay your bills quarterly, why not pay them monthly instead? You can set up a Direct Debit so that the service provider takes the amount monthly from your bank account. With some providers, you even receive a discount for paying by Direct Debit.



6. Priority debts

List your 'priority debts'. Priority debts are debts where there are serious consequences if you don't pay. You should pay these debts off first.

Make a list of all these debts. We recommend that you ring each creditor to confirm how much you owe before you fill in your financial statement. Tell them that you are struggling with your finances but want to repay your debt, and you will be in touch later when you have worked out your budget. Don't agree to any repayments at this point.

Priority debt	Consequences if you dont pay
Rent/mortgage/secured loan	You risk losing your home.
Court fines	You risk being taken to court, visited by an enforcement agent* and ultimately a prison sentence.
Council Tax/rates	You risk being taken to court, being visited by an enforcement agent* and possibly even a prison sentence (England and Wales only).
Maintenance/child support	You risk being taken to a magistrate's court, being visited by an enforcement agent*, or being given a prison sentence.
Gas/electricity	You risk having your gas or electricity supplies cut off or having a pre-payment meter installed (which could affect your tenancy).
Water	You risk being taken to court for a County Court Judgment (England and Wales only).
Benefits overpayment	Payments can be deducted from your current benefits. For some benefits you risk being taken to court for a County Court Judgment.
Hire purchase	You risk losing the item that the Hire Purchase Agreement relates to.

*Scotland and Northern Ireland have different enforcement procedures in place of enforcement agents (see page 22). Please see page 27 for other agencies that will be able to provide further help.

7. Non-priority debts

Make a list of any other debts that you have. These will be 'non-priority debts', such as credit cards, loans, overdrafts, store cards, or debts to friends or family. Non-priority debts are not secured against anything of value, such as a house, nor are they services, like your gas and electricity.

If you are able to make the contractual or minimum payments on your non-priority debts as well as repaying your priority debts over a reasonable time then it is wise to do so as this will prevent the possibility of incurring any penalty or default charges.

If you don't pay these types of debt, the companies have very little power to force you to pay more money back than you can afford. They could apply for a County Court Judgment (CCJ) against you, but even then you should not be forced to pay more than you can afford. However, if a creditor should obtain a CCJ, be aware that they are entitled to go back to court for further enforcement, such as Enforcement Agents, an Attachment of Earnings, a Charging Order if you have an interest in a property, or to petition for bankruptcy. A Charging Order secures the debt against the property and will have an effect on any equity contained within it.

Top tip

If your current bank account is overdrawn, you will need to include this as a debt and open a new bank account with a different bank. Your overdraft can then be added to your list of debts and you can offer them what you can afford. See pages 9 and 10 for more information about this.



Making your financial statement balance

At the moment, you may have more going out than coming in, so we now need to start the hard work of making your financial statement balance. You will need to ensure that you have prioritised important living costs and that you have enough left to start paying off your debts.

Prioritise living costs

Your financial statement needs to prioritise the right things and be acceptable to creditors and the courts. The courts aim to ensure that a person has a basic standard of living, although not a luxurious one. There may be some surprises here! For example, it is acceptable to put money aside to save up for emergencies, and a family of four can spend £100 a week on food and household products.

Have a look at the guidelines below and use them to compare your living costs and priority payments. Where they recommend a higher amount than you currently spend on something (e.g. food) you could consider increasing your figure if you need to. It is very important that you have enough money to spend on you and your family's needs.

In areas where you are spending more, you will have to consider making cuts. At this point, think how you can do this – try changing to a pay-as-you-go mobile phone tariff, buying smaller packs of cigarettes or giving pets to friends or family to look after temporarily.

Living costs	Notes
Housing costs	
Housing costs (mortgage/rent, contents insurance, ground rent/service charges, life assurance linked to mortgage)	If you own a house, then you must have buildings insurance. Contents insurance is also important in case all your possessions are destroyed (e.g. in a fire). Shop around to find the best/cheapest cover for your requirements. If you have a life assurance policy linked to your mortgage, then it's important that you keep paying this.
Gas and electricity	It might be possible to reduce your energy costs by switching to a cheaper tariff or provider. Using price comparison websites could help you with this.
Household maintenance	£10 – £30 per month. More is needed if you own your home than if you are renting. We would encourage you to put some money aside for repairs, emergencies or general maintenance. Put this money in a separate account that you will not touch except when you need it.
Health and care costs	
Childcare	Put in what you spend. If this allows you to go to work, creditors will not challenge it.
School costs	If you are paying for private tuition, creditors will challenge this and it may be something you should consider stopping.
Maintenance/child support	It is important that you make these payments. Try to come to a voluntary agreement where possible.
Care costs (other than children)	It is important you get the care you or your family needs. Courts will generally accept your current care costs as reasonable, especially if you are receiving benefits for them. If you have care costs, make sure you are receiving any disability related benefits you may be entitled to.
Dentist/prescription/glasses	These are reasonable costs that you may incur. If you wear contact lenses, you may need to change to glasses if your budget is tight. If you do need glasses or are likely to need a dentist, it is advisable to save around £10 per month towards the costs of glasses or dental treatment. You could consider a monthly prescription prepayment certificate if it will be cheaper.

