

INFORMATION

In this information sheet we look at 10 ways it may be possible to clear your debts. In **table one**, we list each of the repayment methods and tell you how big or small your debts would have to be to use each of these methods; what type of debt could be repaid in this way and how long you could expect to wait before you would be debt free. In **table two** we go into more detail about each method and explain how it works and what the pros and cons may be.

TABLE ONE

Type of arrangement	How much must I owe?	What type of debt?	How long will it last?
Informally negotiated arrangement with creditors	No minimum or maximum level of debt.	Credit debts only.	There is no time limit. You may be paying for many years
Debt management plan (DMP)	Over £5,000.	Credit debts only.	There is no time limit. You may be paying for many years.
Individual voluntary arrangement (IVA)	None, but due to costs not much point unless you owe over £15,000.	Usually, only credit debts.	No time limit, but usually five years.
Bankruptcy	A creditor can only issue a bankruptcy petition if you owe £750 or more. You can make yourself bankrupt however much you owe.	Most debts except student loans, court fines, maintenance and child support.	Most people are discharged from all their debts after one year (but there are exceptions to this). If you have spare income you may have to make payments for three years.

Type of arrangement	How much must I owe?	What type of debt?	How long will it last?
Debt Relief Order	Under £15,000	Most debts except student loans, court fines, maintenance and child support.	You will be discharged from your debts after one year.
Administration order	£5,000 or below.	Credit debts and some priority debts.	You can ask for a 'composition order', which means the debts may be written off after two or three years. Otherwise, there is no time limit. You may be paying for many years.
Consolidation loan	No minimum or maximum level of debt. It will depend upon what the lender is prepared to lend.	Any debts your lender allows you to include.	The length of the loan.
Offers in full and final settlement	No minimum or maximum level of debt.	Usually credit debts.	Immediately unless payment is in instalments.
Write-offs	No minimum or maximum level of debt.	Usually credit debts.	Debts would be cleared.
Charitable payments towards debts	No minimum or maximum level of debt.	Depends upon the charity but usually priority debts.	Debts would be cleared or reduced.

TABLE TWO

Informally negotiated arrangement with creditors

How it works

Normally you work out your offers of payment based on a pro-rata distribution of your available income. This means that all your creditors are offered a fair share of what you can afford to pay. You also need to ask that any interest and charges are frozen.

You may offer no payments if you have no available income. This is called a 'moratorium'. You may prefer to make token offers of payment of £1 a

month to each creditor.

Advantages

Fair and transparent method of distributing payments. Recognised by courts and widely accepted by creditors. You can increase payments where circumstances improve. You can make reduced offers if circumstances get worse. You do not need an advice agency to negotiate these payments for you. National Debtline's pack 'Dealing with your debts' shows you how to do draw up your own personal budget sheet and make offers to creditors. It also includes sample letters to use when negotiating with your creditors. If you make your offers through an advice agency you can use the Money Advice Trust's Common Financial Statement.

Drawbacks

Creditors may refuse your offers (although it is always worthwhile, asking them to reconsider). • Creditors may refuse to freeze interest and the debt will grow. (Again, it is worthwhile asking them to reconsider). Creditors may refuse offers unless made through an advice agency. (You can complain to the Office of Fair Trading (OFT) if this happens). Creditors may take court action. This is a particular risk if you have larger debts and own your own home, as it may be possible for the creditor to get a charging order on your home. You are responsible for administering all the payments yourself. Many creditors will only accept reduced offers for a limited period and may ask for regular reviews. This will affect your credit rating.

Debt management plans

How it works

You need to have £100 or more available income per month to pay your creditors.

You must have 3 or more creditors.

You make the agreed monthly payment to a **free** debt management company who distributes the payments amongst your creditors for you.

Advantages

This is fair and transparent method of distributing payments. The debt management company will negotiate with creditors on your behalf. This means that offers are more likely to be accepted and interest frozen. You can increase your payments if your circumstances improve. The debt management company is responsible for administering all payments to your creditors. You just make one monthly payment to the debt management company.

Drawbacks

- You may not be able to make reduced offers if your circumstances get worse and you cannot afford the minimum £100 a month. The debt management company cannot force creditors to accept offers or freeze interest so a DMP can be undermined. This will affect your credit rating.

