



## Community Debt Advice Centre

# Self Help

Outlined below are the steps you will need to take in order to deal with your current debt problems.

Once debts start to mount there is a process that you will need to go through in order for you to regain control of your financial situation. The fact that you have acknowledged there is a problem is a good starting point but there are three important things of which you need to be aware:-

- 1 Always keep your creditors informed of what is happening.
- 2 Any offer of payments you make must be realistically what you can afford.
- 3 You must make the payments regularly, not every now and again.

## What you need to do

- Step 1** Work out what money you have coming in and how much you need to live on.
- Step 2** Make a list of all the people you owe money to and how much.
- Step 3** Sort out which debts need to be given priority and how much you can afford to give those creditors.
- Step 4** Offer your other creditors a percentage of any further available income i.e. the biggest sum to whom you owe the most.

## Step 1 Income and Expenditure

You must work out your income and expenditure either on a weekly basis or a monthly basis and not a mixture of both. A "month" means a calendar month, not 4 weeks. To convert a weekly figure to a monthly figure, multiply it by 52 then divide 12.

Use the *financial statement* later in this pack to work out what you spend on various items.

Take your time over it and be as realistic as possible.

### Income

- All income shown should be the actual money you receive, after tax and NI has been taken off.
- Remember to include any social security benefits including child benefit and any other money regularly coming into the household e.g. maintenance.

### Expenditure

- When you are working out your expenditure remember to include your irregular purchases, e.g. vet fees if you have a pet, dental costs, hairdressers.
- When filling in the motor expenses allow money for maintenance as well as tax, insurance, M.O.T. and petrol.
- When filling in housekeeping, do not base it on the lowest amount you have paid recently, this would not be a realistic figure.
- The form might not include spaces for all your expenditure, but remember to add them also.
- **Do** put down your usual rent or mortgage payments, any *secured loan* payment, water, gas, electricity and council tax not including any arrears.
- Also if applicable put down magistrates' court fines, maintenance or CSA payments and **essential** hire purchase costs (e.g. car needed for work but not Hi Fi equipment, furniture etc.).
- **Do not** put down your payments for *unsecured loans*, credit cards, overdrafts, store cards or catalogue accounts, these will get a share of what is left over once you have sorted out your *priority debts*.

Now, add up your income and expenditure - then subtract your total expenditure from your total income, this amount is called your '*disposable income*' and is available to pay your *creditors*.

You might find you don't have any '*disposable income*', if this is so, check back through your outgoings and see if there is any way you can cut down. If there isn't any '*disposable income*' you will need to write to your *creditors* and tell them why using Draft Letter 2.

## Step 2 List of creditors

- Sort any paperwork you have for each *creditor* into separate piles and keep them separate from now on.
- Look out for any '*default notices*' or '*Court Summons*' - they may need to be dealt with quickly.
- Make a list of all your debts (using the sheet at the back of this booklet) with the address, reference no. and the amount you owe. If you are in doubt of the exact amount you owe to any creditor, send the Draft Letter 1.
- Now add together the total amount owed - don't panic! This might be more than you expect.
- Once you have made your list of creditors you need to sort them into categories. Some called priority debts will need dealing with sooner than others because of the possible consequences. See Appendix.

## Step 3 Priority debts

- Priority debts are not necessarily the biggest debts but they are the ones that have the most serious consequences if they are ignored e.g. house repossession, eviction, gas/electricity/water being disconnected, jail for non- payment of fines, council tax, community charge or maintenance orders.
- Speak to these creditors first using your '*disposable income*' to negotiate weekly or monthly repayments. If you have a mortgage talk to your lender to see if you can restructure it.
- You may be able to have gas and electricity meters installed which will take any arrears into account.
- You might like to change your telephone to incoming calls only, thus reducing rental charges as well as call charges (Don't get a mobile!).
- Try to leave some of your '*disposable income*' available to put towards your non priority debts.
- Once you have sorted out your priority creditors you will need to distribute the rest of your '*disposable income*' (see *financial statement*) in proportion to the amount you owe each non priority creditor.

