



Care first

dealing with debt

www.carefirst-lifestyle.co.uk

Contents	page
Checklist	2
Overview	3
Emergencies	4
Prioritising debts	4
How to fill out your Financial Statement	6
Negotiating with creditors	8
Bankruptcy & IVA or DPP	9
Financial Statement form	10



Getting into debt is easy. The important thing is to recognise when there's a problem and deal with it as soon as possible.

It's not just your finances that suffer. Debt can knock your confidence too, or be a symptom of other difficulties in your life. **Care first** can offer you counselling as well as information and support.

Checklist

- Do you always have an overdraft?
- Is your credit card balance increasing?
- Have you missed payments on rent, mortgage or loans?
- Do you have to borrow more to buy things?
- Have you been threatened with court action?

If you have answered YES to any of these questions, you probably need help sorting out your finances.

Overview

Most people delay dealing with their money problems longer than they should. Perhaps you are worried that you will lose your home or your job. You may have been threatened with bankruptcy.

Remember – you cannot lose your home or be sent to prison without a court case – it's not an overnight process. There are people to help you and there are things you can do to help yourself.

A good starting point would be to talk it all through **confidentially** with an information specialist at **Care first** – who will help you to make informed choices about what to do and how to do it. Whether you are at breaking point and need ongoing guidance to resolve debts, or just have a simple question – our information specialists are here to help.

It may be a case of a simple restructure of payments or it may be more complex. Our advisers can see if there are any ways of increasing your income, for example through benefits or tax credits.

Don't lose sight of the fact that you are not the first person to have difficulties with money. You can get through it. Generally, there are five steps:

- 1 Don't ignore the problem** it won't go away and the longer you leave it the worse it gets.
- 2 Don't borrow money to pay off debts** without taking professional advice. If you own your home then this kind of borrowing could lead to losing it.
- 3 Prioritise your debts** so that you deal first with the creditors who could threaten your home or your freedom, rather than the ones who are shouting the loudest.
- 4 Prepare a financial statement** to show your creditors that you are dealing with them fairly and that you are taking your problems seriously.
- 5 Negotiate with your creditors** to agree realistic monthly payments – most creditors would rather receive a small but regular payment than unrealistic promises... or silence.

This leaflet explains each step in more detail and at the back there is a blank form for you to produce your financial statement. Phone **Care first** at any time for expert support.



Emergencies

If you are about to be cut off, evicted, made bankrupt, taken to court or have a visit from bailiffs – you need urgent help.

Don't pay anyone to help you sort out your debts – there is free, professional help available from **Care first**, StepChange Debt Charity, National Debt Helpline, Money Scotland, Scottish Direct or your local Citizens Advice Bureau where an adviser may be able to delay the action by contacting creditors, giving you time to prepare a plan to get out of debt. Working with an adviser will also help to persuade your creditors that you are taking matters seriously and intend to sort out your problems.

Don't rush into a *consolidation loan* – they are often at a higher interest rate than you are already paying. New lenders may also want your home as security – think carefully and take advice.

Once you have created some *holding time*, start work on your financial statement. First you need to prioritise your debts.

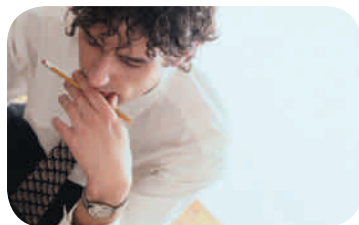
Prioritising debts

Debts are divided into Priority or Non-priority debts according to what will happen if you cannot pay them. The list shows the actions which can be taken against you **as the last resort**.

Priority debts are so called because the law allows greater powers of enforcement for these debts than for others. *Eviction* means losing your home, *distraint* means having things that you own taken away. All these sanctions require lengthy court proceedings – they cannot happen overnight.

Non-priority debts can only be collected through County Court proceedings. The court will assess what you can afford – using the information in your financial statement about your income, debts and expenses. You will never be ordered to pay more than you can afford.

The lists opposite are to help you decide which sorts of debts you have. You will need to refer to this later. Don't make any agreements with creditors until you have followed the instructions overleaf on filling in your financial statement.



