

Basic debt advice

Many people fall into debt at some point in their lives, often through no fault of their own. This fact sheet will help you to deal with your debts and remove the pressures of being in debt. The following steps will help you regain control of your finances.

Contact your creditors

Don't ignore the problem. It will only get worse. Contact the people you owe money to (**your creditors**) as soon as you realise you cannot keep up your payments and explain your problems. **Be sure to keep copies of each letter you write.**

Increase your income

You may be able to increase your income by:-

- **claiming additional benefits and tax credits**, including housing benefit, council tax benefit, working tax credit, child tax credit, pension credit, job seeker's allowance if you are unemployed or income support if you are on a low income, and/or disability living allowance, attendance allowance, carer's allowance or if you or your partner/children are sick or have a disability. You can obtain further advice from your local CAB.;
- you or your partner **finding additional part time work**, but check how this would affect any benefits you are receiving before doing so;
- **taking a lodger**, but check whether this would affect any benefits you are receiving. You may also need the permission of your mortgage lender and home contents insurer;
- **checking your tax code** and whether you are entitled to any tax allowances or tax reliefs that you are not claiming. Your local tax office will be able to advise you.

Draw up your personal budget

Work out a **weekly or monthly budget** so that you know where your money goes and how much you can afford to offer your creditors. Make a rough copy first, as you may need to alter the amounts. Try to ensure that you aren't spending more than you have coming in, but **make sure the amounts are realistic**. You will find it very difficult to keep up with your payments if you haven't allowed yourself sufficient money to cover all your expenses. The form at the end of this fact sheet will help you to check you haven't forgotten anything. Your budget should include the following items:-

All your household income including:-

- **wages or salaries** for your partner and yourself - after deductions if you are employed. (This should be the amount you regularly receive and if the amounts vary, average them over 3 or 6 months);
- any **benefits** you are paid -including child benefit, child support or maintenance;
- **contributions** from other members of your family and lodgers.

All your expenses including:-

- **housekeeping.** Include what you spend on food, toiletries, school dinners and meals at work, cleaning materials, cigarettes, sweets, children's pocket money and pet food. **Be realistic;**
- **housing costs**, including mortgage or rent, second mortgage/secured loan, buildings and contents insurance, ground rent, service charges and life/endowment insurance cover attached to your mortgage;
- **council tax;**
- **fuel** (electricity, gas coal or paraffin) and water charges;
- **telephone;**
- **travel** expenses (include both public transport and the cost of running a car such as road tax, insurance, and maintenance);
- **insurance** that is **not part of your housing costs** (see above) ;
- **child minding;**
- **TV rental/licence;**
- **clothes and contingencies;**
- any other **essential expenses**, such as medical/dental expenses or support for an elderly relative.

Your priority debts

These include **mortgage or rent** arrears, **fuel** arrears, **council tax** arrears, **court fines** and **maintenance (including child support)** arrears. They are accepted as a priority because the consequences of not paying them are serious and could lead to your being homeless, or without heating, or in some cases imprisoned.

Your non priority debts

These include benefits overpayments and credit debts such as overdrafts, loans, hire purchase, credit card accounts and catalogues (but **not gambling debts**, which cannot be enforced), whether or not you are in arrears with your payments. **You cannot be imprisoned for non-payment of credit debts.**

Making offers

Tackle your priority debts first

When you have worked out how much you have left over after paying your expenses, **contact** each of your **priority creditors** and make an **arrangement** to **repay** your **arrears**. If they are threatening or have started to take action against you and you need a little time to sort out your finances, send them a holding letter explaining your problems and say that you will contact them again within two or three weeks, whichever is realistic. Ask them not to take any further action during this time. Some priority creditors will want the arrears cleared within a specific time.

If you are unable to agree a repayment schedule with them, you should contact your local CAB for further advice. Make sure you have **claimed** any **benefit** you are **entitled to**, such as housing benefit (for tenants on a low income) and council tax benefit. If you are being paid income support, income based job seekers' allowance or Pension Credit, you can repay arrears of rent, fuel, water charges, council tax or your court fines by having a small amount deducted from your benefit each week (**direct deductions**). Contact your local benefits office for more information. You should also make sure that you have claimed any Tax Credits that you are entitled to. Contact the Inland Revenue Tax Credit helpline on: 0845 300 3900 for more information.

Non- priority creditors

Any money you have left over after paying your expenses and your priority creditors (**available income**), should be distributed to **all** your remaining creditors (**non- priority creditors**) and you will need to ensure that each creditor is treated fairly. This means each creditor should be offered a percentage of the available income, based on the amount they are owed. This will be the balance outstanding on the account. (If you don't have recent balance(s), contact your creditor(s) and ask for one.) These offers are called **pro rata** offers.

Add up all your non- priority debts (**total debt**) and use the following formula to work out each pro rata offer:-

$$\frac{\text{individual debt to a particular creditor} \times \text{available income}}{\text{total of your non priority debts}} = \text{pro rata offer}$$

This is the system used by the courts for working out what you can reasonably afford to pay and is accepted by most creditors.

