

## EASTBOURNE CITIZENS ADVICE BUREAU

### HELP YOURSELF OUT OF DEBT

Lots of people are in debt these days, for lots of different reasons. Most of the time it is for reasons which they have little or no control over, such as losing a job, becoming ill or a relationship breakdown. This booklet explains clearly how you can regain control over your money problems.

It shows you how to:

- \* work out your Financial Statement to explain your money problems to the people you owe money to (your 'creditors').
- \* stop your creditors chasing you for money at the same time;
- \* decide which debts to deal with first - your priority debts;
- \* make reasonable offers to repay your creditors;
- \* cope with court papers and procedures.

The booklet is designed for you to work through yourself. It is split into 5 **stages**.

**Stage 1** - helps you work out your income

**Stage 2** - takes a look at your expenses

**Stage 3** - tells you how much money you have left over

**Stage 4** - explains priority debts and

**Stage 5** - explains non-priority debts

Remember you are not on your own -

***We are still here to help***

You may find you can now deal with your debts yourself, and by writing or talking to your creditors, you can get your payments changed.

## TEN GOLDEN RULES FOR DEALING WITH YOUR DEBTS

1. Don't ignore the problem: it won't go away and the longer you leave it the worse it gets.
2. Get in touch with your creditors straight away and explain your difficulties. Get a contact whom you can go and see or phone them or write to them using the sample letters in this booklet.
3. If the first person you speak to is unhelpful, ask to speak to somebody more senior who may be able to agree to what you want.
4. Make sure you tackle your priority debts first - the debts which can mean losing your home or having your gas or electricity cut off, or going to prison. This booklet tells you what these are. Don't panic! You can't go to prison for most types of debts.
5. Fill in the reply forms to court papers and let the court have all the facts. You should supply a copy of your Financial Statement.
6. Attend court hearings. Take a copy of your Financial Statement with you. Don't think that going to court makes you a criminal, it's not that kind of court. Most hearings take place in private.
7. Don't borrow money to pay off your debts without thinking carefully. Get advice first. This kind of borrowing will usually make matters worse.
8. Always answer creditors' letters or phone calls. Don't give up trying to reach an agreement even if they are being difficult.
9. Remember we are here to help at each stage with letters and forms and we can explain what to do if you are asked to go to court.
10. ***Don't give up and don't panic!***

Check that you are responsible for each debt. You are not responsible for someone else's debt if you did not sign the agreement or act as guarantor. If your partner has recently died, don't be pressurised into paying a debt that is not your responsibility. This does not apply to certain tax debts.

Check that the amount being asked for is correct and has not been wrongly calculated. Ask for an up to date statement.

## WHAT SHOULD I DO FIRST?

Contact your creditors using the sample 'holding letter' below and keep a copy.

Do ***this immediately, don't delay.***

Creditor's Name

Address

Date

Dear Sir/Madam

Re: account number

I/We have been experiencing some difficulty in meeting my/our financial commitments. I/We have visited the local Citizens Advice Bureau and taken advice about my/our debt problems.

In order to work out offers of repayment to all my/our creditors, I/we would be grateful if you could forward me/us an up to date balance on my/our account along with details of any interest being charged. (I/we would also appreciate a copy of the original agreement with yourselves).

In the meantime I/we hope you will agree to suspend action on my/our account until offers of repayment can be worked out and consider the suspension or reduction of any interest charges.

Your co-operation in this matter is appreciated and I/we look forward to receiving your reply.

Yours faithfully

Your Name

Address

(NOTE: You should write out this letter yourself and include the information in brackets only if you want to).

## WORKING OUT YOUR PERSONAL BUDGET

Why is it important?

Because it helps you:

- see how much money is coming into your household;
- see how much money is going out;
- work out offers to creditors and courts that you can afford
- plan your future spending.

You can use your Financial Statement to show your creditors and the courts how you have worked out your offers of payment.

As you go through this booklet you will gradually collect the facts you need to fill it in completely. There is space for you to make a rough copy of your details at the end of each section.