Life assurance	£7.50 – £20 per month (depending on health). We would highly recommend you take out life cover, especially if you have children. Many mortgage providers will insist on this if you are a homeowner.
Pension payments	If you are making voluntary contributions to a personal pension you may want to consider reducing these if they are no longer affordable. You should seek independent financial advice before doing this
Food and household	
Food and household (includes nappies, laundry items, etc.)	£50 per week (per adult). £30 per week (per 14-18 year old). £15 per week (per 0-13 year old). These figures are acceptable in courts. While you may be able to cut back slightly, we highly recommend you use this as a guide to ensure that you feed yourself and your family well. If you are spending more than this you may have to cut back.
Car and travel costs	It might be cheaper to use public transport. If you need a car due to mobility problems, you should be able to claim Disability Living Allowance or Personal Independence Payments to help.
Road tax	You can either pay this by monthly direct debit or annually. To pay annually; divide the annual payments by 12 and put this amount aside each month.
Petrol/diesel	Creditors will challenge this if it looks too high, but put in a reasonable amount.
MOT/maintenance	£15 – £40 per month. Be realistic and put money aside each month.
Breakdown/recovery	£50 per year. A basic level of service is acceptable, but keep to the minimum. If you are struggling to balance your statement, perhaps choose to cut back in this area.
Bus, rail or taxi fares	Put down what you need to get around. Find out if you could save money by buying a weekly/monthly/annual travel pass.
Leisure expenses	
Leisure activities	£10 – £20 per person per month. This is to cover general leisure activities.
Landline and mobile phone	£40 per month for one person and £10 for each additional person, including children.
TV licence	If you use a TV you need a TV licence or you risk up to a £1,000 fine. This will cost £24.25 per month if you do not currently have a licence, but will reduce to £12.12 per month later.
Hire purchase (car, furniture or electronic item that you have under a hire purchase agreement)	You need to ask yourself if you need this item and if you can afford it. If the answer is 'no' to either of these, then you need to give it back. You should write to the creditor and explicitly state that you wish to terminate the agreement and make arrangements to give the item back. If you have paid more than half of the total agreement, you will not owe the creditor any more money. If you have paid less than half of the original amount borrowed, you will only be expected to pay up to 50% plus any arrears on the account unless the full balance has become due following a default notice. Put this outstanding amount on your financial statement as a non-priority debt. Could you save up and purchase a similar item in one payment?
Clothing/footwear	£20 per person per month. Possibly higher if you need specific clothes for work.
Vet bills/pet insurance	£10 per month.
Cable/satellite TV	Creditors class this as a luxury, but you can spend £10 – £20 per month on this. Any higher amount will need to come from your leisure money.
Appliance rentals	If these are necessary then they will be accepted. Luxury items (e.g. large TVs/dishwashers) will be challenged and need to be returned to the rental company. It is often cheaper to save for a few months and buy a second hand item.
Religious and charitable giving	£10 per month. A small amount of religious or charitable giving is acceptable. If you want to give more, it must come from the money put aside for leisure, food or clothes.
Savings	
Future needs	£5 – £30 per month. We strongly advise that you put some money aside every month for savings. This can then be used for Christmas and birthday presents or if something goes wrong. Put your savings in a separate bank account so you won't be tempted to spend it throughout the year.

Making your financial statement balance

Make sure you have enough left for debts

This part is a little bit complicated, so take a deep breath and dig out a calculator!

Step 1: Work out your disposable income

The money left over from your income after your living costs have been deducted is called your 'disposable income' and should be used to pay off your debts. You should aim to clear priority debts within two years if possible. After this, you can start making offers towards non-priority debts.

Income – living costs	= disposable income
Income	= £1,000
Living costs	= £800
Disposable income	£1,000 – £800 = £200



Step 2: Allow a token £1 payment for non-priority debts

To start with, you will use your disposable income to pay your priority debts. During this time it is good to offer non-priority creditors a token payment of £1.

To work out how much you can pay towards your priority debts, you need to total the number of non-priority debts you have and subtract this number from your monthly disposable income. If your income is weekly, you need to subtract 25p for each non-priority debt.

Disposable income	= £200
Number of non-priority debts	= 3
Amount for priority debts	= £200 – £3 = £197



Step 3: Work out how much to pay each month towards your priority debts

Now you know the total amount you have available each month to pay your priority debts, you can work out how much of that to pay to each one. To do this, divide the amount you owe by your remaining disposable income to find out how many months it will take to pay off your priority debts. You can then calculate the pro-rata payments to your creditors. However you may sometimes need to prioritise a particular debt, for example, you may wish to offer higher payments to a debt for which the pro-rata payment is unlikely to be acceptable, and which could have particularly serious consequences (e.g. court fines, mortgage or rent arrears).

You owe £4,000 in total and you have £197 a month to pay it with.

Total amount owed	= £4,000
Disposable income	= £197
Repayment time	£4,000 / £197 = 20.3 months



To work out how much to pay each priority debt, divide the amount you owe by the amount of months it will take you to clear the debts.

Mortgage	£2,500 / 20.3 = £123 a month
Gas	£1,000 / 20.3 = £49 a month
Electric	£500 / 20.3 = £25 a month

Once this time period has ended, you can transfer your disposable income to pay off your non-priority debts.

Contact your creditors offering to pay what you can afford

Ring your priority creditors

1. Tell them how much you can afford to pay, how you will pay it, and when you can make your first payment.
2. If they are reluctant to agree, offer to send them a letter with a copy of your financial statement (see letter One on page 19).
3. If anyone is threatening you with court action or eviction, you may need to be flexible and offer those people more, although this will mean that you will offer other people less as a result.

