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Options for paying off your debts

1. Overview

If you owe people money (your 'creditors') you can make arrangements to pay your debts. Your options depend on the amount of money and assets you have.

You can pay your debts in instalments by setting up:

- a Debt Management Plan (<https://www.gov.uk/options-for-paying-off-your-debts/debt-management-plans>) which is an agreement with your creditors managed by a financial company
- an Administration Order (<https://www.gov.uk/options-for-paying-off-your-debts/administration-orders>) when you've had a county court judgment (CCJ) or a High Court judgment (HCJ) against you for debts under £5,000
- an Individual Voluntary Arrangement (<https://www.gov.uk/options-for-paying-off-your-debts/individual-voluntary-arrangements>) which is managed by an insolvency practitioner

You can apply for a Debt Relief Order (<https://www.gov.uk/options-for-paying-off-your-debts/debt-relief-orders>) or Bankruptcy Order (<https://www.gov.uk/bankruptcy>) if you can't pay your debts because you don't have enough money or assets you can sell.

In Scotland you can arrange a Debt Payment Programme from the Debt Arrangement Scheme. (<https://www.aib.gov.uk/debt-arrangement-scheme>)

You may also have the option of reaching an informal agreement with your creditors.

Where you can get help

The Money Advice Service has information about debt management (<https://www.moneyadviceservice.org.uk/en/categories/managing-debt>) and offers free debt advice. (<https://www.moneyadviceservice.org.uk/en/articles/where-to-go-to-get-free-debt-advice>)

If you can't pay off your debts, you can be made bankrupt (<https://www.gov.uk/bankruptcy>).

2. Debt Management Plans

A Debt Management Plan is an agreement between you and your creditors to pay all of your debts.

Debt management plans are usually used when either:

- you can only afford to pay creditors a small amount each month
- you have debt problems but will be able to make repayments in a few months

You can arrange a plan with your creditors yourself or through a licensed debt management company for a fee. If you arrange this with a company:

- you make regular payments to the company
- the company shares the money out between your creditors

The Money Advice Service has information on organisations that can give you free advice (<https://www.moneyadviceservice.org.uk/en/articles/where-to-go-to-get-free-debt-advice>) about whether a Debt Management Plan is right for you.

Get a Debt Management Plan

1. Set up a plan with a debt management company authorised by the Financial Conduct Authority (FCA). Search the Financial Services Register (<https://register.fca.org.uk/>) for an authorised company.
2. The company works out your monthly payments. You'll have to give details about your financial situation, eg your assets, debts, income and creditors.
3. The company contacts your creditors and asks them to agree to the plan (they don't have to).

Unless stated in the agreement, your creditors can still:

- ask you to pay your full debt at a later date
- take action to recover their money even if you keep up your payments

Costs

Some companies will charge:

- a set up fee
- a handling fee each time you make a payment

Make sure you understand the costs of your plan and how you pay for it.

Eligibility

Debt Management Plans can only be used to pay 'unsecured' debts, eg debts that haven't been guaranteed against your property.

Your responsibilities

Your plan can be cancelled if you don't keep up your repayments.

3. Administration orders

An administration order is a way to deal with debt if you have a county court or High Court judgment against you and you can't pay in full.

The debt must be less than £5,000.

You make 1 payment a month to your local court. The court will divide this money between your creditors.

Creditors listed on the administration order can't take any further action against you without the court's permission.

The Money Advice Service has information on organisations that can give you free advice (<https://www.moneyadviceservice.org.uk/en/articles/where-to-go-to-get-free-debt-advice>) about whether an administration order is right for you.

Get an administration order

Fill in an application for an administration order (N92), (http://hmctsformfinder.justice.gov.uk/HMCTS/GetForm.do?court_forms_id=651) and return it to your local court.

The court decides:

- how much of your debt you have to repay, eg all or just part of it
- how much your monthly repayments will be
- how long the arrangement lasts

The arrangement is known as a 'composition order' if you can't pay all your debts.

Costs

There's a court fee each time you make a payment. This can't be more than 10% of your debt.

Example If you owe £5,000 the total fee can't be more than £500.

Eligibility

You must:

- owe less than £5,000, including any interest and charges
- owe money to at least 2 creditors
- prove you can afford regular repayments, eg give details of your income
- have a county court or High Court judgment against you, which you can't pay in full

Your responsibilities

You must keep up your repayments or the court can:

- ask your employer take money from your wages – known as an 'attachment of earnings order'
- cancel the arrangement

You may still be able to keep your business running, if you have one.