You can then transfer this information to the proper Financial Statement sheet which is enclosed with the booklet

If you have any problems working out your Financial Statement, or any other questions, phone us for advice or call in

Fill in the spaces on page 6 & 10 using the notes shown below. Remember, when you are filling in the forms only use either weekly or monthly figures, whichever suits you best, but do not mix them

To change weekly pay of £100.00 to monthly pay:

1) multiply 100 X 52 (to give annual payment) = £5,200.00

2) divide £5,200.00 by 12 (to give monthly pay) = £433.00

To change monthly figures to weekly:

1) multiply by 12 (to give annual payment)

2) divide the total by 52 (weekly payment)

It will make things much easier when you negotiate with your creditors in STAGE 5 to have a monthly amount.

## **STAGE I**

### **INCOME** - money coming in

Set aside some time when you know you won't be disturbed. Add up the income of you and your family.

Wages and salary after deductions for tax, national insurance contributions etc. (normal take home pay). Don't include overtime if its not regular.

Benefits including Child Benefit and State Retirement Pension.

Occupational Pensions

Child Support

Contributions from people who live in your home, such as grown up children, elderly relatives (known as non-dependents) and lodgers. Try to make sure that any non-dependent is paying their fair share of household expenses.

Money from other sources

If your income is low you may be entitled to benefits and rebates e.g. Working Tax Credit, Child Tax Credit, Pension Credit, Housing Benefit or Council Tax Benefit. If you need advice on claiming benefits, please phone us or call in.

If you are sick or unemployed check to see if you have insurance cover for any of your debts and repayments.

**STAGE I** (cont)

We have invented an example household ourselves. Harry and Emma have two children. John is 12 years old and James is 9. Emma works part-time. Harry is now working after being unemployed for several months. During this period the family got into debt.

**FINANCIAL STATEMENT- EXAMPLE**

<b>INCOME</b>	weekly	monthly
Wages/Salary		750.20
Wages/Salary of partner		243.21
Jobseekers Allowance		
Income Support		
Working Tax Credit		
Child Tax Credit		
Retirement Pension/Works Pension		
Pension Credit		
Child Benefit		108.33
Incapacity Benefit		
Child Support		
Non-dependent Contribution		
Other		
<b>TOTAL INCOME</b>		<b>1101.74</b>

When you have read through page 5 make a rough copy below of your figures. Transfer them to your Financial Statement sheet later. Follow the example above.

**FINANCIAL STATEMENT- ROUGH COPY**

<b>INCOME</b>	weekly	monthly
Wages/Salary	.....	.....
Wages/Salary of Partner	.....	.....
Jobseekers Allowance	.....	.....
Income Support	.....	.....
Working Tax Credit	.....	.....
Child Tax Credit	.....	.....
Retirement Pension/Works Pension	.....	.....
Pension Credit	.....	.....
Child Benefit	.....	.....
Incapacity Benefit	.....	.....
Child Support	.....	.....
Non-dependent Contribution	.....	.....
Other	.....	.....
<b>TOTAL INCOME</b>	<b>.....</b>	<b>.....</b>

## **STAGE 2**

### **EXPENSES** - money going out

#### **Rent**

Put the amount you are supposed to pay weekly (or monthly) after housing benefit has been paid. The arrears and any payment you are making towards them will go under Priority Debts. This is dealt with in stage 4.

#### **Mortgage**

Put the weekly (or monthly) amount that you are paying. The arrears and any payment you are making towards them will go under Priority Debts. This is dealt with in stage 4. If you are on Income Support or Jobseekers Allowance include the amount the Benefits Agency (D.S.S.) tells you is for mortgage interest.

#### **2nd Mortgage or Loans secured on the House**

Put the weekly or monthly amount that you are supposed to be paying. Arrears will be listed under Priority Debts.

List the endowment policy insurance premium under Insurance.

