



Debt Options

Information for
Tenants in Reading



Paying back your debts

When you have completed your financial statement and have dealt with any priority debts you can review your debt options. Our Budgeting Handbook is available at www.reading.gov.uk/debtadvice to help you with this.

This booklet explains each of the below debt options in more detail to help you make an informed decision on how you deal with your debts.

There are **informal** debt options where your creditors have a choice to accept your decision. These include:

Extended Holds

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Token Payments

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There are also **formal** debt options where your creditors have less/no choice to accept your decision.

Individual Voluntary

Arrangement [Page 6]

Bankruptcy

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Debt Relief Order

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Administration

Order [Page 10]

Sometimes you will need to use more than one of the options in this booklet, for example asking for you to not make any payments for a period of time whilst you save for a Debt Relief Order.

Remember, if you are in debt and do not **take action**, your debts will increase as your creditors will continue to add charges and interest.

There are sample letters at the back of this booklet to help you write to your creditors.

If you are not sure what to do, or need further information, please contact Reading Borough Council's Debt Advice Team on 0118 937 2197 or an organisation at the back of this booklet.

Informal Debt Options

Extended Holds

This is where a six month hold is requested as you are not able to repay your debts for a period of time. This will not resolve your debt problems, so it's important to work towards a long term solution.

You should send a copy of your financial statement with a sample holding letter (page 11) to ask your creditor to suspend interest and other charges so your debt does not continue to grow (they can refuse, but keep asking).

Advantages

- ✓ Allows you to focus on making payments to your priority debts, and helps maintain goods and services.
- ✓ Provide you with some time to look at long term solutions without constant contact from creditors.
- ✓ Your creditors will understand your situation, and can make informed decisions about collection of the debt.

Disadvantages

- ✗ Creditors do not have to hold recovery, they can refuse your request and continue interest and charges.
- ✗ This may affect your credit rating.
- ✗ It does not repay your debts.

Token Payments

Token payments are a low arrangement offered to a creditor. They can be anything from £1 per month and shows that you want to repay the debt. Token payments will not resolve your debt problems, so it's important to work towards a long term solution.

You should send a copy of your financial statement with a sample token payment letter (page 14) to ask your creditor to suspend interest and other charges so your debt does not continue to grow (they can refuse).

Advantages

- ✓ Sometimes token payments are the only way for a creditor to agree to hold interest and charges, and prevent recovery action.
- ✓ You are paying something towards the debt whilst you look into long term solutions.
- ✓ The creditor may agree to take no further action whilst token payments are being made.

Disadvantages

- ✗ Token payments use money you might struggle to find.
- ✗ There may be costs involved in making payments, consider using standing orders or direct debits.
- ✗ This may affect your credit rating.
- ✗ It does not repay your debts.

Pro-Rata Arrangements

If you have some available income to pay towards your non-priority debts, you can offer a fair (pro-rata) share of your available income to each creditor based on the amount you owe them.

Advantages

- ✓ This is a fair and transparent method of distributing payments.
- ✓ It is recognised by courts and widely accepted by creditors.
- ✓ You can increase payments when circumstances improve.
- ✓ You can reduce offers if your circumstances get worse.

Disadvantages

- ✗ Creditors may refuse your offers***
- ✗ Creditors may refuse to freeze interest and your debts may grow***
- ✗ Creditors may only consider offers made through an advice agency - in this case you can complain to the Financial Conduct Authority (FCA).
- ✗ Creditors may still take court action against you.
- ✗ This may affect your credit rating.
- ✗ You must make the payments yourself.
- ✗ Many creditors only accept reduced offers for a limited time and may ask for regular reviews.

***it is always worth asking your creditors to reconsider

How to work out pro-rata arrangements

1. Use your completed financial statement to see how much disposable income you have after you have paid household bills and priority debts, but without paying anything to your non-priority debts.
2. Add up the total amount you owe to your non-priority debts (Part E of the financial statement).
3. Take one non-priority creditor at a time and divide their debt by the total debt and multiply the result by the amount of the disposable income, the sum looks like this:

Amount owed to individual Non-Priority creditor

$$\frac{\text{Amount owed to individual Non-Priority creditor}}{\text{Total amount owed to all Non-Priority creditors}} \times \text{Remaining disposable income} = \text{Repayment Offer}$$

4. Write the pro-rata offer on the financial statement against the creditor, and reduce your available income before you work out the next offer. You should not have any disposable income after you work out your last repayment offer.

