

10 Steps

to sorting out your debts

Don't put it off!

When you can't juggle the bills and the weekly shop, it can be very tempting to put unopened bills in a drawer. As tempting as it is, ignoring debts like this actually causes you more stress in the long run. It costs you more money too as extra fees are added to your debt. It's usually far less frightening to grab the bull by the horns and deal with your debts. Even if you think it's hopeless, it rarely is. If the idea of trying to sort your debt out yourself makes you want to put the letters back in the drawer, there are plenty of advice centres that can help you.

It is usually a good idea to get advice from an expert at some point. They can tell you the best way to deal with people you owe, and help you make the most of your income, no matter how little you have. They will usually advise you how to deal with debt problems yourself, which is probably best in the long run. But in emergency or urgent situations, a money adviser might have to deal direct with the companies you owe, the bailiffs, or the courts.



Should you get advice now?

Some people put off getting money advice. If any of the statements below describe how you are **right now**, you should get help **right now**...

- "I am too worried to open the letters"
- "I can't tell my family or friends about my debts"
- "I seem to go into an overdraft about 15 seconds after I get paid!"
- "I am tempted by all the adverts for consolidation loans"
- "I don't seem to have enough money to buy the things we really need"
- "All my mates are in debt – it's normal!"
- "My money worries are affecting my sleep"
- "The only thing that can rescue me is the lottery!"

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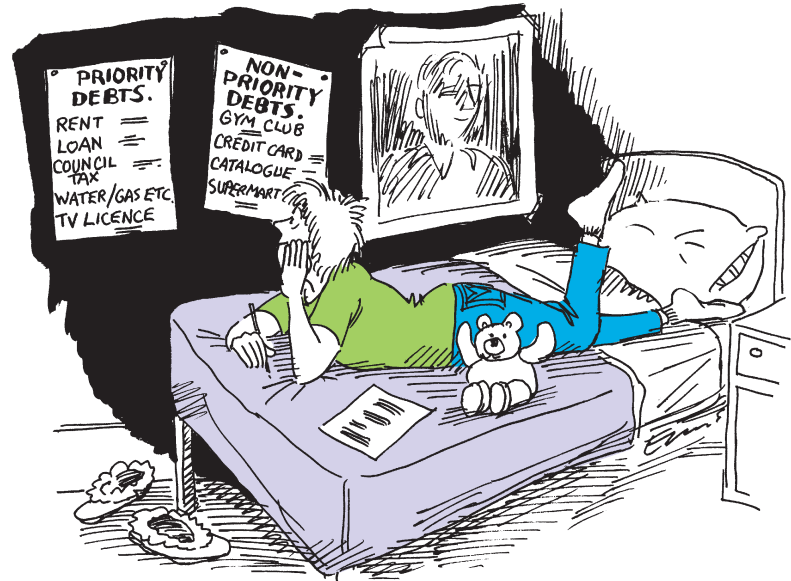
10 steps to sorting out all of your debts

You owe money to the catalogue company, your rent/mortgage is overdue, you owe Council tax arrears, your credit card is at the limit, and they're all asking for money – now! What do you do?

1

Don't panic! No matter how desperate things seem, there are ways to manage your debts

If you feel totally swamped, and don't know what to do, go to an advice agency for help. But there are some things you can do yourself.



WORK OUT DEBTS YOU MUST PAY

2

Check you actually owe the money. Are you responsible for the debt?

If you are responsible ('liable') for a bill, it means that you can be taken to court or have bailiffs come round to try to take your stuff to pay the debt. Despite popular belief, husbands, wives, partners, and family members are not normally responsible for each other's bills. In most cases, the person who is liable will be named on the bill. However, in some cases it's not so simple. For example:

- If you live with other people, they may be responsible for gas or electricity they used, even though their name is not on the bill. If you are being chased for a debt that somebody else (perhaps an ex or a flatmate) helped build up, tell the company concerned.