## Step 4 non priority debts

- Cut up any credit cards, store cards or charge cards you have and send them back.
- Refer to the financial statement and follow these steps using a calculator in order to work out what you should offer each of your non priority creditors.

- 1 Take your disposable income figure £ \_\_\_\_ (A)
- 2 Add up the total of the amounts you owe all your non-priority creditors £ \_\_\_\_ (B)
- 3 Take the amount you owe **one** of your non-priority creditors £ \_\_\_\_ (C)
- 4 Divide (C) by (B) then multiply by (A). This gives the offer amount for this creditor

Remember to work either weekly or monthly. Do the above steps for each non-priority creditor. Next add up the offer amounts. The total should match your *disposable income* within a few pence (if not, you have gone wrong! Go back and try again).

## Example

J. Bloggs has a '*disposable income*' of £35 per month after he has paid his '*priority creditors*'. He has a credit card on which he owes £1,735 and an overdraft of £376.

<i>Disposable Income</i> (A)	= £35
Total owed to non priority creditors (B)	= £1,735 + £376 = £2,111
For credit card (C)	= £1,735
Repayment offer	= $\frac{C}{B} \times A = \frac{1,735}{2,111} \times 35 =$ £28.77 per month
For overdraft (C)	= £376
Repayment offer	= $\frac{C}{B} \times A = \frac{376}{2,111} \times 35 =$ £6.23 per month
Total offers £35	= <i>Disposable Income</i>

- Using Draft Letter 3 send a copy of your financial statement to all your non priority creditors stating clearly the amount you are offering them. Start paying these amounts even before you have heard back from them as this shows that you are serious about paying off your debts.

If you have a '*court summons*' or a '*judgment*' against you we would advise you to talk to a **free** Money Advice Centre or Citizens Advice Bureau about getting the court to agree instalments which you can afford. This is a simple procedure using court forms which should be readily available. You should also talk to them if there is any possibility that you may need to declare yourself bankrupt.

It may take time to hear back but do make **regular** payments starting as soon as you have worked out the repayments as it is essential to keep paying them however little you are offering. Ask your creditors for enough payment slips.

Your non priority creditors should agree to your proposals. If they don't, do not offer them any more money, send them another copy of your *financial statement* stressing that you cannot afford any more and that you have dealt with each creditor on a fair proportional basis which any court would almost certainly uphold.

Usually *creditors* will accept reduced payments for a limited time e.g. 3 or 6 months after which you will need to re-contact them. We would suggest that when you do re-contact them, provided you have made regular payments, that you ask them not only to let you continue paying what you are paying now (if your circumstances haven't improved) but also to suspend interest as well.

If and when your circumstances improve then repeat the whole process, making increased payment offers to all your *creditors*. Don't be tempted to use the extra money to pay off a small *creditor*, because this is unfair on the other creditors. They will find out when you send them a revised financial statement. It upsets the whole idea of paying in proportion.

## Appendix: Potential consequences of failure to pay

1 Priority Debts	Ultimate Penalties
Mortgage arrears	Repossession/eviction
Rent arrears	Goods seized/eviction
Community charge arrears	Goods seized/imprisonment
Council Tax arrears	Goods seized/imprisonment
Unpaid fines/maintenance	Goods seized/imprisonment
Water rates arrears <sup>†</sup>	Court Summons
Gas/electricity arrears	Disconnection
Tax/VAT arrears	Goods seized/bankruptcy (imprisonment)
Hire Purchase arrears <sup>††</sup>	Goods repossessed
2 Secondary Debts	Penalties
Telephone arrears	Disconnection
Store cards	Court summons
Credit cards	Court summons
Charge cards	Court summons
Unsecured loans	Court summons
Catalogue arrears	Court summons
Negative equity	Court summons

**NB** Provided you give the court all the details of your circumstances they should be able to work out a repayment programme that you can afford. It is only when you default on a court order that goods can be seized, bailiffs sent in or bankruptcy procedures started against you.