Non-priority creditors

Unless you can afford the contractual payments, write to all your non-priority creditors offering to pay them £1 a month (see letter Two on page 20). Include a copy of your financial statement so that they can see that you will be able to pay them more at some point soon. Ask them to confirm how much you owe and to stop interest and charges.

If you do not have any priority creditors, you can begin to repay your non-priority debts straight away. You need to pay each creditor a different amount according to how much you owe them. This is the fairest system and means that all of your debts will be repaid at the same time.

To work this out, total the number of non-priority debts you have and divide this by your disposable income. Use the example below as a guide.

Non-priority debts / disposable income = repayment months

Total non-priority debts = £7,200

Disposable income = £200

Repayment term $\frac{£7,200}{£200} = 36$ months



Now work out how much to pay each creditor by dividing each amount owed by the repayment term. Follow the example below:

Amount owed to each creditor / repayment term = monthly repayment

You owe: Provident £1,200

Lloyds Bank £5,830

Storecard £170

You will pay: Provident $\frac{£1,200}{36} = £33$ a month

Lloyds Bank $\frac{£5,830}{36} = £161$ a month

Storecard $\frac{£170}{36} = £6$ a month

Total = £200 a month





Contact your creditors offering to pay what you can afford

Questions

When will I be debt free?

Divide your total debt balance by your disposable income. This will give you an estimated length of time. Don't forget that it may take longer if creditors continue to add interest and charges, but you will get there in the end. There are also some extra options listed on page 21 which may help reduce the amount of time it takes to become debt free.

What about student loan repayments?

- Interest cannot be stopped on student loans as it is public money.
- If you have a student loan, it is probably best to give the Student Loans Company a call and they will talk it through with you. For more information please contact the Student Loan Company on: (England 0300 100 0607), (Wales 0300 200 4050), Scotland (0300 100 0077) or (Northern Ireland 0300 555 0505).

Should I consolidate my debts?

There are other possible options you may wish to consider if you feel you can afford repayments. These include:

- 0% balance transfers on credit cards to reduce interest charges
- Restructuring a debt with an existing lender in order to reduce payments but over a longer period, either as a permanent agreement or on an informal basis. This could well increase the interest rate or the overall amount you need to pay back.
- Debt consolidation. Remember that by consolidating your debts on your mortgage or a secured loan, you will be securing your unsecured debts against your property. This then makes the consequences of falling behind on any payments much more serious.

We would strongly recommend that you do not take out any further loans, but begin to repay those that you already have. If you are considering restructuring or debt consolidation then we strongly suggest that you seek independent financial advice to ensure you understand the full implications of such a decision.

What if I owe a debt that is also owed by someone else?

Ideally both you and the joint debtor would make repayments on the debt until it is repaid. However, if this is not possible you will need to make your own offer of repayment. If the other debtor does not make any payments, you are still liable for the whole debt (i.e. you cannot pay half of the debt and then stop paying).

What do I do if the creditors refuse to stop interest and charges?

- Some creditors cannot stop interest and charges as their system doesn't allow it, so don't take it personally.
- Keep making the payments you offered.
- After six months, look at the situation and see if your balance is going down. If it is going up or staying the same, write to the creditors explaining the situation and informing them that, unless they stop interest and charges, you will stop making payments to them as the debt will continue to increase and you will not be able to pay it off. At this point stop making payments.
- Wait patiently. You may initially see an increase in threatening calls and letters from your creditors, but grit your teeth and stay strong. Eventually, most debts will be passed to a debt collector who will stop charges and interest. When this happens, you can make an offer of payment to them and start making payments again.

Top tip

If you stop making payments to your creditors, don't spend this money! Save it instead. It may not be much, but it will add up and might enable you to clear one of your debts completely.



What if the creditors don't accept my offers?

- Check your financial statement to make sure your offer is reasonable.
- Write to the creditor again, explaining the situation and re-offering the payment. They might accept the offer this time, or pass the debt on to another department or company who will.
- Continue to make the offered payments. The creditor may see that you are serious and eventually agree to accept your offer.

I live in Scotland. Do I have any other repayment options?

Residents in Scotland can enter into a Debt Arrangement Scheme (DAS). This scheme allows people to repay their debts whilst also being protected from the creditors taking any further diligence/enforcement action against them. Before you can enter into a DAS, you will need to seek advice and assistance from an approved money adviser.

Top tip

Always keep a copy of every letter you send out.



Financial statement

Your name: D.O.B:

Your partner's name: D.O.B:

Marital status: Married Co-habiting Single Divorced Separated Widowed Civil Partnership

Address: Phone:

Mobile:

Best time to contact:

Child 1: D.O.B:

Child 2: D.O.B:

Child 3: D.O.B:

Child 4: D.O.B:

Email address:

Income

Description	Amount weekly	Amount monthly
Your earnings (after tax/deductions)		
Partner's earnings (after tax/deductions)		
Other earnings (after tax/deductions)		
Maintenance/child support		
Income from lodgers/non-dependents		
State pension		
Other pensions		
Income Support or Employment Support Allowance		
Jobseeker's Allowance		
Benefits for children		
Working Tax Credit		
Child Tax Credit		
Sickness & Disability Benefits		
Housing Benefit		
Universal Credit		
Other income/benefits		
Total:	per week	per month