You will need to contact your creditors to offer your arrangements, remember to ask them to freeze interest and charges. If a creditor doesn't agree to your offer don't give up. Write to them again and tell them if other creditors have agreed to your offers.

You can use the sample letter (page 13) to write to your creditors with a copy of your financial statement to ask them to suspend interest and other charges so your debt does not continue to grow (they can refuse).

If you need help completing your financial statement, or calculating pro-rata arrangements contact the Debt Advice Team or an organisation at the back of this booklet.

Debt Management Plan

If you can afford to make smaller regular payments towards your debts and want an easy way of paying, you could consider a Debt Management Plan (DMP).

A Debt Management Charity/Company will go through your financial statement. If you have a disposable income, and are able to get out of debt in a realistic time, they will calculate pro-rata arrangements for you.

You then pay the total amount of your pro-rata arrangements to the Debt Management Charity/Company, and they will send on each payment to your creditors.



Warning - Some debt management companies charge a fee to arrange a DMP plus an additional monthly management fee for as long as the DMP lasts, this will take you longer to repay your debts.

Reading Borough Councils Debt Advice Team can give you information/make a referral to a debt management charity who will not charge you to have DMP.

Advantages

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

Disadvantages

- ✗ You may not be able to make reduced offers if your circumstances get worse and you cannot afford to maintain higher repayments.
- ✗ A DMP will not work as well if creditors won't accept offers or freeze interest.
- ✗ This may affect your credit rating.

Write Off/Partial Write Off

This can be a good option to try before formal debt options if you have no available income or capital (savings or investments), and your situation is unlikely to improve (or may get worse) in the foreseeable future.

You can ask for all or part of the non-priority debt to be written off. If the creditor agrees, it means they will not collect any further payments and removes the debt from their records.

Whilst most creditors accept the need to write some debts off, they don't always agree when first asked.

Advantages

- ✓ If the creditor agrees it will reduce pressure, and the total amount of debt.
- ✓ It will be accepted that further recover action is not appropriate.

Disadvantages

- ✗ The creditor may not easily accept to write off debt.
- ✗ This may affect your credit rating.

Full and Final Settlements

If you have some money either from savings or family/friends, you can consider offering full and final settlement offers to your creditors. This is when a lump sum of less than the total debt is accepted to repay the debt because the creditor agrees to write off the rest of the debt.

Seek advice before offering full and final settlements to your creditors, so you can be supported to work out what to offer and have the confidence to make the offers to your creditors. You can also be supported to ask again if your offers accepted the first time.

Advantages

- ✓ You repay less overall to clear the debt.
- ✓ It is easier than having to maintain an arrangement over a longer period.
- ✓ If only some of your creditors accept the offers, it would reduce your total debt, and may open up alternative options to deal with your debts.

Disadvantages

- ✗ Creditors may report a full and final settlement to credit reference agencies as a partial settlement, making it difficult to get credit in the future.
- ✗ If a creditor becomes aware of the total sum of money you are planning to use to repay your debts, they may attempt court action to try and get more money for themselves.

Formal Debt Options

Individual Voluntary Arrangement

An Individual Voluntary Arrangement (IVA) is a formal arrangement made through the County Court where you pay an agreed amount off your debts over a fixed period (normally five years) - the rest of your debts are then written off after your final payment on the Individual Voluntary Arrangement is made.

If you receive a sum of money that could pay most of your debts (though redundancy, retirement, insurance pay out etc.), you could consider a full and final IVA. This is where a one off payment of less than the balance you owe is made to settle your debts with any remaining debt written off.

Why apply for an IVA?

- There is more flexibility than with Debt Relief Orders or Bankruptcies.
- They can be a faster solution than Debt Management Plans.
- You are protected against further action from your creditors.

Who can have an IVA?

You need to have a disposable income without paying any of your non-priority debts, typically of at least £80 per month for a low contribution IVA, or typically at least £200 for a standard IVA.

How an IVA works

- You need to make an application for an IVA through an Insolvency Practitioner (IP). Reading Borough Councils Debt Advice Team can give you details of who you can contact.
- If your IP agrees that an IVA is the best option they will help you complete a financial statement and prepare proposals for your creditors.
- The arrangement has to be agreed by the majority of your creditors (by value).
- You make the agreed payments in accordance with the Court's terms.

There is a cost to administer an IVA - this comes out of your regular payments. Some IPs charge an additional up-front set up cost to fully assess you for an IVA and take you through the whole process.

