

# Managing Debt

Mind  
Wise



**A self help guide**

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# Getting Organised

If you feel that your financial situation is or is about to become out of your control, try not to panic. Many people get into financial difficulties at different times in their lives and for a variety of different reasons.

Recognising a problem is your first step to dealing with the situation, especially at an early stage. This guide will help you decide on a solution and tackle your financial problems.

And remember, you do not have to deal with the situation on your own. There is plenty of free, professional advice available.

## **Eight tips for dealing with your debt worries:**

- Don't ignore the problem.
- Avoid borrowing further to pay off existing debt.
- Talk to your creditors. Don't just stop paying them without explaining why.
- Work out what debts are your priorities; mortgage, rent, rates, child maintenance, utilities, and pay them first.
- You don't have to pay those who shout the loudest.
- Work out a budget that covers all your income and essential outgoings.
- Think twice before paying for money advice or debt counselling, as there is plenty of free advice.
- If you don't think you owe money or agree with the amount you need to pay, get free advice from an experienced debt adviser immediately.

# Are you liable?



If you're responsible for a debt it's called 'being liable'. It means you'll have a legal duty to pay it. If you're not liable, you should be able to challenge the creditor. A creditor is any person or organisation you owe money to.

## You might not have to pay a debt if:

- It's been six years or more since you made a payment or were in contact with the creditor (in this case, the debt may be "statute-barred" under the Limitation Act.
- There was a problem when you signed the agreement. For example, if you felt pressured into signing or the agreement wasn't clear.
- The creditor didn't conduct the correct checks to see if you could afford the repayments when you signed the agreement.
- If you were an additional cardholder.
- If you were an additional authorised cardholder on someone else's credit card account. For example, a spouse or partner. Credit card companies can't ask you to repay these debts as they were the primary cardholder's responsibility.

## Debt if you're under 18

If you're under 18 you can only be responsible for a debt if it's for something you need day-to-day. For example, a mobile phone contract, food or clothes.

If you're under 18 and not sure if you're liable for a debt, please [contact us](#).

# Priority or non-priority debt



Before dealing with a debt problem, you need to gather all the information relating to your situation. First, make a list of all your creditors. To do this, you will need the following information for each debt:

- The name and address of the creditor
- The amount you owe
- The account or reference number

It's a good idea to keep the latest letter or statement for each debt together in one place so that you can easily find them if you need them.

If you've received any court papers or letters that seem urgent, you may need to act quickly. If you're not sure what you should do next, get free advice straight away from an experienced adviser.

Once you've made a list of all your creditors, you need to work out which ones to deal with first.

# Priority or non-priority debt

The debts you deal with first are called priority debts. A priority bill means you could lose something if you did not pay it. They include:

Priority Bills	Consequences of not paying
Mortgage or rent arrears	Repossession or eviction
Fuel arrears	Disconnection
Rates arrears	Bankruptcy
Income Tax or VAT	Deduction from wages, imprisonment
Child Maintenance	Deduction from wages, imprisonment
Court Fines	Deduction from wages, imprisonment
TV Licence	Court fine, possible imprisonment

The debts you deal with after your priority debts are called non-priority debts. Non priority debts include:

- Credit debts such as overdrafts, loans, hire purchase, credit card accounts, catalogues and pay day loans.
- Benefit overpayments.
- Student loans.
- Money borrowed from friends or family.

If you don't make an offer to pay a debt without explaining why, your creditors may take you to court. If you still fail to pay, your creditors can take further court action against you

# Creating a budget part 1



Your financial statement is your most important negotiating tool. Therefore, it is vital to accurately set out your income and essential outgoings, as your repayments will depend on this.

First, make a list of your income. Creditors will normally prefer income to be shown as a monthly sum.

If you receive your income with different time scales, you can calculate them into the correct frequency as follows:

**Weekly to monthly payments:** Weekly sum x 52 weeks / 12 months

**Four weekly to monthly payments:** 4 Weekly sum x 13 periods / 12 months

**Quarterly to monthly payments:** Quarterly sum x 4 quarters / 12 months

Income Item	Amount (£)
Salary	
Partner's Salary (if applicable)	
Welfare Benefits	
Money from Pension (if applicable)	
Child Maintenance (if applicable)	
Other Income	
<b>Total Income</b>	

# Creating a budget part 2



The next step is to add your monthly outgoings. As we mentioned previously, some of these outgoings will be priority and you should pay them first.

Outgoings	Amount (£)
Mortgage/Rent	
Home Insurance	
Life Insurance	
Rates	
Electricity	
Oil / Gas	
TV Licence	
Childcare/Child Maintenance	
Car Tax	
Car Insurance	
Car Fuel (Petrol, Diesel)	
Car HP Repayments	
Food, Toiletries	
Clothing	
Leisure, Hobbies, Gifts	
Pet Costs	
School Expenses	
<b>Total Costs</b>	



# Creating a budget part 3



Finally, you need to find out if you have any money left over to make payments towards your debts. Remember to make arrangement to pay priority creditors first.

Amount for creditors	Amount (£)
Total Income (£)	
Total Outgoings (£)	
<b>Disposable Monthly Income (£)</b>	

For example, if you had rent arrears of say £1,200, you should use your disposable monthly income to pay that before you start paying your non priority creditors.

Once you have cleared your arrears, then you can start to make inroads into your other non-priority, unsecured debts.

Creditors in most cases, will ask for a copy of your Budget (sometimes called Financial Statement or Income and Expenses sheet) before they come to any agreements with you. It would help if you prepared this so you can send it off when requested.



# The debt “Solutions”



There are several options for dealing with non priority debts, and which works best for you will depend on your circumstances.

## Debt Solutions

### Debt Management Plan (DMP)

A DMP will normally work if:

- Your debts are less than £15,000,
- You have a monthly disposable income of £50 or more,
- You have assets of £1,000 or more.