Individual voluntary arrangement (IVA)

How it works

An IVA is an alternative to bankruptcy. It is a formal arrangement through the county court to pay an agreed amount off your debts over a shorter period such as five years. The rest of the debts are written off.

You will need an insolvency practitioner to set up an IVA.

The arrangement has to be agreed by the majority of your creditors (by value).

Advantages

Less stigma than bankruptcy. No publicity. Not bound by bankruptcy restrictions. Can continue to trade if in business. Can exclude assets such as the home if creditors agree. Creditors will be bound by the IVA even if they voted against it. Usually lasts a maximum of five years. Most insolvency practitioners will allow fees to be paid on a monthly basis as part of the IVA. Some insolvency practitioners follow the IVA Protocol which provides guidelines for how an IVA should be drawn up and how the insolvency practitioner should behave.

Drawbacks

- This will affect your credit rating. You need to have high available income or a lump sum or asset available to make an IVA possible. Costs are high (typically £4,000 plus) and the insolvency practitioner may require payment of fees up front. You can still be made bankrupt if the IVA fails. Some IVAs fail because the payments agreed are too high in the first place. If your circumstances change the IVA may end if the insolvency practitioner cannot get creditors to accept new terms. Many IVAs have a built in requirement to revalue your home and release equity to pay the creditors after a set number of years of payments (usually five). There is a growth in companies who may offer to set up an IVA for you even if it isn't suitable in your circumstances and charge high fees.

Bankruptcy

How it works

You can petition for your own bankruptcy or a creditor can make you bankrupt. Your financial affairs will be dealt with by the official receiver. Valuable assets are usually sold to pay your creditors. Your bankruptcy usually lasts one year but you may have to make payments for three years.

If you have no assets the debts are written off. Bankruptcy may be a good option particularly where you rent your home and have no assets.

Advantages	Drawbacks
<p>It relieves stress and anxiety. It allows you to make a fresh start after a year. Debts are written off if you have no assets. Creditors cannot take further action unless the debts are secured on your home. Monthly payments for a maximum of three years.</p>	<ul style="list-style-type: none"> This will affect your credit rating. If you have equity you could lose your home. Secured creditors can still take action against you. You have to find a fee and deposit totalling £485. Your assets may be sold by the official receiver. Not all your debts are written off (see table one for details of main debts not written off). Your employment may be affected. Your business may be closed down. Details of your bankruptcy will be in the London Gazette (and a local paper). You may have a 'bankruptcy restriction order' made against you for dishonesty or 'unfit conduct'. There are some powers for the official receiver to take criminal action against you e.g. if you have committed fraud. You may feel humiliated by the 'stigma' of bankruptcy.

Debt Relief Order

How it works	
<p>You can apply for a Debt Relief Order (DRO) from April 2009. You must apply to the official receiver on a special on-line application form with the help of a money adviser who has been appointed as an approved intermediary. You will be eligible if: you are unable to pay your debts; you have less than £50 a month spare income after you have paid your normal household bills; your debts are under £15,000; your assets are worth less than £300; and if you own a car this is worth below £1,000. If your application is successful, your debts will be written off after 12 months. A DRO could be a good option if you rent your home, have few assets and little spare income.</p>	
Advantages	Drawbacks
<p>It relieves stress and anxiety. There is no court hearing. It allows you to make a fresh start after a year. Your debts are written off if they were included in the DRO. Most debts can be included in the DRO, including priority debts such as rent arrears, fuel debt and Council Tax. Creditors cannot take further action once you have a DRO. You have to find a fee of £90 but you can pay this in instalments and this is much cheaper than bankruptcy. You do not have to make monthly payments on your debts while you have a DRO.</p>	<ul style="list-style-type: none"> You cannot apply if you own your home as this would be counted as an asset. Secured creditors can still take action against you. Not all debts are written off. For example, you cannot include magistrates' court fines, student loans, maintenance and CSA payments. If you forget about a debt, you cannot add it in later. Details of your DRO will be in the Individual Insolvency Register. This will affect your credit rating. You may have a 'debt relief restriction order' made against you for dishonesty or 'unfit conduct'. There are some powers for the official receiver to take criminal action against you e.g. if you have committed fraud.

