
Options for tackling your debt problems

1 Overview

If you owe people money there are a variety of ways you can deal with it. Your options will depend on the amount of money and assets you have, and whether you're currently in bankruptcy or not.

What you can do if you're not currently bankrupt

You can pay your debts in instalments by setting up:

- a debt management plan (DMP) which is an agreement with your creditors either set up & managed by your advice centre/ yourself (informal) or managed by a financial company (formal)
- an Administration Order when you've had a county court judgment (CCJ) or a High Court judgment (HCJ) against you for debts under £5,000
- an Individual Voluntary Arrangement which is managed by an insolvency practitioner
- you can apply for a Debt Relief Order or Bankruptcy Order if you can't pay your debts because you don't have enough money or assets you can sell.
- Offer in full and final settlement if you have lump sum available
- set repayments for a specified amount of time agreed with your creditors

2 Debt Management Plans

A DMP is an agreement between you and your creditors to repay your debts. You make regular payments either direct to your creditors or make a single monthly payment to a authorised debt management company.

Get a DMP

- Set up a plan with a debt management company (DMC) or with a free debt advice centre authorised by the Financial Conduct Authority (FCA)
- The advice centre or DMC works out your monthly payments. You'll have to give details about your financial situation, eg your assets, debts, income and creditors
- The advice centre or DMC contacts your creditors and asks them to agree to repayments (they don't have to)

Costs

There will be no costs associated with setting up a DMP through CMA advice centres. However, it will be your responsibility to make monthly payments to all your creditors. Some DMCs charge for setting up a DMP that may include:

- a set up fee
- a handling fee each time you make a payment

Make sure you understand the costs and structure of your plan as some companies will take their fees in the first few payments with nothing being paid to creditors.

Eligibility

DMPs can usually only be used to pay 'unsecured' debts, eg, debts that haven't been guaranteed against your property.

Your plan can be cancelled if you don't keep up your repayments.

3 Administration orders

An administration order is a way to deal with your debts if you have a county court or High Court judgment against you and you can't pay in full.

Your total debts must be less than £5,000.

You make one monthly payment to your local court. The court will then divide this money between your creditors.

Get an administration order

Fill in an application for an administration order (N92), and return it to your local court.

The court decides:

- how much of your debt you have to repay, eg. all or just part of it
- how much your monthly repayments will be
- how long the arrangement lasts

The arrangement is known as a 'composition order' if you can't pay all your debts.

Costs

There's a court fee each time you make a payment. This can't be more than 10% of your debt. For example if you owe £5,000 the total fee can't be more than £500.

Eligibility

You must:

- owe less than £5,000, including any interest and charges
- owe money to at least two creditors
- prove you can afford your repayments, eg. give details of your income
- have a county court or High Court judgment against you, which you can't pay in full

Your responsibilities

You must keep up your repayments or the court can:

- take money from your wages – known as an 'Attachment of Earnings Order'
- cancel the arrangement

Public records

Your administration order is added to the Register of Judgments, Orders and Fines.

- it's usually removed six years after the date the order was made.
- your entry is marked as 'satisfied' if you repay your debts in full.
- you can also ask the court for a 'certificate of satisfaction'. To do this, write to the court and send a cheque for £15 (made payable to Her Majesty's Courts and Tribunal Service).

4 Individual Voluntary Arrangements

An Individual Voluntary Arrangement (IVA) is an agreement with your creditors to pay all or part of your debts. You agree to make regular payments to an insolvency practitioner (IP), who will divide this money between your creditors. You will need to have a reasonable amount of disposable income and/or assets that can be realised to take into an IVA.

Get an Individual Voluntary Arrangement

Use an insolvency practitioner to get an Individual Voluntary Arrangement (IVA). Your adviser can give you guidance on where to find an approved insolvency practitioner.

Your insolvency practitioner works out what you can afford to repay and how long the IVA lasts. You'll have to give details about your financial situation, eg your assets, debts, income and creditors. Your insolvency practitioner will contact your

creditors. The IVA will start if the creditors holding 75% of the total value of your debts agree to it. It will apply to all included creditors, including any who disagreed to it.