Living costs

Description	Amount Weekly	x 4.33 =	Amount Monthly
Rent		x 4.33 =	
Mortgage		x 4.33 =	
Other secured loan 1		x 4.33 =	
Other secured loan 2		x 4.33 =	
Other secured loan 3		x 4.33 =	
Council Tax/Rates		x 4.33 =	
Ground rent/service charge		x 4.33 =	
Contents insurance		x 4.33 =	
Buildings insurance		x 4.33 =	
Mortgage endowment policies		x 4.33 =	
Life assurance linked to mortgage		x 4.33 =	
Gas		x 4.33 =	
Electricity		x 4.33 =	
Water		x 4.33 =	
Other utilities		x 4.33 =	
Household maintenance		x 4.33 =	
Other housing costs		x 4.33 =	
Maintenance/child support		x 4.33 =	
Pension payments		x 4.33 =	
Other life assurance		x 4.33 =	
TV licence		x 4.33 =	
Telephone		x 4.33 =	
Mobile phone		x 4.33 =	
Bus/rail/taxi fares		x 4.33 =	
Road tax		x 4.33 =	
Vehicle insurance		x 4.33 =	
Petrol/diesel/oil		x 4.33 =	
MOT/car maintenance		x 4.33 =	
Breakdown/recovery		x 4.33 =	
Car HP		x 4.33 =	
Other Travel		x 4.33 =	
Food/household needs		x 4.33 =	
Clothing/footwear (inc. school uniform)		x 4.33 =	
Childcare		x 4.33 =	
School costs		x 4.33 =	
Dentist/prescriptions/glasses		x 4.33 =	
Care costs (other than children)		x 4.33 =	
Health insurance		x 4.33 =	

Living costs continued

Vet bills/pet insurance		x 4.33 =	
TV/satellite/cable		x 4.33 =	
Other appliance rentals		x 4.33 =	
Leisure		x 4.33 =	
Religious/charitable giving		x 4.33 =	
Future needs		x 4.33 =	
Anything else		x 4.33 =	
Total:		x 4.33 =	

Priority debts

Description	Arrears (total debt you owe)	Offer (try and clear in 12 months)	Period (total weeks / months)
Rent			
Mortgage			
Secured loan 1			
Secured loan 2			
Secured loan 3			
Court fine 1			
Court fine 2			
Court fine 3			
Council Tax/Rates			
Maintenance/child support			
Gas			
Electricity			
Water			
Benefits overpayment 1			
Benefits overpayment 2			
Other 1			
Other 2			
Car HP			
Other HP			
Total:			

Set up your payments

Now that you have offered payments to your creditors, it is important that you start making them so that they can see that you are serious about getting out of debt. This is important even if the creditor has not agreed to the amounts offered.

The easiest way to ensure that you do not fall behind with your debt payments is to set up three bank accounts:

1. Bills and debts payment account.
2. A cash account for your living expenses.
3. A savings account.

Top tip

If your current bank account is with a bank that you also owe money to for a loan or credit card, you must stop using this. If you pay any money into this account, the bank can legally take it to repay some of your debt to them.

Open a new bank account with a different bank where you do not have any loans or credit cards.



Once you have three bank accounts:

1. Set up your wage and/or benefits to be paid in to your payment account.
2. Total your bills and debt repayments using your financial statement.
3. Make sure standing orders or Direct Debits are set up for each of these payments to come out of your payment account. If you cannot make standing orders from your bank account, you can pay your creditors by sending cheques out on a weekly or monthly basis. Often companies will send you payment cards to use at PayPoint terminals.
4. Work out how much you need for your cash living expenses (food, clothes etc) and set up a standing order to pay this amount from your payment account into your cash account. You can then withdraw cash when you need it to pay for anything within your budget for living expenses.
5. The third account is for savings. You should use this account to save up money for your road tax or for birthday presents, etc. Again, set up a standing order from your payment account to pay in to this account once a month. Remember: any payments in your budget that are not being made on a monthly basis (e.g. annually, six-monthly or quarterly) will need to be saved for. This ensures that funds are available when the payments are due. Such items may include MOT, TV licence or school uniforms.

Top tip

Try to make payments the day after your wage or benefits are paid in to your bank account rather than before. This will help you to avoid bank charges.



Questions



How do I open a new bank account?

You are entitled to a basic bank account from most high street banks, no matter what your circumstances. The Money Advice Service produces a leaflet with advice on this, which you can obtain by calling them on 0300 500 5000 or by visiting [moneyadviceservice.org.uk](https://www.moneyadviceservice.org.uk).

What do I do if a doorstep collector is collecting my debts?

Try to contact the main office of the collection company and offer to make payments to them directly. They will then stop the doorstep collector from coming round and this will make it easier for you.

Stick to your budget

You are on the way to becoming debt free, but you have to remember two things:

1. Stick to your budget. If you spend more than you have budgeted for, you will not have enough money to pay your creditors – and this will stop you becoming debt free. Always pay priority bills (e.g. rent, Council Tax) on time.
2. Don't take out any more credit. You are now living on a budget and are hopefully putting money aside for savings.

Being in debt is a stressful time and it's important to realise you are not alone. Seek help, medical advice or a local support group if necessary.

Questions



What do I do if my situation changes and I can no longer afford payments?

That's fine and it happens all the time! Just go through stages two to four again, explaining your situation and offering what you can afford.

What do I do if I discover any one off or occasional additional income?

Presuming that this is not a regular increase to your monthly income, you could use this in a number of ways.

- you should consider whether to use this to reduce your priority debts – especially if this will prevent serious consequences.
- you could direct it towards one of your secondary debts to try and avoid high interest rates or fees.
- you could place it in a savings account and use it to cover any shortfall on bills. However, this could affect any benefit entitlement you may have so you should check this first.