It is essential that you include **all your non-priority creditors**, whether you are in arrears or not. Otherwise, your remaining creditors will not accept your offers, as you will not be treating all your creditors equally. This is because some of your payments would include interest, whilst those you are in arrears with would need to have interest frozen if you were to reduce your indebtedness. You may also find that your repayment arrangements may break down because you cannot afford all your payments.

Once you have worked out your budget and the offers you can make, **draw up a financial statement** listing your income, expenses (using the main headings such as housing costs, housekeeping, fuel, travel etc) and including the amounts you are paying towards your arrears. You should also list your non-priority creditors, the amounts you owe and your offers (if any).

Contacting your creditors

Once you have calculated how much you can afford to pay, **write** to each **creditor** explaining why you have fallen behind with your payments and send a **copy** of your **financial statement**. You might, if you have little money available, make them a token offer of £1.00 a month. If you are unable to make any offers to your non-priority creditors, ask them to accept no payments for 3-6 months and let them know if your circumstances are likely to change during this period. Say you will contact them as soon as your situation changes and you are able to resume making payments. If you are making offers, explain that they have been calculated on a pro-rata basis. Always request that interest be frozen to prevent your debt from increasing. If you have **credit, debit or store cards**, **return the cards cut into pieces** at the same time and inform your creditor that you have done so.

Start making payments as soon as your **offer is accepted** and be sure to let your creditors know if your circumstances change and you are able to increase or need to decrease your payments. If your offer is refused, ask the creditor to reconsider and let them know if your other creditors have accepted your offers. **Don't** be persuaded by any of your creditors to **increase the amount you have offered to them** as, by doing so, you will be giving that creditor priority over your other creditors. If you are having difficulty in having your offers accepted, you should contact your local CAB.

Reviews

Most non-priority creditors will only accept an offer for a limited amount of time, usually three or six months. Provided you have made regular payments, they will contact you again at the end of the period to find out whether your circumstances have changed. You should always reply to review letters and may have to send an updated financial statement. Check the balance outstanding on any statements or letters you are sent, to ensure interest has not been added and when you reply be sure to ask that interest continues to be frozen.

BUDGET SHEET OF: **Address**

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Name **Number of people in my household**

1 Income	Weekly/monthly
Wages/salary	_____
Wages/salary – partner	_____
Income support	_____
Working/Child Tax Credit	_____
Child Benefit	_____
Other state benefits	_____
Non-dependant contributions	_____
Other	_____
TOTAL INCOME	_____

2 Expenses	Weekly/monthly:
Housing costs	
Mortgage/Rent	_____
Second mortgage/secured loan	_____
Ground rent/service charges	_____
Building/contents insurance	_____
Life insurance/endowment	_____
Council tax	_____
Fuel	
Gas	_____
Electricity	_____
Water charges	_____
Housekeeping	
School meals/meals at work	_____
Travelling expenses	
Telephone	_____
Magistrates' court fines	_____

4 Priority Debts	Amount owed	Weekly/monthly payments of
Rent arrears	_____	_____
Mortgage arrears	_____	_____
2 nd mortgage arrears	_____	_____
Council tax arrears	_____	_____
Fuel debts: Gas	_____	_____
Electricity	_____	_____
Other	_____	_____
Magistrates' fines	_____	_____
arrears	_____	_____
Maintenance arrears	_____	_____
Other (1)	_____	_____
Other (2)	_____	_____
		TOTAL _____

5 First MONEY FOR CREDITORS	
Figure (box 3)	_____
take away	
PRIORITY DEBT PAYMENTS (box 4)	_____
Second MONEY FOR per week
CREDITORS Figure per month	_____

Maintenance payments	_____
TV rental/licence	_____
Clothing/contingencies	_____
Prescriptions/health expenses	_____
Children's expenses	_____
Other (but not credit debt payments)	
.....	_____
.....	_____
.....	_____
.....	_____
TOTAL EXPENSES	_____

3	TOTAL INCOME	_____
take away	TOTAL EXPENSES	_____
	first MONEY FOR	
	CREDITORS figure	_____

6 Credit Debt			
	Creditor	Balance owed	Monthly offer of repayment
1	_____	_____	_____
2	_____	_____	_____
3	_____	_____	_____
4	_____	_____	_____
5	_____	_____	_____
6	_____	_____	_____
7	_____	_____	_____
8	_____	_____	_____
9	_____	_____	_____
10	_____	_____	_____
11	_____	_____	_____
12	_____	_____	_____
	TOTAL OWED	_____	
	TOTAL MONTHLY PAYMENT		_____

This is an accurate record of my financial position

at..... 20.....

Signed.....

Further help

Citizens Advice Bureau

Citizens Advice Bureaux give free, confidential, impartial and independent advice to help you solve problems. To find your nearest CAB, including those that give advice by e-mail, click on [nearest CAB](#), or look under C in your phone book.

Other fact sheets on Adviceguide which might help

- Negotiating with priority creditors
- Bankruptcy
- Negotiating with non-priority creditors
- How county court judgments affect your credit rating
- Sample debt letters

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