Public records

Your administration order is added to the Register of Judgments, Orders and Fines.

It's usually removed 6 years after the date the order was made.

Your entry is marked as 'satisfied' if you repay your debts in full.

You can also ask the court for a 'certificate of satisfaction'. To do this, write to the court and send a cheque for £15 (made payable to Her Majesty's Courts and Tribunal Service).

4. Individual Voluntary Arrangements

An Individual Voluntary Arrangement (IVA) is an agreement with your creditors to pay all or part of your debts. You agree to make regular payments to an insolvency practitioner, who will divide this money between your creditors.

An IVA can give you more control of your assets than bankruptcy.

The Money Advice Service has information on organisations that can give you free advice (<https://www.moneyadviceservice.org.uk/en/articles/where-to-go-to-get-free-debt-advice>) about whether an IVA is right for you.

Get an Individual Voluntary Arrangement (IVA)

Use an insolvency practitioner (<http://www.insolvencydirect.bis.gov.uk/fip1/>) to get an IVA.

Your insolvency practitioner works out what you can afford to repay and how long the IVA lasts. You'll have to give details about your financial situation, eg your assets, debts, income and creditors.

Your insolvency practitioner will contact your creditors. The IVA will start if the creditors holding 75% of your debts agree to it. It will apply to all your creditors, including any who disagreed to it.

An IVA will stop your creditors taking action against you for your debts.

Costs

There are usually 2 fees:

- a set up fee
- a handling fee each time you make a payment

Make sure you know how much it's going to cost before asking an insolvency practitioner to act for you.

Your responsibilities

Your IVA can be cancelled by the insolvency practitioner if you don't keep up your repayments. The insolvency practitioner can make you bankrupt.

You may still be able to keep your business running, if you have one.

Public records

Your IVA will be added to the Individual Insolvency Register (<https://www.gov.uk/search-bankruptcy-insolvency-register>). It's removed 3 months after the IVA ends.

5. Debt Relief Orders

Debt Relief Orders (DROs) are one way to deal with your debts if you owe less than £20,000, don't have much spare income and don't own your home.

If you get one:

- your creditors can't recover their money without the court's permission
- you're usually freed ('discharged') from your debts after 12 months

Get a Debt Relief Order

You get a DRO from the official receiver, an officer of the bankruptcy court, but you must apply through an authorised debt adviser. They'll help you fill in the paperwork.

There's a list of organisations that can help you find an authorised debt adviser (<https://www.gov.uk/government/publications/getting-a-debt-relief-order>) in the guide to DROs.

The Money Advice Service has information about where to get free debt advice (<https://www.moneyadviceservice.org.uk/en/articles/where-to-go-to-get-free-debt-advice>).

Costs

The official receiver's fee is £90. Your debt adviser can tell you how and when to pay it. In some cases a charity may be able to help you with the cost - ask your debt adviser.

Eligibility

You're generally eligible if you meet all of these criteria:

- you owe less than £20,000
- you've less than £50 a month spare income
- you've less than £1,000 worth of assets
- you've lived or worked in England and Wales within the last 3 years
- you haven't applied for a DRO within the last 6 years

Restrictions

You must follow rules called 'restrictions' if you get a DRO.

This means you can't:

- borrow more than £500 without telling the lender about your DRO
- act as the director of a company
- create, manage or promote a company without the court's permission
- manage a business without telling those you do business with about your DRO

If you want to open a bank account, you may also have to tell the bank or building society about your DRO.

Check the Individual Insolvency Register (<https://www.gov.uk/search-bankruptcy-insolvency-register>) to see when the restrictions end.

The restrictions usually last 12 months. They can be extended if careless or dishonest behaviour caused your debt problem. For example, you lied to get credit.

The official receiver will tell you if they should be extended. To extend them, you'll be asked to agree to a 'Debt Relief Restrictions Undertaking'. The court can issue a 'Debt Relief Restrictions Order' if you don't agree.

What you need to know

While you have a DRO you still have to pay:

- your rent and bills
- certain debts, eg student loans, court fines

DROs can be cancelled if:

- your finances improve
- you don't co-operate with the official receiver - eg you don't give them the information they ask for

If you get new debt after your DRO is approved you could:

- get a bankruptcy order
- be prosecuted if you don't tell new creditors about your DRO

Your DRO is added to the Individual Insolvency Register (<https://www.gov.uk/search-bankruptcy-insolvency-register>) - it's removed 3 months after the DRO ends.

Your DRO will stay on your credit record for 6 years.