Top tip

If you don't have enough money in your bank account when the standing order is due to come out, the bank will charge you. As soon as you know your situation has changed, cancel the standing order and make the payments in person so you know there is enough money. When your financial situation has stabilised again and you are sure of your income, set up new standing orders.



Letter one: to priority creditors

Re:

Dear Sir/Madam,

I am writing to you regarding the arrears on my account. I am currently experiencing financial difficulties, however my desire is to pay off my debts. I am currently able to make a monthly offer of £ in repayment of my debt to you.

Please find enclosed a copy of my financial statement and a list of my debts. I would request that you accept this offer due to the seriousness of my situation.

Payments will be made monthly, starting on the of next month.

I respectfully request:

1. Confirmation that you agree to the above offer.
2. Confirmation of the balance outstanding.
3. Reference details and address for sending payments.

Your earliest response would be appreciated.

Yours faithfully,

Letter Two: to non-priority creditors

Re:

Dear Sir/Madam,

I am currently experiencing financial difficulties and as such I am unable to maintain my contractual obligations to you. However, my desire is to pay off my debts and I am currently able to make a monthly offer of £1 in repayment of my debt to you.

This repayment will increase to £ after months.

Please find enclosed a copy of my financial statement and a list of my unsecured debts.

Due to the seriousness of my situation, I would request that all interest and charges be stopped on the account.

Payments will be made monthly, starting on the of next month.

I respectfully request:

1. Confirmation that you agree to the above offer.
2. Confirmation that you agree to stop interest and charges.
3. Confirmation of the balance outstanding.
4. Reference details and address for sending payments.

Your earliest response would be appreciated.

Yours faithfully,

Other options

Insolvency options

If it will take a long time to pay off your debts, don't give up hope – there are other options that are worth considering. If you know your situation will change soon, you could send a holding letter to your creditors saying you can't afford to pay them anything at the moment but that your situation will change in the near future. If your situation doesn't look likely to change, you could consider one of the formal insolvency options below. We strongly suggest that you seek specialist help if you are considering any of these.

Debt Relief Order (DRO) – England, Wales, Northern Ireland

A DRO is a type of formal insolvency procedure to help people with low levels of debt and who do not own assets of a high value. You cannot submit a DRO application yourself, but instead must go through a qualified money adviser called an Approved Intermediary. There is no risk of losing any assets in a DRO, but if your circumstances change during the following year, there is a chance that the application could be cancelled.

Bankruptcy – England, Wales, Northern Ireland

Bankruptcy is a type of formal insolvency that almost anyone is able to apply for online. Your debts would be cleared straight away in a bankruptcy, but you may have to give up assets as part of the process so that some money can be given to your creditors. You will be required to pay a fee initially and may also be required to make monthly contributions for a period, generally three years.

Sequestration (Full Administration or Minimal Asset Process (MAP)) – Scotland

Sequestration (or Scottish Bankruptcy) is a type of formal insolvency that anyone can apply for themselves online. Your debts would be cleared straight away through Sequestration but you may have to give up any assets as part of the process, so that some money can be given to your creditors. You will be required to pay a fee initially and may also be required to make monthly contributions for a period, generally four years. There are three different ways to qualify for a Sequestration, one of which requires that you seek advice from a qualified Money Adviser.

Contribution-based Individual Voluntary Arrangement (IVA) – England, Wales, Northern Ireland

A contribution-based IVA is like a formalised payment plan, where you agree to make a monthly payment to your creditors for normally five to six years. At the end of this time period, any remaining debt is cleared. You cannot submit an IVA proposal yourself, but instead must go through a qualified Insolvency Practitioner. It is possible that any assets you own may be protected in an IVA, even including a house that you own. It's also possible for the Insolvency Practitioner to negotiate a much reduced percentage for you to pay.

We recommend that you seek debt advice if you wish to pursue any of the above options.

There is a list of organisations that you can contact for help on page 27 of this booklet.

Lump sum Individual Voluntary Arrangement (IVA) – England, Wales, Northern Ireland

A lump sum IVA is like a formalised full and final arrangement, where a qualified Insolvency Practitioner negotiates a reduced settlement against all of your debts. Unlike normal full and final settlements, if the proposal is successful, then it will cover all of your creditors and it is possible for the Insolvency Practitioner to negotiate a much reduced percentage for you to pay – in some cases, even as low as 15% of your total debt.

Administration Order (AO)

An Administration Order lets you pay back your debts through a court-managed plan. Its main advantage over a normal repayment route is that it provides official protection from any further creditor enforcement. That means that if you own a significant asset such as a house, an AO could allow you to repay your debts without the threat of charging orders or other enforcement.

Trust Deed – Scotland

A Trust Deed is like a formalised payment plan, where you agree to make a monthly payment to your creditors for Four years. At the end of this time period, any remaining debt is cleared. You cannot submit a Trust Deed proposal yourself, but instead must go through a qualified Insolvency Practitioner. It is possible that any assets you own may be protected in a Trust Deed, even including a house that you own. It is also possible for the Insolvency Practitioner to negotiate a much reduced percentage for you to pay.

We recommend that you seek debt advice if you wish to pursue any of the above options. There is a list of organisations that you can contact for help on page 27 of this booklet.

Full and final settlements

If you have come into a significant sum of money from a re-mortgage, house sale or divorce settlement for example, you can ask your creditors to accept a reduced repayment in full and final settlement of your debts.