<sup>†</sup>Water is now considered an essential service by the Government. Consequently it will not be disconnected and can be treated as either a Priority or Secondary Debt depending on the Debt Advice Centre's policy. <sup>††</sup>Some Hire Purchase arrears may be considered secondary debts.

## Glossary of Terms

<b>Arrears</b>	The total amount of payments which are now overdue.
<b>Budget</b>	A plan for balancing your spending against your income.
<b>Court Summons</b>	A set of forms giving a court hearing date and also inviting you to explain your financial circumstances so that the court can determine how much you can afford to pay.
<b>Creditor</b>	Someone who has lent money or goods to someone.
<b>Debtor</b>	Someone who has borrowed money or goods from someone.
<b>Default Notice</b>	An official form which must be issued by a creditor before court action can start. This applies to regulated loans (i.e. most loans of £15,000 or less)
<b>Disposable Income</b>	The income that is left over when your expenditure is subtracted from your income. Expenditure does not in this case include Non-Priority Debts.
<b>Financial Statement</b>	A summary of your income and expenditure, showing how much money, if any, is left over to pay off your debts. The Financial Statement is central to any negotiation with creditors or courts.
<b>Hire Purchase</b>	A method of purchase often used to buy cars and household items, where the item is legally owned by the creditor until the end of the agreement. NB. This means even if the item is returned to the creditor the debt can still remain.
<b>Non-Dependents Contribution</b>	Someone living with you and contributing financially into the household.
<b>Non-Priority Debts</b>	Debts which do not put the borrower at serious risk if not paid. Such debts can lead to court action, but not to losing a house.
<b>Priority Debts</b>	Debts which put the borrower at risk of serious loss if not paid, such as losing a home, car, phone, water, gas or electricity supply etc. or going to prison.
<b>Secured Loan</b>	A loan guaranteed by some property of the borrower (usually a house). If the borrower doesn't pay, the lender can take the property and sell it to pay off the debt.
<b>Summons</b>	See <i>Court Summons</i>
<b>Unsecured Loan</b>	A loan which is not guaranteed by property.

## Dos and Don'ts

### Dos

- 1 Do notify creditors of any problems or changes immediately.
- 2 Do give priority to those debts which may result in you losing your home, fuel supply or liberty.
- 3 Do respond to Court Summons **immediately**.
- 4 Do respond to letters promptly.
- 5 Do keep copies of all correspondence.
- 6 Do ensure repayments are realistic.
- 7 Do make regular payments - however small.
- 8 Do ensure all figures are given monthly or weekly not a mixture of both.
- 9 Do ring for advice if necessary - we are only too pleased to help.

### Don'ts

- 1 Don't assume your debts will go away if you ignore them or if you have not heard from your creditors for some time.
- 2 Don't be pressurised into making any decisions - if things upset you take time to think and cool down.
- 3 Don't 'rob Peter to pay Paul' - be fair in your offers.
- 4 Don't make offers you can't afford.
- 5 Don't borrow more money to pay off your debts without taking independent advice - this can make matters worse.
- 6 Don't give up trying to reach an agreement with your creditors even if they are difficult.
- 7 Don't lose hope; even if it takes a long time, you can still get through.

***Above all be honest***

# Financial Statement *(Fill in using pencil first so that you can rub out any mistakes)*

Name:

Number in family:

Address:

## Income

	Weekly £	Monthly £
Wages/Salary	<input type="text"/>	<input type="text"/>
Partner's Wages/Salary	<input type="text"/>	<input type="text"/>
Unemployment Benefit	<input type="text"/>	<input type="text"/>
Income Support	<input type="text"/>	<input type="text"/>
Working Family Tax Credit	<input type="text"/>	<input type="text"/>
Retirement Pension	<input type="text"/>	<input type="text"/>
Child Benefit	<input type="text"/>	<input type="text"/>
Invalidity/Sickness	<input type="text"/>	<input type="text"/>
Maintenance	<input type="text"/>	<input type="text"/>
Non-Dependants Contribution	<input type="text"/>	<input type="text"/>
Housing Benefit	<input type="text"/>	<input type="text"/>
Council Tax Benefit	<input type="text"/>	<input type="text"/>
Other	<input type="text"/>	<input type="text"/>
<b>Total Income</b>	<input type="text"/>	<input type="text"/>