Always ask about any charges before starting the process - you could make your situation worse if you have to pay fees you haven't planned for. Ask the Debt Advice Team or a qualified advice agency for information about IP's who do not charge up-front costs.

Advantages

- ✓ Alternative to Bankruptcy.
- ✓ No publicised.
- ✓ You aren't bound by bankruptcy restrictions.
- ✓ You can continue to run a business.
- ✓ Assets like your home can be excluded if creditors agree.
- ✓ Creditors are bound by the IVA even if they voted against it.
- ✓ Usually lasts a maximum of five years.
- ✓ Most insolvency practitioners allow fees to be paid on a monthly basis as part of the IVA.

Disadvantages

- ✗ An IVA will affect your credit rating.
- ✗ You must have high available income, lump sum or asset.
- ✗ Costs are high and the insolvency practitioner may want payment up front.
- ✗ You may still be made bankrupt if the IVA fails because your payments are set too high.
- ✗ Your IVA's may end if your circumstances change and your insolvency practitioner can't get creditors to accept new terms.
- ✗ Many IVAs have a built in requirement to revalue your home and release any equity to pay your creditors - usually after 5 years of payments - this only applies if you are a home owner.
- ✗ Some companies will agree to set up an IVA even if it isn't suitable for you - and they charge high fees.

Bankruptcy

Bankruptcy is a way of recognising that you are unable to pay your debts in a reasonable amount of time, and do not meet the criteria of another insolvency option (Debt Relief Order or Individual Voluntary Arrangement) - it can be seen as last resort, but can be a good option particularly if you rent your home and have no assets.

You can petition for Bankruptcy yourself or a creditor can make you bankrupt. Your financial affairs will be dealt with by the Official Receiver. Once you are declared bankrupt your unsecured debts are normally written off, and you will have financial restrictions placed on you for the duration of the Bankruptcy (which is normally 12 months).

Advantages

- ✓ It can help relieve stress and anxiety.
- ✓ You can make a fresh start after a year.
- ✓ Your debts will be written off if you have no assets.
- ✓ Your creditors can't take further action against you - except for debts secured against your home.
- ✓ You pay regular monthly payments for a maximum of three years.

Disadvantages

- ✗ It will affect your credit rating.
- ✗ If you own your home and have equity, you may lose your home.
- ✗ Creditors can take action to recover debts secured against your home.
- ✗ There is a Bankruptcy Fee £680.
- ✗ Your assets may be sold by the Official Receiver.
- ✗ Some debts (like student loans, court fines, penalties for fraud, maintenance and child support) are not included and won't be written off.
- ✗ Your employment may be affected.
- ✗ Your business may be closed down.
- ✗ You may have a 'bankruptcy restriction order' made against you for dishonesty or 'unfit conduct'.

- ✗ The Official Receiver can take criminal action against you if you have committed fraud.
- ✗ Your bankruptcy will be published in the London Gazette and a local paper.

How it works

- You apply for Bankruptcy online by filling in a form at www.gov.uk/apply-for-bankruptcy
- The cost of a Bankruptcy is £680. You can pay by instalments before submitting the form online, or pay the full fee in cash at any Royal Bank of Scotland branch.
- Your application will be considered by an 'adjudicator' at the Insolvency Service, who will decide if you should be made bankrupt.
- If a Bankruptcy Order is made, your money will come under the control of the Official Receiver.
- You may be required to complete a telephone interview or attend an appointment to go through your paperwork in more detail with the Official Receiver.
- The Official Receiver will ask if you have any realisable assets which could be sold to pay towards your outstanding debts. They will also want to know if you have any disposable income in order to make a contribution towards your debts.
- Once the Bankruptcy Order has been made, creditors chasing eligible debts in your bankruptcy petition cannot continue recovery activity but they may still contact you.
- You will generally be freed from bankruptcy after 12 months and any outstanding debts included in your Bankruptcy Order will be written off in accordance with insolvency rules but you may have to make payments for up to three years.
- Your Bankruptcy Order will stay on your credit file for 6 years - you may have difficulty in getting credit during this time.

Responsibilities when Bankrupt

- You **must** provide your account books etc. to the Official Receiver - if you are self-employed.
- You **must** hand over any assets you have.
- You **must** stop using bank accounts etc. until you have disclosed all of your affairs to the Official Receiver - you can have 1 account for your income to be paid into.
- You **must not** apply for credit of £500 or more without telling creditors you are a bankrupt.