In most cases it would be appropriate to repay any priority debts first. Then you need to offer a fair amount to each non-priority creditor based on how much you owe them. Use the example below to work this out.

You owe:	Provident	£1,200
	Lloyds Bank loan	£5,830
	Storecard	£170
Total owed:		£7,200

You have a £5,000 lump sum to use

Each individual debt / total amount owed = percentage of total debt

Percentage of total debt x lump sum available = repayment offer

For Provident: $£1,200 / £7,200 = 0.166666$
Repayment offer = $0.16666 \times £5,000 = £833$

For Lloyds Bank loan: $£5,830 / £7,200 = 0.8097$
Repayment offer = $0.8907 \times £5,000 = £4,048$

For storecard: $£170 / £7,200 = 0.0236$
Repayment offer = $0.0236 \times £5,000 = £118$



You then need to write to each of your creditors stating clearly how much you are able to pay them to settle the debt in full; when you will make the payment; and ask them to write off the remaining amount. If applicable, mention your circumstances and that they are unlikely to get better. Make sure that you obtain a written acceptance of an offer from the creditor before you make any payment. They are under no obligation to accept an offer you make. Also be realistic about what you will be able to negotiate: you may be better to lose the lump sum in a bankruptcy, for example, or offer something called a lump sum IVA (see page 21).

We recommend that you seek debt advice if you wish to pursue any of the above options. There is a list of organisations that you can contact for help on page 27 of this booklet.

Dealing with difficult situations

Hopefully, the information in this booklet will avoid you getting involved in court proceedings. However, in some cases, by the time you receive this booklet creditors may have already started court proceedings against you. You may find that a creditor will do this if they aren't prepared to accept the offers you make to them. Don't panic. Instead, follow the advice below:

Dealing with Enforcement Agents (bailiffs) - England and Wales only



1. Keep calm and don't ignore the threats; they won't go away.
2. Complete a financial statement and work out how much you can afford to offer the creditor each month. Contact the creditor (not the enforcement agent) initially and offer the payment (If you are deemed 'vulnerable' there is a good chance that they will accept the offer and recall the debt from the enforcement agents). Sometimes the creditor will ask you to contact the enforcement agent directly. If this is the case base your offer of payment only on what you can genuinely afford.
3. If an enforcement agent is due to call at your property, they must have given at least 7 days notice in writing (this is known as a Notice of Enforcement), before doing so. Ordinarily we would advise that you **do not let them in**. Enforcement agents are **not** allowed to use reasonable force to enter a property **unless** they are calling because of missed income tax payments, VAT payments, fraudulent benefit claims, a criminal fine from the magistrates court, or they have gained previous entry into the property and you have signed a controlled goods agreement.

Enforcement agents can gain entry to a property through an open or unlocked door, so ensure these are kept locked. Leave the enforcement agent outside and talk to them through the letterbox. Explain to them that you have completed a financial statement and are trying to reach an agreement to repay your debt.

4. If the enforcement agent is collecting on behalf of a debt in the county court (which has a County Court Judgment (CCJ)) you can apply to the court to have the warrant suspended and to offer payments again. This should be done on form N245 and there is a fee (see form EX160 for fee remission). **Always** fill in and return any documents that you receive from the court. If a creditor decides to take court proceedings against you, the court will send you a Claim Form stating what amount the creditor says you owe them. Follow the steps below:
 - If you agree that you owe the money, complete the financial statement on the back of the Claim Form (N9A) using the information you've put together on your own financial statement. Confirm how much you are able to offer the creditor and then return the form.
 - If you don't agree that you owe the money, explain why on the form provided and return it to the court. You must have a defence based in law. For example, being unhappy with the amount of interest owed is not a defence.
 - Return the forms as soon as you can. The deadline for returning them is 14 days from being served (or 17 days if it is from Northampton County Court Bulk Centre).

N.B. There are no private bailiff companies in Scotland or Northern Ireland.

In Northern Ireland, the Enforcement of Judgments Office (EJO) – a centralised public service organisation – is responsible for collecting payments when judgments are not paid. The EJO have the power/authority to seize goods if they deem this to be necessary. You should contact the EJO directly on 0300 200 7812 (Northern Ireland Courts and Tribunal Service) .

In Scotland, a Sheriff Officer needs authority from the court before they are allowed to enter a property and seize goods.

Dealing with court proceedings

1. If you receive a letter from the court telling you to attend, **always** go. It will look bad if you don't and you won't have the opportunity to tell them what you can afford to pay to the creditor in question. If you are nervous, get a friend to attend with you. Remember that the courts are there to provide justice for you and the creditor. They should make sure you get a fair outcome.
2. If you have to go to court, prepare a financial statement (see stage two) and take it with you. This should show the judge what you can afford to pay to the creditor and what is reasonable.
3. If you have to go to court for mortgage or rent arrears it is advisable to get some help. Contact your local Citizens Advice Bureau (CAB), or Housing Advice Service if you are a resident in Northern Ireland. They may be able to help you or refer you to another agency that can. There is often a free legal advice help desk at the court that you should use.
4. You may get lots of letters from non-priority creditors threatening to take you to court. Companies will often do this to frighten you and get you to pay money towards the debt. If it is just a threat, send them a copy of your financial statement and make an offer that you can afford (see stage four).