Type of debt	Worst outcome
Mortgage arrears	repossession / eviction
Second mortgage / secured loan arrears	repossession / eviction
Rent arrears	distrain / eviction
Council Tax arrears	distrain / imprisonment
Fuel arrears: Gas, Electricity, etc	disconnection
Unpaid fines	distrain / imprisonment
Maintenance arrears	distrain / imprisonment
Income Tax, National Insurance or VAT arrears	distrain / imprisonment
TV Licence	distrain / imprisonment
Hire Purchase arrears (essential goods)	repossession

Priority debts

Non-priority debts	
Mortgage shortfall (negative equity)	county court judgement
Credit cards, store cards, catalogues	county court judgement
Unsecured loans and overdrafts	county court judgement
Parking penalties	county court judgement
Water rates arrears	county court judgement
Telephone bill arrears	disconnection / county court judgement
Social Fund loans or Benefit overpayments	county court judgement
Hire Purchase arrears on non-essential goods	repossession



How to fill out your Financial Statement

At the back of this leaflet is a form for you to produce a Financial Statement. This is for you to work out exactly what you can afford to offer your creditors when it comes to negotiating. It also provides a powerful negotiating tool to show creditors that your offer is reasonable and realistic, and fair to them.

Follow the instructions below to complete your financial statement. Photocopy the form if needed. Phone **Care first** with any queries, or for support.

Name Fill in the name and address section. If you are doing this as a couple, put both your names, and include your joint income and outgoings and all your debts. If you are doing it alone, make sure you only include debts which are in **your own name**.

Income Enter your monthly net income. If the form is for two people living together, add both your incomes together. Include income from a second job if you have one. Don't include overtime or tips unless they are regular. There is a space for contributions from non-dependent adults living in the house and for maintenance from previous partners. Under benefits you should include child benefit and any other benefits or allowances you receive. If you are on a low income, ill or disabled you may be entitled to money you are not claiming – phone **Care first** for advice.

Make sure all your income figures are monthly, then add them up and enter the total monthly income.

Spending Work out all your essential monthly outgoings. Yearly costs like the MOT for your car should be divided by 12.

Do not include your payments towards credit cards, store cards or catalogues on this list – they will be entered later in the non-priority debts section.

Household bills should be worked out by adding together bills for the whole year and then dividing by 12, as they will often vary with the seasons. Don't include arrears you are paying off on fuel or other services – they fall into the debts section later, (see the lists on page 5).

Ongoing HP payments on goods which are **essential** to your work should be included here but not any arrears – they should be entered later in the priority debts section. HP balances for **non-essential** goods should go into the non-priority debt section (these goods may be repossessed).

The food & housekeeping amount should include toiletries and cleaning materials, household repairs, birthday presents and emergencies. **Care first** can advise you on current amounts which creditors would consider "reasonable".



'Luxuries' like toys, holidays and going out are not on the list as creditors will expect you to do without these things until you have sorted out your debts. However, **don't** leave things off the list unless you really can stop spending on them straight away. Include **everything** that you will be spending on – otherwise your statement will be unrealistic and not manageable.

Balance

In the spaces provided re-enter the total monthly income figure and take away the total monthly spending figure to give you the amount of money that can be divided amongst creditors. How you divide it up comes later on the form.

What if?

Your monthly spending is higher than your monthly income? You may be entitled to money you are not claiming – check with **Care first**, your local Benefits Agency or Advice Centre.

Debts

Sort your debts into priority and non-priority debts. Refer to the lists on page 5.

Priority debts

Fill in the priority debt amounts in the column marked **balance owed**. The **offer** column will be entered later. Include the full amount owed even if you have already agreed a repayment plan – you may need to renegotiate once you have the full picture.

Add together all the balances owed and enter the figure at the bottom of the column.

Non-priority debts

Refer to the list of non-priority debts on page 5. Enter the total balance owed for each, not just the arrears. Depending on how bad the overall financial picture is – you may be able to freeze the interest, lower the interest rate or write the debt off.

When you have entered all the balances, add them up to produce a total amount owing on non-priority debts.

Calculations

Now that you have all the information, it is time to divide up the amount you have worked out is available for creditors each month. The priority debts come first. (If you don't have any priority debts, skip to the section on negotiating non-priority debts).

As a starting point – work out pro-rata offers by taking each priority debt, then multiply by the amount you have available to creditors; then divide that by the total of all the priority debts. This gives you the offer for that debt. Repeat this process for each of the remaining priority debts – pencil in the result in the **offer/month** column. Don't worry if your offers seem very low, creditors would rather have a small but reliable monthly amount than empty promises or silence. Make sure that the total of your **offers/month** column is not more than the **monthly amount available to creditors**.

Negotiating priority debts

Now that you have your monthly offer figures you can begin negotiating with priority creditors. With your letter include a copy of your financial statement.