- Credit agreements are not enforceable against people under 18, even if they've lied about their age to get credit.
- Debts normally die with the person who owed them. Surviving partners and relatives do not have to pay them off. However, the people who are owed money can make a claim on the money and possessions left behind (the 'estate').
- Many debts expire after six years (or 12 years for a mortgage).
- Some credit agreements are not enforceable if they are very unfair. For example, if you did not have the chance to read all of a contract or cancel the agreement. If you think your agreement was unfair it is worth checking with your local Trading Standards Office. See **Getting help**.

3

Are the amounts they claim you owe correct?

Check their sums, and check that they've received all the payments you've made. If you think the amount is wrong, write to them saying why you think there has been a mistake.

4

Prioritise the debts

Some types of debt need sorting first, because they can cause you serious problems if you don't pay them. The most important debts are called 'priority debts'. Priority debts include:

- **Rent or mortgage** – if you do not pay them you could lose your home.
- **Loans secured on your home** – if you don't keep up the payments, you could lose your home.

- **Council tax** – if you do not pay, you could end up with a bailiffs visit, which will increase the amount you owe, and could mean your belongings are taken away to pay the debt. You could even be sent to prison.
- **Income Tax, National Insurance contributions and VAT** – if you have underpaid these, you could end up with a bailiff's visit or face bankruptcy.
- **Gas and electricity bills where you are currently living** – if you don't pay your bills, you could be disconnected.
- **TV Licence** – if you refuse to pay, you could be fined or even sent to prison.
- **Child support and maintenance** – if you are late paying, you can be made to pay by the Court or the Child Support Agency.
- **Court fines** – if you do not pay these, they can force entry into your home and seize things belonging to you. They can even send you to prison.
- **Parking fines or similar** – if you do not pay these, they can seize your vehicle.
- **Anything you are buying on a Hire Purchase agreement** – if you have not yet paid one third, they can repossess the thing you are buying without a court order.

Benefits/tax credits overpayments

You should quickly seek advice if you receive any letters notifying you that you have been overpaid because the normal time limit for appealing is only 1 month!

If you have a tax credit overpayment see our guide at www.advicenow.org.uk/tax-credit-overpayments



Other debts are called non-priority debts. You should deal with these after you have dealt with any priority debts, because the result of not paying them is less serious. Creditors can take you to the county court (this is different from the criminal court, you won't be handcuffed or sent to jail). The court will look at how much you can afford to pay towards your debt each month. As long as you keep to the payments that the court orders, the creditors can't take any further action against you.

Non-priority debts include:

- credit cards and store cards;
- catalogue debts;
- debts with water companies;
- book clubs and catalogue orders;
- gym and health club memberships;
- 'unsecured' loans; and
- personal debts to friends and family.

What's so bad about county court action?

Although being taken to the county court is less drastic than the effects of not paying a priority debt, you should still avoid it for several reasons:

- receiving a court summons is unpleasant and stressful;
- legal action will normally lead to extra costs for you, such as court fees;
- court action can lead to bailiffs being called in to get the money you owe (which will also increase the amount), or possibly deductions direct from your wages;
- you can end up with a bad credit reference; and
- if you are a home owner, they may seek to secure a debt against your property.

5

Do the 'firefighting'

This means take steps to stop the people you owe money to from taking immediate action against you. Firefighting action gives you a chance to work out plans to pay off your debts. You may need to make emergency phone calls if a creditor has threatened legal action against you. When you make the call, the creditor may agree to hold action for a certain period of time, to allow you to work out a repayment offer, or give time for you to take money advice etc. This is sometimes called a "holding agreement". Back up any holding agreements by a letter, fax, or email. Get advice immediately if the fire fighting fails.