Administration order (AO)

How it works	
<p>You must have a county court or high court judgment. Your debts must be no more than £5,000. You must have at least two debts. An application is made to your local county court on a form N92. An AO is a county court order which allows you to make a single payment every month to the court. This is divided amongst your creditors on a pro-rata basis by the court.</p>	
Advantages	Drawbacks
<p>None of the creditors listed on the AO application can take further action against you without the court's permission. The court deals with the creditors and makes the payments for you. Interest and other charges are stopped. There is no up-front fee (court takes 10p in every £100 paid in). You can apply to make payments for a time-limited period such as three years using a 'composition order'. You can increase payments where your circumstances improve. You can apply to the court to make reduced payments if your circumstances get worse.</p>	<ul style="list-style-type: none"> You must have total debts below the £5,000 limit. Creditors can make objections to the court and ask to be left out of the order (although the court may not agree with this). This will affect your credit rating. If you do not maintain your payments the AO can be revoked and the creditors can pursue you again.

Consolidation loan

How it works	
<p>Apply to a lender for a loan to clear debts. The lender may want to secure the new loan on your house if you own property. It is crucial that you shop around for the best deal from high street and internet lenders. (If you have a poor credit rating, it is possible that a good deal may not be available to you).</p>	
Advantages	Drawbacks

This won't affect your credit rating unless you fall behind on payments. You will be making one monthly payment on one loan rather than many payments to different creditors. Your new monthly payment should be lower.

- If you have a poor credit rating you may not be able to take out a consolidation loan, or you may be offered one on worse terms and conditions, for example at a higher interest rate. If the loan is secured on your house then it could be repossessed if you do not keep up with the payments. Interest rates often change over the loan period, making it impossible to work out what the total cost of the loan will be. Check if the interest is 'fixed' or 'variable'. Loans are often offered over a longer time than your original loans, which means that even if the interest appears reasonable, the length of time you have to repay can increase the overall cost of the loan significantly. This means that in the end you pay more. If you don't clear all your existing borrowing, then you may struggle to make the payments. If you keep your credit cards it may be tempting to use them again. If you did not do a full budget sheet listing your income and outgoings you may not have worked out if you can realistically afford the new payments.

Offers in full and final settlement

How it works

If you have a lump sum available that will pay off part of your debts, you can ask the creditors to accept part payment and write the rest off. Alternatively, you may get creditors to agree to you making monthly payments for a set period and then writing the balance off.

Advantages

You clear your debts in full but only pay part of the debt back. It relieves stress and anxiety. It allows you to make fresh start. This gives you a goal and means you are more likely to make the payments.

Drawbacks

- You lose your lump sum or asset which you could have used elsewhere. It is vital to get agreement in writing from your creditors before paying the lump sum. You may need to ask for help from relatives or friends. The debts will still show up on your credit file and affect your ability to get credit in the future. A creditor could try to recover the whole debt by taking court action.

Write off the debt

How it works

It may be possible to ask your creditors to write off the debts if you have no available income to make any payments and have no savings or assets.

You need to convince the creditors that your circumstances are unlikely to improve in future. Your circumstances may need to be exceptional, for example you have a terminal illness. You need to convince the creditor that it is not economic to collect the debt.

Advantages

It relieves stress and anxiety where you are in an exceptionally difficult situation. It allows you to make a fresh start. Your creditors have accepted that it is not appropriate to take any further action because of your situation.

Drawbacks

- Creditors do not normally agree to write off the debt. It will still show up on your credit file and affect your ability to get credit in the future. Some creditors choose not to pursue the debt but do not put this in writing. There is no guarantee they won't chase you for the debt in the future. Some creditors may refuse whilst others agree.

Charitable payments towards debts

How it works

Apply for help from a suitable charity or trust fund.

Advantages

Drawbacks

It relieves stress and anxiety where you are in an exceptionally difficult situation. A charitable payment may pay off a particularly urgent or pressing debt.

- Most charities are unlikely to be able to help with large credit debts. You must fit the charity criteria to apply in the first place. Charities are only likely to assist with an emergency or priority debt, not the whole problem (assuming you have more than one debt). You will normally have to fill in a detailed application form or find an advice agency to apply for you.