Our advisers have up-to-the minute information on the rules your particular creditors must follow and experience in the best ways of negotiating with them.

Negotiating non-priority debts

If there is any of your **monthly amount available for creditors** left over (having dealt with the priority debts), then you should calculate your offers to the non-priority creditors based on the remaining amount available per month. If there is nothing left you should offer them a 'token payment' of £1 per month each.

Calculation

For each non-priority debt take the balance owed, multiply by the remaining amount available per month and divide by the non-priority debt total. Write this amount in your offer column. Double check by adding all the offers up – they should come to the same amount you still had available to pay creditors (after allocating offers to your priority debts). Don't panic if the amounts are lower than the minimum payment shown on your credit card statements.

Contact your creditors explaining the situation. Ask them to freeze the interest. Send your financial statement with any offers, ensuring they are reasonable and realistic.

Signature

You don't have to sign the form, but it shows commitment.

Bankruptcy, IVA, Debt Relief Order, Debt Management Plan (DMP), or in Scotland, Sequestration, Debt Payment Programme, (DPP), or Protected Trust Deed.

In practice, your creditors are very unlikely to make you bankrupt unless you have valuable assets and large debts. It is expensive for them and often a waste of time. Making yourself bankrupt is also possible – there are serious consequences though and you should take advice before making a decision.

An IVA is an Individual Voluntary Arrangement , in Scotland called a DPP, Debt Payment Plan – this is where you make a proposal to your creditors (usually involving a reduction of your debts) which they vote on and if agreed it is ratified by the court. An IVA will normally only be agreed if the debtor makes a substantial offer of repayment. A Debt Relief Order is an insolvency procedure aimed at people with low income and very few assets. The advantage is that once agreed, creditors cannot change their minds.

Maximising income

Care first advisers can advise you on working out a personal budget and checking whether there are ways to increase your income.



Financial Statement

Name:	
Address:	
Number of dependents:	
The following is a true statement of my/our financial position.	
Signed:	Date:

Monthly income

Salary / wages (after deductions)	
Bonuses / overtime / tips	
Non-dependents' contributions	
Tax Credit	
Benefits	
Interest from savings	
Maintenance	
Other	
total monthly income	

Car tax, insurance, MOT	
Travel to work / shops	
Childcare	
Gas	
Electricity	
Other fuel	
Water rates	
Telephone	
TV Licence / rental	
Food & household goods	
Clothing	
Haircuts	
Laundry / dry cleaning	
School / work clothes	
School dinners / meals at work	
Prescriptions / dentist / optician	
Other	
total monthly spending	

Monthly spending

Mortgage	
Mortgage endowment policy	
Second mortgage / secured loan	
Rent	
Ground rent / service charge	
Buildings / contents insurance	
Council Tax	
Court fines	
Maintenance payments	
Life insurance / pension premiums	
Health insurance	
HP (essential goods only)	
Car repairs, petrol	

Balance

Total monthly income	
- Total monthly spending	-
= amount available for creditors	

Priority debts	balance owed	offer/month
Mortgage arrears		
Second mortgage / secured loan arrears		
Rent arrears		
Council Tax arrears		
Fuel arrears: Gas		
Electricity		
Other		
Unpaid fines (inc Magistrates Court fines)		
Maintenance arrears		
Income Tax arrears		
National Insurance arrears		
VAT arrears		
TV Licence arrears		
Hire Purchase arrears (essential goods)		
priority debt total		

Non-priority debts	balance owed	offer/month
non-priority debt total		

Care first provides a full range of confidential support, advice and information services to staff of participating employers. Our Information Specialists provide information and support on consumer issues, employment, benefits, housing, taxes and education as well as debt counselling.



A wide range of printed material is available including the following booklets:

Bereavement Checklists of the practical matters that have to be dealt with when someone dies. There is also an outline of the 'normal' path of grief.

Childcare A practical guide to finding the right childcare for your family, covering the options, the help available and checklists for interviewing.

Dealing with Debt There is often more leeway than you think. A step by step guide to assessing your position, dealing with creditors and creating a workable solution.

Drinking Drinking may affect your job, family or friends; or all three. Use the scorecard to assess drinking habits; and find help if you or someone you know needs it.

Elderly Relatives An elderly relative can be a source of concern – information and advice on managing accommodation, finances and funding.

Family Breakdown Advice on the decision to separate, the practical implications for now and the future.

Discuss these or any other issues in confidence. Call **Care first** free on **0800 174319** to speak to a Counsellor or an Information Specialist.