6

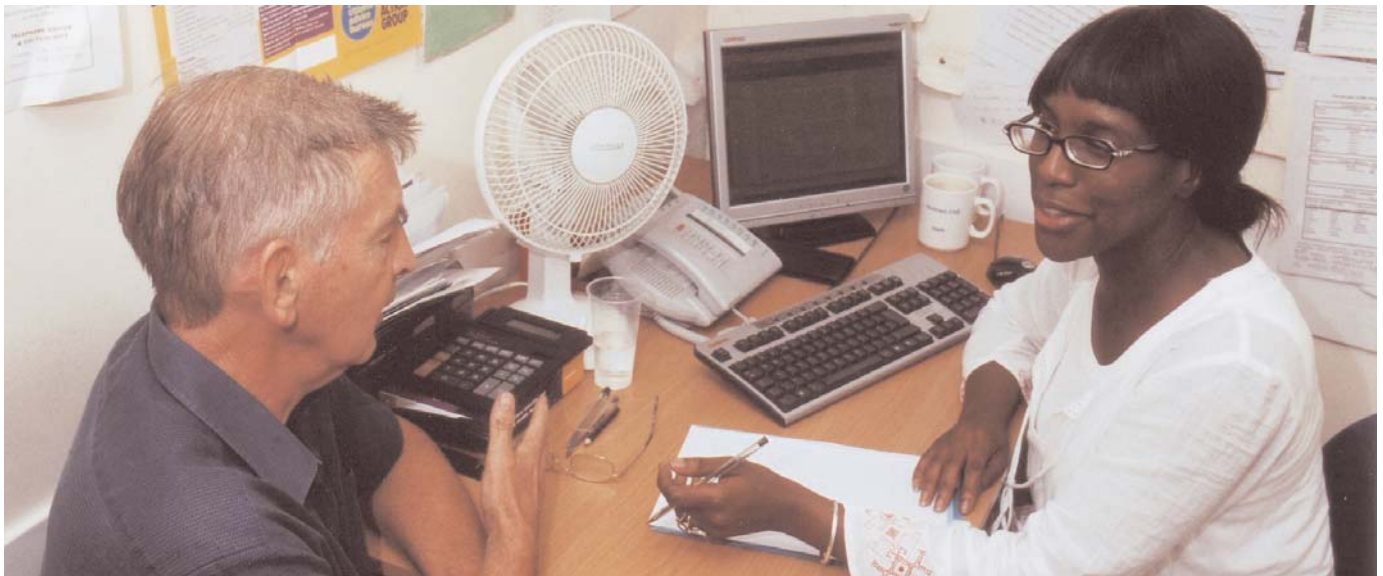
Maximise your income

Check that you are receiving all the benefits that you are entitled to. There are many types of benefit you could get, depending on your circumstances, including Housing Benefit, Council Tax Benefit, Tax Credits (if you are working or if you have children), disability benefits, Income Support or income-based Jobseeker's Allowance. An advice agency should be able to tell you which ones you might be able to apply for. They may also be able to access charitable funds for you.

7

Draft a financial statement

This means working out your regular income and the amounts you spend on the things you really need, not including debt payments. Creditors aren't very sympathetic about costs for cigarettes, socialising, cable TV, and high allowances for, for example, phone calls and food for pets. It's best to allow a modest figure for extras and emergencies. Calculate your 'disposable income' – the amount of money you have left over to offer creditors, after your basic needs have been paid for. If the figure turns out to be zero or even less, don't panic – but get advice.



Don't be put off!

In most cases, creditors usually have a very wide discretion to come to acceptable arrangements. **Don't be put off by comments like "we have to collect the debt by the end of next week". Get advice and support now!**

Be positive!

In most cases, it is never too late to do something positive to improve your situation. Positive action can range from negotiating a manageable repayment scheme, to organising all the debt letters and filing them, because it can help you to take action.

Do you have payment protection insurance that isn't any help?

This happens quite frequently because you may have not been correctly informed when you took it out. If so, then you may be able to claim back your payments. Get advice.

8

Negotiate with creditors

Once you have worked out your disposable income figure, you can work out how much to offer each creditor. The priority debts come first.

If you receive Income Support or income based Job Seekers Allowance, you could agree to having £3.25 a week deducted from your benefit to cover repayment of priority debts such as Council Tax, gas and electricity.

You can contact the people you owe money to at any time and offer to pay some money – even if you cannot pay it all. The sooner you do it, the better. If your disposable income figure isn't enough to cover the priority debts, get advice straight away. Contact your local advice centre or National Debtline for more information (see **Getting help**).