## Expenses

	Weekly £	Monthly £
Mortgage	<input type="text"/>	<input type="text"/>
Second Mortgage	<input type="text"/>	<input type="text"/>
Rent	<input type="text"/>	<input type="text"/>
Council Tax	<input type="text"/>	<input type="text"/>
Water Rates/Sewerage	<input type="text"/>	<input type="text"/>
Ground Rent	<input type="text"/>	<input type="text"/>
Contents Insurance	<input type="text"/>	<input type="text"/>
Buildings Insurance	<input type="text"/>	<input type="text"/>
Life Insurance/Endowment	<input type="text"/>	<input type="text"/>
Gas	<input type="text"/>	<input type="text"/>
Electricity	<input type="text"/>	<input type="text"/>
Other Fuel	<input type="text"/>	<input type="text"/>
Housekeeping	<input type="text"/>	<input type="text"/>
TV Rental	<input type="text"/>	<input type="text"/>
TV Licence	<input type="text"/>	<input type="text"/>
Fines	<input type="text"/>	<input type="text"/>
Maintenance Payments	<input type="text"/>	<input type="text"/>
Travelling/Motor Expenses	<input type="text"/>	<input type="text"/>
School Meals	<input type="text"/>	<input type="text"/>
Clothing/Laundry	<input type="text"/>	<input type="text"/>
Child Minding	<input type="text"/>	<input type="text"/>
Telephone	<input type="text"/>	<input type="text"/>
Prescriptions	<input type="text"/>	<input type="text"/>
Children's Pocket Money	<input type="text"/>	<input type="text"/>
<b>Total Expenses £</b>	<input type="text"/>	<input type="text"/>

## Remaining Income £

Remaining Income =  
Total Income - Total Expenditure

<input type="text"/>	<input type="text"/>
----------------------	----------------------

## Priority Debts

	Amount Owed £	Offer Weekly £	Offer Monthly £
Mortgage Arrears	<input type="text"/>	<input type="text"/>	<input type="text"/>
Rent Arrears	<input type="text"/>	<input type="text"/>	<input type="text"/>
Water Rates	<input type="text"/>	<input type="text"/>	<input type="text"/>
Council Tax	<input type="text"/>	<input type="text"/>	<input type="text"/>
Fuel Debts Gas	<input type="text"/>	<input type="text"/>	<input type="text"/>
Electricity	<input type="text"/>	<input type="text"/>	<input type="text"/>
Other	<input type="text"/>	<input type="text"/>	<input type="text"/>
Arrears of Fines	<input type="text"/>	<input type="text"/>	<input type="text"/>
Maintenance Arrears	<input type="text"/>	<input type="text"/>	<input type="text"/>
Others 1)	<input type="text"/>	<input type="text"/>	<input type="text"/>
Others 2)	<input type="text"/>	<input type="text"/>	<input type="text"/>
Others 3)	<input type="text"/>	<input type="text"/>	<input type="text"/>
Others 4)	<input type="text"/>	<input type="text"/>	<input type="text"/>
<b>Total Priority Debts</b>	<input type="text"/>	<input type="text"/>	<input type="text"/>
<b>Disposable Income (A)</b> (Remaining Income less Priority Debts)	<input type="text"/>	<input type="text"/>	<input type="text"/>