It can be managed on your behalf by a DMP agency that will make repayments to creditors. Agencies like Payplan and StepChange will do this for free.

### Debt Relief Order (DRO)

A form of insolvency, a DRO, is suitable if:

- Your debts are less than £20,000,
- You have no assets exceeding £1,000,
- You have a monthly disposable income of £50 or less.

Creditors are not permitted to contact you for one year after the Order, and debts are written off after this period if your circumstances do not change.

A DRO can only be done via an “Approved Intermediary” such as those working with MindWise, Citizens Advice or Advice NI. Application for a DRO costs £90. You have no obligation to attend court.

### Bankruptcy

A more severe form of insolvency for larger debts, and the costs of petitioning are much higher.

It costs £525 for the court fee and £151 to the Insolvency Service who administer bankruptcies. A court hearing is required, and attendance is normally compulsory. Assets are at risk. However, for those with no assets, bankruptcy may be a suitable option.

Debts are written off after one year and creditors are not permitted to contact debtors during that time period.

# The Debt “Solutions”



## Debt Solutions

### Individual Voluntary Arrangement

This is a form of insolvency. A debtor agrees to pay off part of what is owed, either as a lump sum or over a 5-6 year period. As part of the arrangement, creditors agree to write off the unpaid balance.

This type of arrangement must be supervised by a Licenced Insolvency Practitioner and usually is only applicable where debts exceed £10,000 and the debtor has something to offer, either as a monthly payment (£75 plus) or as a lump sum. Once agreement is made, creditors must comply.

### Write Off

An option for individuals who have debts that they cannot repay now or in the future. The debtor will have little or no disposable monthly income, or living with a mental health condition.

MindWise can assist with write-off applications using the widely recognised Debt and Mental Health Evidence Form, which must be completed by a medical professional. Creditors do not have to agree to write offs.

### Full and Final Settlement

Creditors may consider this option when disposable monthly income is low. Still, debtors have access to a lump sum of cash, either from a third party or from the sale of an asset.

Usually, only a percentage of the total debt is repaid, and creditors must agree not to pursue the remaining balance. However, they are under no obligation to do this, and assurances must be sought in writing.

### Challenging Enforceability

A complicated process but in situations where a debtor believes they are not liable because of coercion or lender mis-selling, a write off request can be made. Evidence must be provided to creditors.

# Income maximisation

Part of the debt advice process will or should involve “income maximisation” - where you find out if there are any ways you can increase your income.

The following may help you either increase your income or reduce your outgoings. Remember to consider everything when it comes to dealing with your debts!

- ✓ If you have insurance products, can you get them cheaper elsewhere? Why not try a comparison website.
- ✓ If you have an extra room, would it be possible to take on a lodger?
- ✓ Can other adult members of your household pay towards the running costs?
- ✓ Check that you are getting all the benefits you are entitled to visiting the [Mental Health and Money Advice Service](#) or calling Citizens Advice.

# Getting advice



In many instances it is possible to deal with your debts yourself. For example, you can use this guide to complete your Budget and determine how much you can realistically pay each month towards your debts.

However, there are several sources of help if you need further advice. Use the table below to find out who can help with what type of debt solution.

Debt Solution	MindWise	Advice NI	Community Advice	StepChange or Payplan
Debt Management Plan		✓		✓
Debt Relief Order	✓	✓		✓
Bankruptcy	✓	✓		
Individual Voluntary Arrangement				✓
Write Off	✓	✓		
Full and Final Settlement	✓	✓		
Specialist Mental Health & Welfare Advice	✓			
Welfare Tribunal Representation			✓	

# Useful contacts



## **MindWise New Visions**

We are part of Mental Health and Money Advice UK, providing information, advice and representation to people who have mental health, money and welfare benefit issues

[www.mindwisenv.org](http://www.mindwisenv.org)

## **Mental Health and Money Advice**

Helping you understand, manage and improve your mental health and money. Benefits and managing money advice through a mental health lens.

[www.mentalhealthandmoneyadvice.org/ni](http://www.mentalhealthandmoneyadvice.org/ni)

## **StepChange**

Provides debt advice and debt solutions, notably free Debt Management Plans

[www.stepchange.org](http://www.stepchange.org)

## **Payplan**

Provides debt advice and debt solutions.

[www.payplan.co.uk](http://www.payplan.co.uk)

## **Citizens Advice**

Provides specialist support in relation to welfare benefits, housing and employment matters.

[www.citizensadvice.org.uk](http://www.citizensadvice.org.uk)

## **Advice NI**

Provides advocacy and specialist support about debt, including business debt, and welfare benefits.

[www.adviceni.net](http://www.adviceni.net)

## **Housing Rights**

Provides advice and court representation about housing matters, including repossession hearings

[www.housingrights.org.uk](http://www.housingrights.org.uk)

## MindWise New Visions

If you or someone you care for needs help with money, debt and benefits, call our Mental Health and Money Advice service on freephone 080 8801 0373 and choose Northern Ireland.

Visit our website at [www.mhma.org](http://www.mhma.org) to find:

Free and impartial information, support and advice for anyone affected by mental health and money issues. That includes support for friends, families, carers and professionals working in the area.

### **Expert advice:**

Managing your mental health and money can be confusing. Our advice sections break down the most commonly requested information and resources surrounding mental health and money into plain English.

### **Free financial tools and calculators:**

To help you better manage your money, we provide a range of [free online budgeting tools and calculators](#) to help you plan ahead and stay on track.

### **Sample letters and templates:**

When dealing with money issues, you may have to write and send letters to legal, medical, or other professional organisations. Our [bank of template letters](#) give you an example of what to write, so all you have to do is fill in the blanks.