
Debt Solutions

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Debbie was a single mom who owed over 30,000Euros. This would have been hard enough, but she was earning just \$40,000 a year when she started her debt pay off. With her income not just adding up, she knew she needed a good debt solution to tackle her debts. There are many ways to address personal debt problems in the UK, so it can be confusing trying to figure which solution is best for your situation. And this was the dilemma she was faced with. Which one could she turn and dedicate to? Which one was the most affordable for her? Which one could tailor fit her situation? All these questions lingered on her mind, as she turned on her search engine, ready for a long night.

Debbie's case scenario, is one of the millions Residents face, especially if they are bogged down by debt. There are various options that exist to help you deal with your debt problems. These include bankruptcy, debt relief orders, debt management plans, administration orders, debt consolidation and Individual Voluntary Arrangements (IVAs).

Debt solutions can either be categorized as formal or informal. Informal debt solutions usually are more flexible as some options may freeze or even substantially reduce interests gained on the loan. However this is not the norm, and is only available to a number of creditors

An informal debt solution, such as a debt management plan, will continue until all of the debt has been repaid. It's informal because either you or your creditors can start and stop the agreement with one month's notice.

A formal debt solution uses laws to set an arrangement in place which both you and your creditors are bound by. Laws are created by Government, however, the Government is not backing people entering the solution.

All these have their own advantages and dis-advantages and are tailored for different scenario and cases. It's your decision on which one may work for you, and both of their short term and long term effects.

Here are a few debt solutions for English, Welsh and Northern Ireland residents

- **Debt management plans(DMPs)**

By far these are the most common method of debt settlement in the U.K. A debt management plan (DMP) is a debt solution that can be used to help people pay back their debts at an affordable rate. It's normally suitable for someone struggling to meet the original repayment amount they've agreed with their creditors.

If you're on a DMP you make reduced monthly payments towards your debts. This means a DMP is suitable for people struggling to keep up with their normal debt payments but who still have money available to them after all essential living expenses are paid.

• Administration Order

An administration order(AO) is a formal, legal binding agreement. ie a court approves it, and thus your lenders must adhere to it.

To get an AO you must have:

- • Not exceed 5000Euros in your total debt owed
- • An unpaid county court judgment (CCJ). This includes a traffic penalty registered for enforcement in the Traffic Enforcement Centre at Northampton County Court.
- • A minimum of two different debts, with separate lenders.

If you may require an AO, but you don't have a CCJ, the smart move would be to wait till your creditors take court action against you. Judgements given, may give you a leeway for applying for an AO.

• Debt consolidation

This simply put, is whereby individuals take one massive loan to pay out smaller debts, such as bills, small loans etc. the result of which, you get one massive credit that is serviced monthly. Since this is bringing multiple debts together and combining them into one loan, this is referred to as "consolidating" them. That's why it's called a debt consolidation loan.

Debt consolidation can be a useful strategy in some situations but for many it can involve extra costs, and potentially makes a difficult situation much worse. That's why it's best to get expert debt advice before taking out a consolidation loan.

• Debt relief order

A debt relief order (DRO) is one way to deal with your debts if you don't own your own home, don't have much spare income, and your debts are £20,000 or less. Some types of debt don't count towards this limit, so check whether you're eligible before you decide. It is a formal, legal debt solution. This means it is approved by the court and your creditors have to stick to it.

Its best suited for people with little or no assets and are on just on the barely income.

• Individual voluntary arrangement(IVA)

An IVA is an agreement that is made with your creditors to pay off your debts over a set period of time and is one option you can use to pay off your debts. It is a formal, legal debt solution. This means it is approved by the court and your creditors have to stick to it. IVA is a form of insolvency and hence you cannot file for it alone. An Insolvency Practitioner(IP) helps you with the application and sees you through the whole set time. This though, usually comes with fee of around 5000Euros, and you should really put a lot of thought in it.

• Personal Bankruptcy

Bankruptcy is a form of insolvency, and normally only suitable if you can't pay back your debts

in a reasonable time. Any assets you own, such as your house, will normally be sold to pay off your debts. This means if your assets are worth more than your debts or if all of your regular payments are up to date and you can afford to keep paying them, bankruptcy is unlikely to be the best option for you.

When you make yourself bankrupt almost all of your unsecured debts are written off, allowing you to make a fresh start. But personal bankruptcy rules mean you will face certain restrictions.

As well as applying for bankruptcy yourself, someone else you owe money to (a creditor) can apply to make you bankrupt, even if you don't want them to. For a creditor to make you bankrupt, you must owe at least £5,000.

Temporary repayment plan

If you reach a point where you can no longer repay your debts, whether owing to the total you now owe or if your situation changes, you could be able to organise a temporary repayment plan.

A repayment plan involves small payments that act as a token gesture, rather than significant repayments towards your debts. Debt advisors from well-known organisations can assist you in communicating with your creditors.

This is the best debt help if you're facing short-term circumstances that are impacting your ability to manage your debt problems, and you know that they are only temporary, this debt solution may be suitable.

• Insolvency

Insolvency can be described as that moment where you can no longer afford to service your credit at the set timeline.

The law provides different debt solutions if you become insolvent. The solutions are all legally agreed on, and they protect you from creditors who may take legal actions against you. After adhering to the agreement, the creditors are bound to clear all your debts and you can start off afresh. There are several debt solutions available if you are insolvent.

Each insolvency solution is different and has its own qualifying criteria. In most cases insolvency solutions are only suitable if your debts add up to more than the value of the assets you own.