#### **Council Tax**

Check whether you are entitled to a rebate. Council Tax is normally paid in 10 equal monthly payments. It may be possible to spread the payment over the extra 2 months. Contact the council and ask them.

#### **Water Rates**

Most water companies will accept payments monthly or weekly. Any arrears can be treated as a non-priority debt.

#### **Gas and Electricity**

Work out the cost of your bills over the year and divide by 52 for a weekly budget (or 12 for a monthly budget). If your heating bills are very high ask your council about insulation grants. If you are on Income Support or income based Jobseekers Allowance it may be possible to repay your arrears by Fuel Direct, which will be deducted from your benefit weekly.

#### **Insurance**

Work out the weekly or monthly amounts.

## Stage 2 (cont)

### Housekeeping

Don't forget to include a small amount for miscellaneous expenditure on such things as entertainment, cigarettes and sweets.

A rough guide to housekeeping costs would be:

Single person	£27.50 - £37.50 per week
Couple	£50.00 - £65.00
Each child	£17.50 - £27.50 (depending on age)
Non dependent	£22.50 - £32.50

*Remember - your household's outgoings may differ from the guidelines. It is important that you use your own figures.*

### TV. Licence (2003/04 rates)

Costs	Colour	Black & White
weekly	2.23	0.74
monthly	9.33	3.21

T.V. savings stamps are available from the Post Office or you can pay quarterly or monthly by direct debit. TV Licensing also operate a Cash Easy Entry Scheme, where you can pay for your license on a weekly basis at the Post Office. You can apply for this scheme even if you do not have a current licence and where you are in receipt of income related benefits.

### Telephone

Add up the annual bills and work out the weekly (or monthly) cost. You can pay monthly under a budget account, buy stamps from the Post Office or have a phone that receives incoming calls only.

### Travelling Expenses

This should include travelling to work, school and for shopping. If you are running a car include tax, insurance, repairs, M.O.T. and servicing as well as petrol. The cost of road tax after May 2003 (for a car or light van) is:-

	Total	Monthly	Weekly
6 months	£ 90.75	£15.13	£3.49
12 months	£165.00	£13.75	£3.17

For cars and light vans with engine sizes of 1549cc or less:-

6 months	£ 60.50	£10.08	£2.33
12 months	£110.00	£ 9.17	£2.12

## **Stage 2 (cont)**

### **Clothing**

As a rough guide allow £3 - £5 per person per week. Only include non dependents if you pay for their clothing.

The local Education Authority has very limited funds for small grants towards the cost of school uniforms, if you are on Income Support enquire at the school office.

### Prescriptions/Dentist

You may qualify for reduced payments due to low income. A season ticket for prescriptions may be cheaper at £32.40 for 4 months or £89.00 for the year than frequent one off payments of £6.20 per prescription item.

### Other Expenses

Remember occasions like Christmas and birthdays and include some money for unexpected expenses.

## Stage 2 – (cont)

### FINANCIAL STATEMENT- EXAMPLE

<b>EXPENSES</b>	<b>weekly</b>	<b>monthly</b>
Mortgage		370.00
2nd Mortgage		
Secured Loan		
Rent		
Council Tax		46.00
Water Charges		6.20
Sewerage Costs		5.00
Ground Rent		
House/Contents Insurance		15.40
Life Insurance/Endowment		
Hire Purchase		
Gas		38.00
Electricity		30.00
Child Support		
Housekeeping		320.00
TV Rental/Licence		8.70
Magistrates Court Fines		
Property Maintenance Payments		
Travelling Expenses		60.00
School Meals		30.00
Meals at Work		
Clothing		40.00
Laundry		
Telephone		15.00
Prescriptions		
Other (but NOT credit debt payments)		
Emergencies		17.00
Birthdays & Christmas		10.00
<b>TOTAL EXPENSES</b>		<b>1011.30</b>

Work out with your family how much money you have to pay out each week on basic living expenses.

## STAGE 2 (cont)

Remember at this stage, do not include any regular payments of debts you are making - such as the amount you are paying towards rent or fuel arrears. You will deal with these later when you get to stage 4.