Debt Relief Order

A Debt Relief Order (DRO) is a way to deal with your debts if you rent your home, have few assets and little disposable income, they are granted by the Official Receiver.



If you have rent arrears get specialist advice before applying for a Debt Relief Order as there may be a risk to your tenancy.

If you have a DRO:

- Your creditors can't recover their money from you without the Court's permission.
- You will usually be free from your debts after 12 months.

Who can have a DRO?

You can apply for a DRO if you can't pay your debts and you meet all of the following criteria:

- You have qualifying debts of £20,000 or less.
- You have less than £50 a month left from your income after you have paid your household bills.
- The things you own (your assets) and any savings are worth £1,000 or less.
- Your motor vehicle (if you have one) must be worth less than £1,000 - unless it has been specially adapted because you have a physical disability.
- You have lived or worked in England and Wales within the last 3 years.
- You haven't applied for a DRO within the last 6 years.

Advantages

- ✓ It helps relieve stress and anxiety.
- ✓ There is no court hearing.
- ✓ You can 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.
- ✓ Once you have a DRO your creditors cannot take further action.
- ✓ You have to find a fee of £90 but you can pay this in instalments - much cheaper than bankruptcy.
- ✓ You won't make monthly payments on your debts included in the DRO.

Disadvantages

- ✗ You can't apply if you own your home as this is counted as an asset.
- ✗ Secured creditors can still take action against you.
- ✗ Not all debts are written off. For example, you cannot include Court fines, student loans, penalties for fraud, maintenance and child support 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.

How DROs work

- DROs are issued by the Official Receiver, but you must apply through an Approved Intermediary - contact the Debt Advice Team.
- There is a fee of £90 which must be paid in advance - you may be able to pay by instalments, but the Official Receiver will not consider your application until you have paid the fee in full.
- DROs usually last for 12 months - during this time you won't make any payments towards the debts listed on your order.
- At the end of the DRO period all of the debts listed on your order will be written off automatically (you will still have to pay any unpaid debts not included in the DRO).
- Your DRO will stay on your credit record for 6 years - you may have difficulty in getting credit during this time.

Responsibilities under a DRO

Once a DRO has been granted:

- If you apply for credit over £500 you must tell the lender you have a Debt Relief Order.
- If you plan to start or run a business in a different name from the one you declared with your DRO you must tell everyone you do business with the name under which you were granted a DRO.
- Before you get involved with promoting, managing, or setting up a limited company you must get permission from the Court. You can't act as a company director without this.

Administration Order

An Administration Order (AO) is an alternative to bankruptcy and Debt Relief Orders if you have:

- At least two debts totalling £5,000 or less.
- A County or High Court Judgment (CCJ) against you.

How it works

You apply to the County Court using Form N92 - there is no application fee.

Once the Administration Order is made:

- You make a single monthly payment to the Court - usually for three years.
- The Court will divide this payment fairly amongst your creditors - less 10% administration fee to cover their costs.
- Your creditors cannot take any further recovery action against you.
- At the end of the payment period you apply to the Court for a Certificate of Satisfaction (this costs £10) as proof you have settled your debts.

You **must** tell the court immediately if your circumstances change and you can't make your monthly payments - if you don't your AO could be revoked or suspended.

An Administration Order is a public record and will stay on your credit file for 6 years.

Sample Six Month Holding Letter

Your name and address here

Creditors name and address here

Date

Dear Sir/Madam

Re: Account/Reference Number

I/We have enclosed a financial statement prepared using realistic budgeting figures, given *my/our* current circumstances. This also shows the current level of debts outstanding. You can see from this information, that *I/we* are finding it difficult to meet even *my/our* basic needs at this time. Therefore *I/we* are unable to make any realistic offer of payment at this time.

I/We request therefore that you give consideration to allowing a suspension of the payments on the account for a period of six months, when the situation can be reviewed.

Include here any possible future potential if appropriate to start repayments again e.g. expecting to go back into work

If interest or other charges are being added to the account *I/we* would be grateful if you would freeze these so that all payments made will reduce what *I/we* owe you.

I/we hope you will be sympathetic to *my/our* request as this would greatly relieve some of the stress the *I/we* are experiencing.

I/we would appreciate any help you can give *me/us*.

Yours faithfully

Sign your name here

Print your name here

Sample Write Off Letter

Your name and address here

Creditors name and address here

Date

Dear Sir/Madam

Re: Account/Reference Number

I/We have enclosed a financial statement prepared using realistic budgeting figures, given *my/our* current circumstances. This also shows the current level of debts outstanding.