You can be tougher with the non-priority creditors. Write to the creditors explaining your situation – for example, if you are struggling to pay because you are on a low income, you've lost your job, you're sick, etc. Ask them not to take any court action against you, and to stop adding interest or any other charges to your account. You should also offer to make small payments – but only offer what you can genuinely afford, even if it is as little as £1 a month. Don't make promises you cannot keep.

It is sometimes possible to get non-priority creditors to agree to zero payments for a certain period. A debt adviser may even be able to get some debts written off entirely, if they can show the creditor there is no real chance of you being able to pay. However, don't build your hopes up – not surprisingly, creditors are extremely reluctant to do this, and they are under no legal requirement to agree.



9

Put all agreements in writing

Send your creditors a letter confirming what you have each agreed. Keep a copy.

10

Check your payment progress from time to time

If your income drops, review your payments, but write to the creditors before you change how much you pay them. If your income increases, consider increasing payments, so that you'll be debt-free quicker.

Bankruptcy?

If you are considering bankruptcy or being threatened with it, get specialist advice urgently. There are other options, which may be more appropriate.

Beware of anybody who wants to charge you for debt advice

There is a lot of good advice and advocacy out there for free, so you should not have to pay.

Check the advice provider you are thinking of using has an official quality mark from the Community Legal Service.

Avoid loan sharks and expensive consumer credit!

Do not be tempted to take out loans or offers of consumer credit with high annual percentage rates (APRs). Always check very carefully exactly how much money they want you to pay back in total.

● 10 steps to sorting out Rent arrears

If you fall behind with your rent, you must take it seriously. But don't panic, a solution is just a few steps away....



1

Check that the amount of rent your landlord says you owe is right

Make sure they have not missed any payments you have made – check your rent receipts if you have them. If you get Housing Benefit, check that they've been making payments. Sometimes landlords incorrectly add sums to accounts in arrears when considering legal action. These might be housing benefit overpayments that have been reclaimed, or rent arrears from a previous address. These should be dealt with separately, not be added to your current arrears. Your local advice centre can help you check if the arrears are correct.

2

Are you renting with someone else?

If you have a joint tenancy you will still be responsible for **all** the rent including the arrears, not just your share, but you might want to make sure that anybody else you are renting with pays any rent they owe.

3

Check your tenancy agreement

What does it say about rent arrears. Visit or phone your local advice or law centre to discuss your situation and your rights and responsibilities as a tenant.

4

Check whether you could be entitled to housing benefit

However, if you are entitled, housing benefit may still not cover the full amount of your rent. It may also be possible to get a discretionary housing payment from your Council for a limited period. Ask your local housing office, housing association (or other 'social landlord') or advice centre for advice, or call National Debtline on **0808 808 4000**.

5

Discuss your situation with your landlord

If you are not entitled to housing benefit, try to reach an agreement with your landlord to pay a regular amount off the arrears every week or every month.

If you are entitled to housing benefit, explain to them that you have applied for it and are waiting for it to be paid. In the meantime, see if your landlord will accept small regular payments towards your rent. Only agree to an amount you can genuinely afford. If you receive Income Support or income-based Jobseeker's Allowance and you live in a council house or flat, your housing office can accept minimum payments of £3.25 a week (for 2009–10) to pay off the arrears.

6

If you can't reach an agreement...

to pay off a regular amount, get help from a local advice centre or law centre. They should be able to put your case to the landlord for you. You can also phone National Debtline for advice on **0808 808 4000**.

7

If you receive a court summons...

contact your local advice or law centre as soon as possible. You must go to the court hearing to explain your situation and try to reach an agreement to clear the arrears. If you are on Income Support or income-based Jobseeker's Allowance, the court will sometimes allow you to pay a minimum of £3.25 per week to pay off the arrears. However, this depends on the type of tenancy you have and the reasons your landlord wants to evict you. If you are owed any housing benefit, make sure you tell the court as the Judge must take it into account.