Costs

There are usually two fees:

- a set up fee
- a handling fee each time you make a payment which usually is taken directly from any contributions made

Make sure you understand the costs before asking an insolvency practitioner to act for you.

Your responsibilities

Your IVA can be cancelled if you don't keep up your repayments.

Public records

Your IVA will be added to the Individual Insolvency Register. It's removed three months after the IVA ends, however it will stay on your credit record for six years.

5 Debt Relief Orders

Debt Relief Orders (DROs) are one way to deal with your debts if you owe less than £20,000, have little spare income and don't own your home.

If you get one:

- your creditors can't recover their money without the court's permission
- you're usually freed ('discharged') from your debts after 12 months

Get a Debt Relief Order

You get a DRO from the Official Receiver (an officer of the bankruptcy court), but you must apply through a debt adviser. Your adviser will be able to refer you to a DRO Approved Intermediary who will be able to help you complete an application.

Costs

The Official Receiver's fee is £90. Your adviser will tell you how and when to pay it.

Eligibility

You're generally eligible if you meet all of these criteria:

- you owe less than £20,000
- you have less than £50 a month spare income
- you have less than £1,000 worth of assets
- you've lived or worked in England and Wales within the last three years
- you haven't had for a DRO within the last 6 years

Your responsibilities

- do not borrow more than £500 without telling the lender about your DRO
- do not act as the director of a company
- do not create, manage or promote a limited company without the court's permission
- do not manage your own business without telling those you do business with about your DRO

Check the Individual Insolvency Register to see when the restrictions end.

The restrictions usually last 12 months. They can be extended if careless or dishonest behaviour caused your debt problem. For example, you were untruthful when trying to get credit.

The Official Receiver will tell you if they should be extended. To extend them, you'll be asked to agree to a Debt Relief Restrictions Undertaking. The court can issue a Debt Relief Restrictions Order if you don't agree.

What you need to know

DROs can be cancelled if:

- your finances improve
- you don't co-operate with the Official Receiver

Your DRO is added to the Individual Insolvency

Register – it's removed three months after the DRO ends your DRO will stay on your credit record for 6 years

6 Apply for bankruptcy

All bankruptcy applications are now made online.

Costs

The cost of bankruptcy is £680, which can be paid in one go by cash or by instalments using a card. An application cannot be made until the full amount has been paid.

An adjudicator will look at the application and a decision will be made within 6 weeks or less. Providing the adjudicator is happy the criteria is met, they will make a bankruptcy order and appoint an Official Receiver to administer your bankruptcy.

Eligibility

You must:

- not meet the criteria for any other form of insolvency
- prove you cannot afford your repayments, e.g. give details of your income

There is a suggested minimum amount owed of more than £750, including any interest and charges

Your responsibilities

- Provide information about your financial affairs to the Official Receiver.
- Collect and hand to the Official Receiver, all your account books, records, bank statements, insurance policies and other papers relating to your assets and debts
- You may have to attend an interview at the Official Receiver's office at a later date
- Tell your trustee in bankruptcy about any assets and increases in income you receive during your bankruptcy
- Stop using your bank and building society accounts, credit cards and similar accounts straight away
- Not get credit of £500 or more from any person without first telling them that you are an undischarged bankrupt
- Not make payments direct to your creditors for money that you owed before the bankruptcy order was made

Exiting Bankruptcy

If you have been deemed to have enough income to be able to make payments then these will continue for three years, although you will usually be considered discharged after 12 months. Your bankruptcy will be on your credit record for six years.

7 Offer in full and final settlement

If you have a lump sum available that would cover part of your debts you can ask your creditors if they would accept a part payment and write off the rest. Alternatively they may allow you to make monthly payments for a set period after which any amount outstanding is then written off.

There are additional options that may be suitable for your specific circumstances. If this is the case, your adviser will provide the relevant information for you to make an informed choice as to the way you wish to proceed.