When you have read through page 7 - 10 make a rough copy below of your figures. Transfer them to your Financial Statement sheet later. Follow the example above.

### FINANCIAL STATEMENT - ROUGH COPY

#### EXPENSES

	Weekly	Monthly
Mortgage	.....	.....
2nd Mortgage	.....	.....
Secured Loan	.....	.....
Rent	.....	.....
Council Tax	.....	.....
Water Charges	.....	.....
Sewerage Costs	.....	.....
Ground Rent	.....	.....
House/Contents Insurance	.....	.....
Life Insurance/Endowment	.....	.....
Hire Purchase	.....	.....
Gas	.....	.....
Electricity	.....	.....
Child Support	.....	.....
Housekeeping	.....	.....
TV Rental/Licence	.....	.....
Magistrates Court Fines	.....	.....
Property Maintenance Payments	.....	.....
Travelling Expenses	.....	.....
School Meals	.....	.....
Meals at Work	.....	.....
Clothing	.....	.....
Laundry	.....	.....
Telephone	.....	.....
Prescriptions	.....	.....
Other (but NOT credit debt payments)	.....	.....
Emergencies	.....	.....
Birthdays & Christmas	.....	.....
<b>TOTAL EXPENSES</b>	.....	.....

## STAGE 3

**MONEY LEFT OVER** - money available for priority creditors.

This next step will use all the information you have gathered in stages 1 & 2. You can now find out how much money you can offer your priority creditors. Take away your total expenses from your total income.

If your outgoings are higher than your income:

Check that the figures are either all weekly or all monthly.

Check whether you are entitled to Income Support, or Working Families' Tax Credit. Ask at your local Benefits Agency (D.S.S.) or local Council Offices about Housing Benefit or Council Tax Benefit.

Check to see if you have insurance cover for your debts or repayments.

Tax Rebates - Get your tax code checked. From April 2000 a tax credit will be added to your personal allowance if you have dependent children.

See if you can cut down on any of your expenses but don't cut down on basics like food, gas or electricity. Remember, you may have to live on this budget for several years. Don't cut down unrealistically. You must try to make your expenses equal to your income otherwise your debts will continue to grow.

If you are having problems with this please phone us for more advice or call in.

## STAGE 4

### PRIORITY DEBTS - what are my priority debts?

Some debts can cause more trouble than others. The law gives different creditors different ways of getting their money back.

If you don't act quickly some creditors could:-

- Take away your home;
- Cut off gas, or electricity;
- Send the bailiffs in to take goods from your home (distrain);
- Ask a Magistrates Court to send you to prison.

These are Priority Debts and it is important to make arrangements to settle these debts first.

Creditors can take action on some priority debts without going to court. For example, gas, electricity, V.A.T. and income tax. Your other creditors can take action against you only after long court procedures.

Here is a list of the kinds of debt and actions that might happen if you cannot reach agreement:-

DEBT	ACTION AGAINST YOU
Mortgage Arrears	Repossession of your home/eviction from your home
Second Mortgage/secured loan arrears	Repossession of your home/eviction
Rent Arrears	Repossession of your home/eviction
Council Tax Arrears	Distrain/Imprisonment
Gas/Electricity	Supply cut off
Unpaid Magistrates' Court Fines	Imprisonment
Income Tax Arrears	Distrain/Imprisonment
V.A.T. arrears	Distrain
Hire Purchase Arrears	Repossession of the HP goods
Mortgage Shortfall	take further advice immediately

**DON'T PANIC** - you will always be given warning and provided you act quickly you should be able to stop these happening.

Once stages 1, 2 & 3 are completed on your Financial Statement you can fill in stage 4 with information on priority debts.

List any payments you are already making or offers that have already been agreed. You may have to reduce them if they take up most of your money for creditors and leave very little to pay off arrears to other priority creditors.

**You need to get an agreement with all your creditors.**

## STAGE 4 (cont)

If you are getting Income Support or income based Jobseekers Allowance you could ask the Benefits Agency to make direct payments to your creditors.