## Non Priority Debts

Creditors	Amount Owed £ (C)	Offer Weekly £	Offer Monthly £
1	<input type="text"/>	<input type="text"/>	<input type="text"/>
2	<input type="text"/>	<input type="text"/>	<input type="text"/>
3	<input type="text"/>	<input type="text"/>	<input type="text"/>
4	<input type="text"/>	<input type="text"/>	<input type="text"/>
5	<input type="text"/>	<input type="text"/>	<input type="text"/>
6	<input type="text"/>	<input type="text"/>	<input type="text"/>
7	<input type="text"/>	<input type="text"/>	<input type="text"/>
8	<input type="text"/>	<input type="text"/>	<input type="text"/>
9	<input type="text"/>	<input type="text"/>	<input type="text"/>
10	<input type="text"/>	<input type="text"/>	<input type="text"/>
11	<input type="text"/>	<input type="text"/>	<input type="text"/>
12	<input type="text"/>	<input type="text"/>	<input type="text"/>
13	<input type="text"/>	<input type="text"/>	<input type="text"/>
14	<input type="text"/>	<input type="text"/>	<input type="text"/>
15	<input type="text"/>	<input type="text"/>	<input type="text"/>
16	<input type="text"/>	<input type="text"/>	<input type="text"/>
17	<input type="text"/>	<input type="text"/>	<input type="text"/>
18	<input type="text"/>	<input type="text"/>	<input type="text"/>
19	<input type="text"/>	<input type="text"/>	<input type="text"/>
20	<input type="text"/>	<input type="text"/>	<input type="text"/>

## Total Owed £ (B)

## Total Offered £

This is an accurate record of  
my financial position  
Signature of Client

## Draft Letter 1

These letters can be copied or used as a guide to sending letters to creditors. Keep a copy of all your correspondence to your creditors.

	Your Address
	Date
Creditor's Address	
Dear Sirs,	
Re: Account No:	
<p>I am/we are writing to let you know that I am/we are experiencing financial problems and have obtained a self-help pack from the Community Debt Advice Centre in Burgess Hill, West Sussex, which gives advice on sorting through and resolving financial difficulties.</p> <p>I/we should be very grateful if you would complete the form below so that I/we can work out my/our financial position and make realistic proposals for repayments to yourselves and other creditors.</p> <p>I/we should be grateful if you would suspend any further action on this account.</p> <p>I/we look forward to your early response and thank you for your assistance in this matter. Once I/we have heard from all my/our creditors I/we will write to you again.</p> <p>Yours faithfully,</p>	
Your Name: _____	
Your Address: _____	
Name of Creditor: _____	
Address: _____	
Date: _____	
Reference: _____	
Balance: _____	
Arrears Balance: _____	
Terms of Repayment: _____	
APR: _____	

## Draft Letter 2

These letters can be used as a guide to sending letters to creditors. Keep a copy of all your correspondence to your creditors.

Your Address
Date
Creditor's Address
Dear Sirs,
Account No:
Thank you for your letter providing me/us with details of my/our account with you. I/we have now received all the information necessary from my/our other creditors to enable me/us to make an assessment of my/our current financial affairs.
Unfortunately as you can see I/we am/are at the moment unemployed/off sick/on a low income and have no disposable income to distribute to my/our non priority creditors. I/we would therefore ask you to accept a token payment of £1 per monthly until my/our circumstances improve.
I/we will contact you again as soon as there is any change and meanwhile thank you for your assistance in this matter.
Yours faithfully

## Draft Letter 3

Your Address
Date
Creditor's Address
Dear Sirs,
Account No:
Thank you for your letter providing me/us with details of my/our account with you. I/we have now received all the information necessary from my/our other creditors to enable me/us to make an assessment of my/our current financial affairs.
I/we have enclosed a financial statement giving details of my/our weekly/monthly income, essential outgoings and priority debt repayments. It also includes a schedule of repayment offers to yourselves and my/our other creditors which have been calculated on an equitable pro rata basis
I/we hope that you will agree to these proposals and look forward to receiving written confirmation in the near future. Thank you for your continuing co-operation in this matter.
Yours faithfully,





# Community Debt Advice Centre

## Important Notice

Please note that although the Community Debt Advice Centre is willing to offer advice, it cannot provide financial assistance nor can it accept liability for any consequences of your dealing with your debt problem