You can see from this information, that *I/we* are finding it difficult to meet even *my/our* basic needs at this time. Therefore *I/we* are unable to make any realistic offer of payment at this time.

[Explain your personal circumstances and reasons for your financial difficulties. Including any reasons for high expenditure, especially if this relates to any illness or disability]

Therefore *I/we* would like to request for the outstanding balance to be written off due to financial hardship grounds. The position remains bleak for the foreseeable future. It is unlikely that *my/our* financial position will improve at all.

I/we hope you will be sympathetic to our request as this would greatly relieve some of the stress the *I/we* are experiencing.

I/We would appreciate any help you can give *me/us*.

Yours faithfully

Sign your name here

Print your name here

Sample Pro-Rata Arrangement Letter

Your name and address here

Creditors name and address here

Date

Dear Sir/Madam

Re: Account/Reference Number

Since making the current agreement with you, *my/our* circumstances have changed and *I/we* are unable to pay the current arrangement.

I/We cannot now afford to agreed monthly payments because ... *Add a paragraph here*

We enclose a financial statement that shows *my/our* total income, and *my/our* outgoings.

As you can see *I/we* have only £... per month left for each of *my/our* creditors given *my/our* current circumstances.

The offers *I/we* have made to *my/our* creditors have been worked out on a pro-rata basis, and *I/we* have written to all *my/our* creditors asking them to accept reduced payments.

If interest or other charges are being added to the account *I/we* would be grateful if you would freeze these so that all payments made will reduce what *I/we* owe you.

Should *my/our* circumstances improve in the future *I/we* will contact you again.

I/We look forward to hearing from you as soon as possible.

Yours faithfully

Sign your name here

Print your name here

Sample Token Payment Letter

Your name and address here

Creditors name and address here

Date

Dear Sir/Madam[

Re: Account/Reference Number

Since making the current agreement with you, *my/our* circumstances have changed and *I/we* are unable to pay the current arrangement.

I/We cannot now afford the agreed monthly payments because ... *Add a paragraph here*

I/We enclose a financial statement that shows *my/our* total income, and *my/our* outgoings. As you can see *I/we* have no money left for *my/our* creditors given *my/our* current circumstances.

In view of this, would you please accept a token offer of £... *Add offer here*. This would be reviewed after six months.

If interest or other charges are being added to the account *I/we* would be grateful if you would freeze these so that all payments made will reduce what *I/we* owe you.

Should *my/our* circumstances improve in the future *I/we* will contact you again.

I/We look forward to hearing from you as soon as possible.

Yours faithfully

Sign your name here

Print your name here

Organisations Offering Free and Confidential Advice

Reading Borough Council's

Debt Advice Team

Tel: 0118 937 2197

Web: www.reading.gov.uk/debtadvice

Email: debt.advice@reading.gov.uk

Post: Debt Advice Team, PO Box 2624,
Reading, RG1 7WB

StepChange

Tel: 0800 138 1111

Web: www.stepchange.org

Opening times:

Mon-Fri from 8am-8pm, Sat from 8am-4pm

Money Advice Service

Tel: 0800 138 7777

Web: www.moneyadviceservice.org.uk

Opening times:

Mon-Fri from 8am-6pm

Reading Frontline

Tel: 0118 956 9300

Opening times:

Mon-Wed from 10am-3pm

Address: 84 Queens Road, Reading, RG1
4BW

CommuniCare

Tel: 0118 926 3941

Opening times:

Mon-Thurs from 10am-4pm, Fri from
10am-1pm

Address: 233 Kings Road, Reading RG1
4LS

Citizens Advice Reading

Tel: 0344 411 1306

Web: www.rcab.org.uk

Opening times:

Mon, Tues, Thurs & Fri from 9:30am-4pm

Weds from 9am-6:30pm

Address: Minster Street, Reading RG1 2JB

PayPlan

Tel: 0800 280 2816

Web: www.payplan.com

Opening times:

Mon-Fri from 8am-8pm, Sat from 9am-3pm

National Debtline

Tel: 0808 808 4000

Web: www.nationaldebtline.co.uk

Opening times:

Mon-Fri from 9am-8pm, Sat from 9:30am-1pm

Welfare Rights Unit

Tel: 0118 955 1070

Opening times:

Tues-Thurs from 9am-3pm

Address: 252 Northumberland Avenue,
Reading RG2 7QA