The Benefits Agency will deduct the payments automatically from your benefit up to a maximum of £7.83 a week.

If you would like more information on this scheme talk to the Benefits Agency or contact us.

Don't panic - if your financial statement shows you can only afford a smaller offer use it to prove it to your creditors. Even if they don't agree to your offer START PAYING. It will start reducing your arrears and will demonstrate good faith and may make them change their minds.

Ask for the name of the person who agrees your offer and write to confirm the agreement.

When you have made arrangements to pay off the arrears on your priority debts, enter the amounts on the rough copy of stage 4 of your financial statement below.

<b>PRIORITY DEBTS</b>	<b>Arrears Owed</b>	<b>Weekly/Monthly Arrears Payments</b>
	<b>£</b>	<b>£</b>
Mortgage	.....	.....
2nd Mortgage/Secured Loan	.....	.....
Rent	.....	.....
Council Tax	.....	.....
Water Rates	.....	.....
Gas	.....	.....
Electricity	.....	.....
Income Tax	.....	.....
National Insurance Arrears	.....	.....
Hire Purchase	.....	.....
Magistrates' Court Fine	.....	.....
Property Maintenance	.....	.....
Child Support	.....	.....
Other	.....	.....
<b>TOTAL</b>	.....	.....

## STAGE 5

### NON-PRIORITY DEBTS - money left over for non-priority creditors.

After paying all your expenses and making arrangements with priority creditors you may end up with little or no money left to offer your other creditors.

If you have nothing left, tell them. Prove it by showing your creditors a copy of your Financial Statement. Phone us for further advice or call in.

Don't worry if your offer looks very small - your creditors would rather you paid a small amount regularly than make promises you can't keep.

First check that you have up-to-date figures of your debts before you start. Contact your creditor and ask for the current balance owed and how much interest has been added.

If you have worked out your financial statement weekly you will have to change the amount left for non-priority creditors to a monthly figure.

Multiply the weekly figure by 52 to give the total amount available for the year then divide the total by 12 to get the monthly figure. Don't just multiply by 4, it won't give an accurate figure.

Remember if you get stuck at this stage come in and we will help.

Example: Harry and Emma owe -

Eastbourne Clothing	£ 2,000.00
Sussex Bank	£ 3,000.00
Shark Finance	£ 1,000.00
Flexi Bank Card	<u>£ 4,000.00</u>
TOTAL	£10,000.00

Harry and Emma have £91 per month to pay these 4 creditors. This is how they divided it fairly.

Eastbourne Clothing	$£2,000 \times £91 / £10,000 = £18.20$
Sussex Bank	$£3,000 \times £91 / £10,000 = £27.30$
Shark Finance	$£1,000 \times £91 / £10,000 = £9.10$
Flexi Bank Card	$£4,000 \times £91 / £10,000 = £ 36.40$



## HARASSMENT FROM CREDITORS

Creditors are entitled to remind you if you do not pay as long as they don't resort to improper methods. It is illegal for a creditor to keep demanding payment for example by:-

phoning you late at night or repeatedly at work, parking a van marked "Debt Collectors" outside your home or contacting your employer.

You can't be prosecuted in **the criminal court because you haven't paid your debt**. If you are being harassed tell the police or Trading Standards Department.

## EXTORTIONATE CREDIT

If you think your credit charges are sky-high you can take the matter to court. If the judge agrees you're being overcharged he can cut your payments or order the lender to repay unreasonable interest charges. But your view of what is extortionate may not be the same as the court's. The fact that interest is higher than average doesn't necessarily mean it's extortionate. Before taking action talk to Trading Standards.

Now you have all the figures to make an offer to creditors you can write out the example letter overleaf. Choose one to suit your circumstances and keep a copy.

YOUR NAME & ADDRESS

Creditor's Name  
Address

Date

Dear Sir/Madam

Re: Account No.....