You should also note that different regions have different insolvency solutions.

In England and Wales, Bankruptcy will help you write off debt that you have no chances of repaying at all.

Another option may be signing an Individual Voluntary Arrangement (IVA) which in essence, limits your payments to creditors, to the most affordable monthly rates you can manage. These payments are usually made over a 60-72 months period, after which the remaining debt is written off.

Another option you may choose from, would be signing off a debt relief order (DRO) .This specifically is for individuals with relative income, assets of less than 2000Euros and minimum or low debt levels.

Scottish residents slightly use different methods. They may include:

Sequestration which is the Scottish form of bankruptcy

They also have a trust deed, in place of an IVA.The major difference though, is that its durations much less, to about 36 months (3 years)

A Minimal Asset Process bankruptcy (MAP), in place of “DRO” which just as it is in England, is for residents with few assets and living by the minimum wage.

For Northern Ireland residents, they use the same system as in England and Wales. These are,

- • Bankruptcy
- • An individual voluntary arrangement (IVA)
- • A debt relief order (DRO)

One of the most common feature though, is that since insolvency involves very serious considerations, individuals can only apply through government debt practioners,who advice,and guide you through the whole process.

- • Selling your house

As vile and inconsiderate as it may sound, sometimes the right decision may just be letting go of your biggest on-credit item. Surrendering your property

If you realize, you can't continue servicing your mortgage any longer, then selling your house, for a more pocket friendly one might not be a bad idea

Before making the decision, you should be weary of the cost involved, such as evaluation to determine your house worth, and payment for an estate agent who will look for a buyer. You will also have to cover for moving your things, and paying deposit for your new home. These costs may pose a big challenge, especially if you will still have mortgage arrears.

It is recommended to involve your mortgage lender during the whole process, and update him on your situation. If you can't afford the cost involved, they may offer some assistance to you.

Some lenders offer an assisted voluntary sale scheme. These are specifically designed for people who are struggling financially. The scheme normally gives you time to sell the property and will provide extra help with the costs involved. Your lender may agree to accept reduced mortgage payments until the property is sold.

For Scottish residents, there may exist different forms of debt solutions, this may include:

1. 1. Trust deeds-

A trust deed is a voluntary agreement between you and the people you owe money to (also called your creditors). You agree to pay a regular amount of money towards your debts and at the end of a fixed time the rest of your debts will be written off. All your belongings and property (your assets) are passed to someone who will look after your financial affairs. They are called your trustee. The trustee aims to pay your creditors as much as possible of the debt owed to them. This may involve some of your belongings or property being sold so that the money raised can be paid to your creditors. Open to those owing over £10,000, you could be free from debt in three years with just one simple monthly payment.

1. 2. Debt arrangement scheme

The Debt Arrangement Scheme (DAS) is a statutory debt management tool overseen by the Scottish Government. It lets you apply for a debt payment programme (DPP) to repay your debts over a reasonable period by making affordable monthly payments. This government initiative aims at helping you re-pay your creditors, without putting your property or status at any risks.

1. 3. Sequestration/Bankruptcy

Bankruptcy is a formal method of dealing with debts if other options have failed or are inappropriate. The consequences of bankruptcy are severe and no one should make an application for bankruptcy without being fully aware of the alternatives and seeking advice at an early stage.

In Scotland bankruptcy is sometimes called sequestration. Bankruptcy may also involve selling assets you own, such as your house or car. Once bankruptcy is completed, your unsecured debts are usually written off and you shouldn't receive any further contact from creditors.

If your assets are worth more than your debts, or if you're able to pay back your debts in a reasonable time, bankruptcy might not be your best option.

You will also have to keep in mind, that this will also affect your credit file for a period of six years.

1. 4. Minimum Assets Process (MAP)

The Minimal Asset Process (MAP) is a form of unsecured bad debt help available to debtors in Scotland who have a low income, with no money left over following the payment of essential living costs (e.g. your rent, utilities and council tax).

MAPs (which replaced LILA bankruptcies) write off debt that you wouldn't be reasonably able to repay within a moderate period of time, although you should seek impartial debt advice in the UK before moving ahead. A MAP is usually referred to if: your debts are within the range of 1500-17000 Euros, you don't have any source of income, you have not been declared for the past five years, you don't own any assets or property (worth less than 2000 euros or 1000 Euros respectively)

You can decide on less formal methods of working your debts such as setting up an informal agreement with your creditors

Informal debt settlement

Present your creditors with a plan outlining how you can pay them back. Creditors will often negotiate with you, as their goal is to obtain the money that is owed to them. Explain your financial situation honestly, and submit a realistic proposal and payment schedule.

Final settlements for your creditors

It may be as simple as being lucky and winning a charity sweepstake or a friend may gift you a huge sum of cash or you may sell off your most valuable assets, or receive an inheritance from a wealthy family. Depending on the amount of cash involved, you may finally be able to service all your loans and credits at once, with a final settlement and become debt free.

You may not have enough amounts, to settle all your creditors, instead you will be forced to make a final settlement offer to your creditors.

This implying that you will be willing to transfer the huge sum of cash to your creditors, if they on the other hand, agree to discard the remainder of the debt.

You can make settlement offers to all of your debts, sharing out the lump sum fairly among them. Or if you don't have enough to do this, you could make settlement offers to just some of them.

You will have to fully convince your creditors, that it would be in both of your interests to accept the reduced settlement offer. They're more likely to agree this if it would otherwise take you a long time to repay them