Some courts have 'duty schemes' with advice workers or solicitors available to offer advice and to represent you. Check if the court you are summoned to attend has such a service.

8

If you reach an agreement in court to pay the arrears...

(often called a 'suspended possession order') you must stick to that agreement – and remember that you must continue to pay your current rent as well. If you have problems keeping to the terms of the order, contact your landlord and ask for urgent help from your local advice or law centre. If you don't keep up the payments, you could be evicted.

9

If you break the terms of a suspended possession order...

you will receive a letter saying that you will be evicted on a certain date by bailiffs. Even if this happens, you may still be able to save your home, but you must take action immediately. In certain cases, you may be able to have the eviction halted. This means applying to the court for a special hearing – but you must get advice immediately if you are in this situation.

10

If you are evicted for rent arrears...

the local authority may refuse to find you somewhere to live, even if you have children. This is because they may claim that you have made yourself homeless by not paying your rent. You can often challenge this kind of decision, but you must get expert advice immediately.

● 10 steps to sorting out Mortgage arrears

If you fall behind with your mortgage payments, you must take it seriously. But don't panic, a solution is just a few steps away....

1

Contact your mortgage company as soon as you get into difficulties

Explain the problems you are having and tell them how much you can afford to pay towards the mortgage. If you have any mortgage protection insurance, check if you can make a claim.

2

If you are unemployed or working part-time ...

you may be entitled to Income Support (IS) or income-based Jobseeker's Allowance (JSA) to help with the interest payments on your mortgage. If you have a repayment mortgage, you will still have to pay the capital part of your mortgage. If you have an endowment mortgage, you will still have to pay the endowment policy value. But IS or JSA won't always cover all the interest, and there will probably be a delay before help with the interest starts so you still need to find some money. You may also be eligible for one of the new Government backed mortgage rescue schemes.

3

If you don't receive IS or JSA ...

you may be entitled to other benefits. For example, you could be paid tax credits if you work or have children. An advice agency should be able to help you work out what you could receive.

4

Ask your mortgage lender ...

if they will agree to accept reduced payments to cover only the interest for a time.

5

If you have an endowment mortgage ...

and you are behind on the payments, ask about changing to a repayment mortgage. You may be able to cash in the endowment. However, this is a big decision, get financial advice from an independent expert to ensure this is a good idea for you.



6

Look at cutting your repayments ...

by switching to a mortgage with a lower interest rate from a different mortgage lender. Shop around, and take expert advice.

7

If your mortgage lender takes you to court ...

for arrears, it is important that you go along to the hearing. You will need to show the court that you can pay your current monthly instalment (or the amount you need to pay on top of any IS or JSA you may be entitled to), plus a reasonable amount towards the arrears each month. The court will normally expect you to clear the arrears within the remaining term of the mortgage. If you can't pay this much, you should get advice before you go to the hearing. Your lender might agree to extend the number of years of your mortgage to give you more time to pay.

8

If you reach an agreement in court to pay the arrears ...

(often called a 'suspended possession order') you must stick to that agreement. Remember, you must continue with your current repayments as well. If you have problems keeping up with the terms of the order, contact your lender and get help from your local advice or law centre urgently. If you don't, you may well be evicted.



9

If you don't stick to the terms of a suspended possession order ...

you will receive a letter saying that you will be evicted on a certain date by bailiffs. Even if this happens, you may still be able to save your home, but you must take action immediately. In certain cases, you may be able to have the eviction halted. This means applying to the court for a special hearing – you must get advice immediately if you are in this situation.

10

If you are evicted for mortgage arrears ...

the local authority may refuse to find you somewhere to live, even if you have children. This is because they may claim that you have made yourself homeless by not paying your mortgage. However, you can often challenge this kind of decision, but you will need expert advice to do this.

Beware sale and rent back schemes!

These are unregulated and usually target desperate people. It is best to avoid them. But if you are tempted, get advice from an advice centre or CAB.

Getting help

Most people will be able to get help from a local independent advice centre or CAB.