Court orders (in the County Court)

A court order is when the creditor has taken court proceedings against you to try to get back the money that you owe them. If you haven't turned up to the court hearing or filled in the court forms in time, the court will order that you pay a certain amount to the creditor each month without knowing your financial situation. That is why it is so important that you follow the steps above.

If the order was made without a hearing you may ask for the amount to be changed for free. This is called 'redetermination'. You must request redetermination in writing within 14 days of the order being served.

If you want to reduce the amount you pay and it is more than 14 days since the order was served, you can still apply to the courts by filling in a form called N245. You can call your local court office and ask them to send the N245 form or print a blank form from the internet.

There is a fee for this application. Use your financial statement to fill in form N245 and to work out how much you can afford to pay each month. In the meantime, try to pay the amount ordered by the court to the creditor.

It is important that you pay the amount that is ordered by the court on a regular basis. If you repeatedly miss payments they can send an enforcement agent to visit you.

Eviction and repossession

If your mortgage provider, secured loan company or landlord takes you to court to try to evict you because of arrears, it is extremely important that you attend any court hearings and fill in the defence form that will be sent to you.

If you can afford your contractual repayments, the best defence is to offer the contractual amount plus as much as is reasonably possible towards the arrears each month. If you cannot afford to stay in your home, look into other housing options (e.g. putting your house on the market or applying for council housing). Try and ask the court for time to sell if this would help. Continue to make whatever payments you can during the court proceedings, as this will help your case.

If you have already reached a point where you have a date for eviction, you can apply to court for an emergency hearing at any time before the eviction is scheduled. Apply for an emergency hearing by using form N244. There is a fee, but you may not have to pay this if you are on certain benefits or a low income (this is known as 'fee remission'). Fee remission may be applied for using form EX160 and you will need accurate, up-to-date proof of income. This applies to any court fee you may have to pay.

An emergency hearing gives you another opportunity to make an offer to repay your arrears or to ask for more time. It is a good idea at this point to arrange some alternative accommodation for you and your family in case your emergency hearing is unsuccessful. Your local council has a duty to house you, especially if you have children.

A useful contact is Shelter, who can advise on housing eviction issues. Call Shelter on 0808 800 4444. Your local Citizens Advice Bureau will also be able to offer some expert advice.

Meaning of financial terms

Assets	An item of value (e.g. house, car).
Enforcement Agent (Bailiff)	Enforcement agents are employed by either the court or by the creditor as a means of collecting payment of a debt owed to them. Once the court has issued a 'warrant of control' to an enforcement agent, they become authorised to try and take control of your possessions (excluding items on HP, belonging to children or required for basic living needs e.g. beds, table, chairs) and sell them to the value of the amount owed to the creditor. See page 23 on what to do if they call.
Bankruptcy	If you are unable to pay your debts you can petition to the courts to declare yourself bankrupt (there is a fee for this). Debts included in a bankruptcy are not enforceable for the period of bankruptcy and are discharged afterwards. Amongst other consequences, you lose assets in a bankruptcy and will be subject to restrictions; you should seek further advice regarding this.
Basic bank account	A bank account with most of the facilities of a full bank account but usually not an overdraft facility.
Budget	A financial plan to help you live within your means, spending less or the same amount of money as you earn/have coming in each month.
Court orders (CCJs)	A County Court Judgment (CCJ) is where the court orders you to repay money that is owed to someone. If the amount isn't paid, the creditor can apply for enforcement (such as enforcement agents or charging orders). If you receive a claim form from a creditor, fill it in to the best of your ability and contact your local CAB for assistance with further court proceedings.
Contractual payments	These are the regular repayments you agreed to make with your creditor when you took out your loan/overdraft, etc.
Credit	Money legally lent to the borrower with some agreement as to how that will be repaid.
Creditors	People from whom money has been borrowed.
Direct Debit	An agreement made between a bank account holder and a third party (e.g. a creditor) for the third party to take an amount from the account holder's bank on a certain day of the month.
Disposable income	The amount of money you have left when you take your living costs away from your income (e.g. if your income is £200 and your living costs £150, your disposable income is £50).
Expenditure	The total amount of money you spend each month.
Financial statement	A detailed plan showing all the money a person has coming in and the money they spend each month. It also shows details of priority and non-priority debts and what they are able to offer to creditors from their disposable income.
Fraudulent benefits	Claiming benefits that you are not entitled to.
Hire purchase/conditional sale agreement	A loan against an item or good whereby the financier owns that item (such as a car, sofa or fridge freezer) until the final payment according to the loan agreement is made.
Income	The total of all the money you have coming in each month.

Meaning of financial terms continued

Individual Voluntary Arrangement (IVA)	A legally binding agreement with your creditors whereby you pay your surplus income and/or available assets to them for up to five years in final settlement of your debts. This will have to be proposed on your behalf to creditors, and also administered by a legally qualified individual called an Insolvency Practitioner. There would be fees involved in this, but the Insolvency Practitioner's fees will be paid by the creditors.
Living costs	The cost of everyday living, e.g. food, travel, housing, clothes.
Non-priority debt	A less important payment than a priority payment. It usually includes debts such as credit cards, loans etc where there are fewer serious consequences if they are not paid.
Priority payment	An important payment that takes priority over payment of non-priority debts (see above). If you don't pay this you are likely to lose something (e.g. house, gas or electricity), or in some instances you may risk going to prison.
Savings	Money that is put aside each month towards items for which you are saving, or which can be spent in emergency situations for unexpected items of expenditure.
Standing order	A request by an account holder for the bank to pay a specified amount to a third party from their bank account on a certain day each month. Payments made by standing order are controlled by the account holder.