Since making the above agreement with you my circumstances have changed. I cannot now afford the agreed monthly payment because

*(explain what your problems are - i.e. if you have lost your job, separated from your partner or have had an unexpected increase in expenses).*

I enclose my Financial Statement which shows my total income and outgoings. As you can see, I have *EITHER* (only £.....per month) OR (no money) left for my creditors.

In view of my circumstances please would you accept *EITHER* (a reduced payment of £.....per month) OR (that I can pay nothing to you at present). If interest is being added to my account, I would be grateful if you could freeze this *EITHER* (so that all payments will reduce my debt to your company) OR (so that my debt does not increase).

*EITHER* (If my offer is acceptable please send me a paying-in book/standing order form to make it easier to pay regularly) OR *omit this paragraph*.

I am making every effort to increase my income. As soon as my circumstances improve I will contact you again.

Thank you for your assistance. I look forward to hearing from you as soon as possible.

Yours faithfully

Your name

Please phone us or call in if you would like more advice on writing to your creditors.

## WHAT HAPPENS IF MY CREDITORS TAKE ME TO COURT?

Many people find courts very frightening but the County Court is there to help settle disputes about money owed and how to repay it. Don't be afraid, there is no such thing as a "Debtors Prison". If creditors start County Court action to get their money back this can have advantages for you.

### ADVANTAGES

- 1 The court can stop interest being charged on a credit agreement. This means that the amount you owe is now fixed and cannot increase.
- 2 The court is likely to let you pay a monthly amount which you can afford but it can only do this if you tell it about your income and expenses.
- 3 When you have been taken to the County Court you might be able to apply for an Administration Order. This means putting your debts together and making one monthly payment to the County Court. The County Court then divides it between all your creditors. Not all debts can be included on an Administration Order. The total debts must be less than £5,000 and there must be a County Court Judgement before you can apply. To apply you need to fill in Form **N92** which is available from the local County Court Office.

When the District Judge considers your application for the Administration Order you can ask for a "Composition Order" to be made. A "Composition Order" is where a client is ordered to pay off only a percentage of the debt, writing off the rest. It may be granted if you are unable to pay off your debt in a reasonable time, say 3 years. To be successful you are likely to be sick, disabled, elderly or a single parent.

There can also be disadvantages if creditors take County Court Action.

### DISADVANTAGES

- 1 Court costs are added to your debt.
- 2 If you are taken to the County Court and cannot pay the money straight away you will find it difficult to get more credit.
- 3 If you do not pay the monthly amount that the court order, your creditors may take further action against you.

## HOW IS COURT ACTION TAKEN?

Before a creditor starts legal action, there must be a Formal Demand asking for payment. In most Consumer Credit Agreements, this will be a Default Summons telling you how much the creditor says you owe.

There will be a reply form with the summons for you to make your offer of payments. Fill this in and send it to your creditor (called The Claimant) together with a copy of your Financial Statement. Also, send a copy of both to the court.

If the creditor does not accept your offer the court will decide what you should pay.

If you disagree with the order for payment made by the court you can ask for a hearing to explain your offer to the District Judge.

Remember - you must do this within 14 days of receiving the Order To Pay.

The court will give you a hearing date. **You must go to the hearing.** Take a copy of your financial statement with you.

If the hearing is too far away ask for your case to be transferred to a local court.

Monthly payments can be reduced if your circumstances change. Form N245 is available from your County Court, but you will have to pay a fee to the Court for any change you want to make, unless you are in receipt of a means tested benefit.

Finally -

If you tell the court everything you can about your income, expenses and debts and attend all court hearings when asked, you should be allowed to repay the debts at a rate you can afford.

If you have to attend a court hearing your name will not appear in the local papers, unless the hearing is for Bankruptcy.

The County Court is not a criminal court and is not there to punish anyone.

If you receive letters or forms from the courts that you cannot understand, take them to the court straight away and ask for an explanation or contact us.

Remember - we are here to help and you have rights as well as your creditor.

**GOOD LUCK**