Look in your Yellow Pages, search for your local CAB at www.adviceguide.org.uk, or phone Community Legal Advice to ask if there is one near you: **0845 345 4 345** (Minicom: **0845 609 6677**). They are open 9am to 6.30pm Mondays to Fridays, and 9am to 12.30pm on Saturdays.
www.communitylegaladvice.org.uk

Staff at your local library or council offices should also be able to give you details of advice agencies near you.

When you've found a local advice center or CAB, phone for an appointment and explain your problem. Tell them if you have any deadlines (like a court date) so that they can ensure you get an appointment before it is too late. Take all your letters with you, and any evidence of the things you have done to try to solve the problem.

You can also get more information and advice online or over the phone from these organisations:

National Debtline

Helpline: **0808 808 4000** (Monday to Friday 9am–9pm, Saturday 9.30am–1pm)
www.nationaldebtline.co.uk

Consumer Credit Counselling Service

Helpline: **0800 138 1111**
(Monday to Friday 8am–8pm)
www.cccs.co.uk

Community Legal Advice

Community Legal Advice can help you find an adviser or, if you live on benefits or a low income, they can advise you over the phone.

Helpline: **0845 345 4 345** (Monday to Friday 9am–8pm, Saturday 9am–12.30pm)
www.communitylegaladvice.org.uk

Payplan

Payplan provide a free debt management service for people who usually have at least £100 per month available to pay their creditors.

www.payplan.com
Helpline: **0800 716 239** (Every day 8am–9pm)



Turn2us

Turn2us can help you find charities that may be able to give you a grant and can help you check you are getting all the benefits you are entitled to.

Helpline: **0808 802 2000**
www.turn2us.org.uk

Tax Aid

Tax Aid can help with tax related issues.

Helpline: **0845 120 3779** (Monday to Thursday 10–12)
www.taxaid.org.uk

Bankruptcy Advisory Service

Bankruptcy Advisory Service provide impartial advice on bankruptcy.

www.bankruptcyadvisoryservice.co.uk

Financial Services Authority

The FSA website has helpful online tools to help with budgeting, working out the most effective way to pay off your credit cards, and how much a loan will really cost you.

www.moneymadeclear.fsa.gov.uk/tools/hometools.html

Trading Standards

Your local Trading Standards office can help clarify if any credit agreement is unfair. Use the search box at the top of the Trading Standards Institute website to search for your local Trading Standards office.

www.tradingstandards.gov.uk

Unbiased.co.uk

Search Unbiased.co.uk to find an independent financial adviser.

www.unbiased.co.uk

bbc.co.uk/raw

bbc.co.uk/raw has lots of ideas and money saving tips for your family and for people setting up home, being made redundant, or splitting up from their partner.

www.bbc.co.uk/raw/money/

This information is produced by Advicenow. Other guides include:

- Parents apart
- Trouble at school
- LivingTogether
- Family Mediation
- Divorce – a Survival Toolkit
- Working parents
- Young workers
- Unfair dismissal
- Is that discrimination?
- Homeless and young?
Get your foot in the door ...
- How to get good asylum advice
- Support for asylum seekers in the UK
- How to handle an interview under caution
- Turned down for DLA/AA? Think you're not getting enough?
- Claiming compensation
- Dealing with discrimination
- Dealing with bailiffs
- Identity theft
- What's a contract?
- Do I need a lawyer?
- Seven steps to solving a problem

You can read or download all these guides and more at www.advicenow.org.uk

“Advicenow is the liveliest, least stuffy, most accessible and understandable website on legal matters that I’ve ever come across.”

Marcel Berlins, *The Guardian*

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The information in this guide applies to England and Wales only.

The law is complicated and every case is different. Get advice.

Written by Blackfriars Advice Centre and Walthamstow Citizens Advice Bureau.

Published by Advice Services Alliance (updated August 2009).

If you have any comments on this guide, please email us at feedback@advicenow.org.uk



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The Advice Services Alliance is a company limited by guarantee, registered in England and Wales no. 3533317. Charity no. 1112627. Registered office: 6th Floor, 63 St Mary Axe, London EC3A 8AA.

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