This section contains the contact details for several organisations that you may find helpful as you work your way out of debt.

Other recommended debt advice organisations

Step Change	0800 138 1111
Business Debtline	0800 197 6026
PayPlan	0800 280 2816
National Debtline	0808 808 4000
Community Money Advice	communitymoneyadvice.com
My Money Steps	mymoneysteps.org
Money Advice Service	moneyadviceservice.org.uk
Citizens Advice	citizensadvice.org.uk

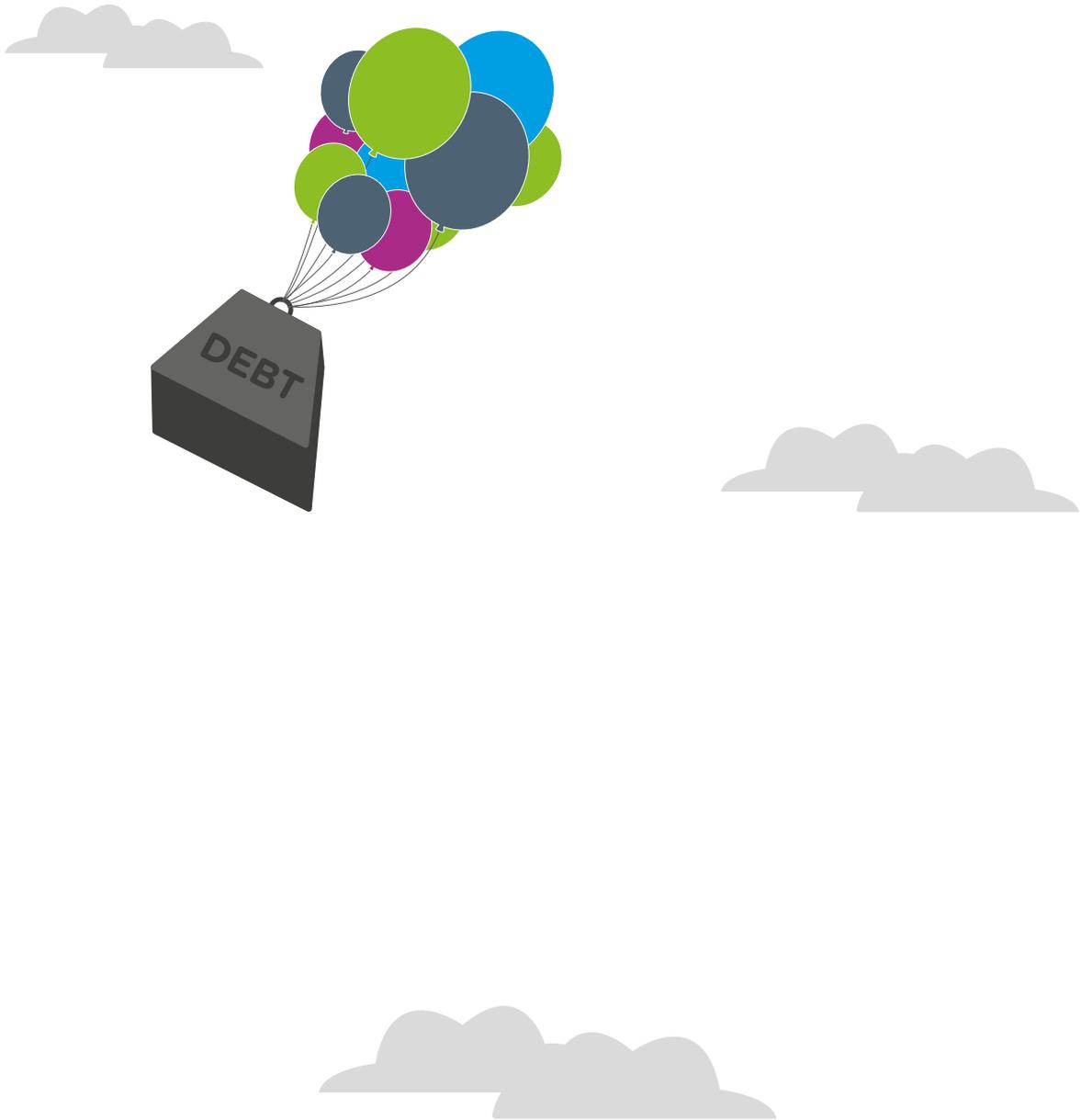
Other useful advice agencies

Turn 2 Us	0808 802 2000
Child Support Agency National Helpline	0345 713 3133
HMRC Helpline for Employers	0300 200 3200
Jobcentre Plus (new claims)	0800 055 6688
Pension Wise (help making a claim)	0800 138 3944
Age UK	0800 169 2081
Tax Credits Helpline	0345 300 3900
Winter Fuel Payment Helpline	0845 915 1515
Home Heat Helpline	0800 33 66 99
Shelter (housing and homelessness advice)	0808 800 4444

A useful website for calculating benefits entitlement is turn2us.org.uk.

Advice for those in Scotland and Northern Ireland

Housing Rights Service (Northern Ireland)	housingrights.org.uk
Advice NI	adviceni.net
Citizens Advice Scotland	cas.org.uk
Money Advice Scotland	moneyadvicescotland.org.uk
Debtline NI / Stepchange	0800 138 1111
Debt Action NI / Advice NI	0800 917 4607



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