

Dealing with debt



A guide for customers



The voice of banking
& financial services

How you can get help

Banks are here to help you run your finances smoothly in a complicated world. You can get help in good and bad times. Banks understand that you can face unexpected changes in your circumstances, for example if you become ill or lose your job, and these can upset your financial plans and your ability to pay back any money you have borrowed.

You may find yourself in financial difficulties if your lifestyle changes and your disposable income (the difference between your income and essential spending) falls, due to circumstances such as:

- loss of employment
- disability
- serious illness
- relationship breakdown
- death of a partner
- parental/carer leave
- starting a lower paid job
- imprisonment.

You may be facing financial difficulties if you start experiencing one or more of the following:

- your payments (such as cheques, direct debits and standing orders) are repeatedly being returned unpaid
- you cannot keep up with your loan repayments or other commitments
- you repeatedly exceed your credit card or overdraft limit without agreement
- you make frequent cash withdrawals on a credit card
- you regularly request increased borrowing or repeatedly reschedule your debts
- you borrow more money to pay off existing debts
- you receive notice of insolvency or court proceedings.

What can I do if I think I am getting into financial difficulties?

The more open and honest you are about the problem and its causes, the more your bank will be able to help you. This includes being honest with yourself – don't ignore post from people you owe money to.

If you do find yourself in difficulties, **let your bank know as soon as you can**. For example, when you know that your circumstances are going to change, get in touch with your bank. Banks will not usually be aware that your circumstances have changed until you tell them – and they **will** try to assist you if you are facing financial difficulties. They may put you in touch with another team within the bank that specialises in this area. Debt problems are easier to solve if you act early and ask for help.

You will need to work out a realistic budget and, if you haven't already done so, consider whether there are any ways of increasing your income or cutting back on non-essential spending. Different things will be important to different people. You could consider selling assets to reduce debts and help with repayments. You should also make sure that you are getting all the benefits you are entitled to. A specialist money adviser can help (see page 7).

Show your budget to your bank and try to agree a course of action with them. This might involve rescheduling repayments until you get back on your feet. Again, a specialist money adviser can help with this.

If you are using a money advice service, tell the bank so that they can allow you time to have discussions with them.

How do banks deal with customers who are in financial difficulty?

If you are in genuine financial difficulty, it is in the bank's interest, as well as yours, to find a solution.

The Lending Code says that banks will deal with people who are in financial difficulty sympathetically and positively, and that their first step will be to try to contact you. (The Lending Code is freely available online at www.bba.org.uk/lendingcode and sets out how banks should deal with their customers.) The Code sets out what banks must do for customers who may be heading towards financial difficulty.

Different banks have different procedures. Generally, a bank will want to do the following:

- **Contact you** if they think or become aware that you may be heading towards financial difficulties.
- **Explain their approach to financial difficulties:** i.e. that they will deal with you sympathetically and positively.
- **Provide you with information** on sources of free, independent money advice.
- **Discuss the matter with you.** They are looking for information that will help them to identify the best course of action.
- **Keep in touch.** If you want them to deal with you in writing, by fax or over the phone, they will be happy to do so as long as you keep in touch.
- **Give you clear information about the amount you owe.**
- **Develop a plan with you for clearing your debts in a way you can afford,** with your help and co-operation. Such a plan may range from an informal arrangement to restructuring your debt so you can repay it over an extended period. They will give you written confirmation of what is agreed.
- **Tell you beforehand about any action they may take,** for example, going to court, and what extra charges you may have to pay if they do so.

How can my bank help me?

Banks will be sympathetic and positive when they consider any financial difficulties you may have. Their first step will be to try and contact you to discuss the matter. If you find yourself in financial difficulties, you should let them know as soon as possible. The sooner you discuss your problems, the easier it will be to find a solution. The more you tell them about your financial circumstances, the more they may be able to help. They will do all they can to help you overcome your difficulties. With your co-operation, they will develop a plan with you for dealing with your financial difficulties and they will confirm with you in writing what has been agreed.

Banks will try to come to the fairest solution. This will involve working out what assets you have available, working out what you need to repay and going through your income and spending in order to agree a reasonable plan for repaying the debt.

In some cases, this discussion may take place through specialist teams. Their aim is to help you assess your circumstances and agree a repayment programme. This will allow them to continue to provide banking services to you but they may not be able to provide the full range of services. Banks treat each case individually and will not encourage you to commit or agree to a repayment arrangement which, from their knowledge of the situation, it is clear you cannot afford.

The bank can only make a decision about what you can reasonably afford to repay when they have a full picture of your financial circumstances. They may be willing to accept smaller payments but they do not have to accept any offer of repayment just because an offer has been made.

You will be given every opportunity to agree satisfactory conditions for repaying your debt. If you can make a satisfactory agreement with your bank about repaying your debt, it is important that you keep in touch with the bank throughout the repayment process, especially if your circumstances change. Repayment plans with your bank may be subject to regular review. Any review

period will be agreed with you or your adviser. You and/or your advisers should inform the bank if your personal situation changes.

If a satisfactory agreement **cannot** be reached, or an arrangement is agreed but you do not keep to it, your bank will ask you to make up the payments in full. If you do not do this, the account may be transferred to a specialist debt recovery department and banking services will usually no longer be made available.

Who else can help?

You may want to talk to your family, friends or support agencies who may be able to help. Many people find it helpful to get advice from a specialist debt counsellor (usually called a money adviser).

You can get free, independent money advice from any of the following:

- **Advice UK**
Phone: 020 7469 5700
Website: www.adviceuk.org.uk
- **advice4debtNI (Northern Ireland)**
Phone: 0800 917 4607
Website: www.advice4debtNI.com
- **Citizens Advice**
You can get the phone number of your local bureau from the phone book, the local library or from the website: www.citizensadvice.org.uk
- **Citizens Advice Scotland**
Phone: 0131 550 1000
Website: www.cas.org.uk
- **Money Advice Scotland**
Phone: 0141 572 0237
Website: www.moneyadvicescotland.org.uk
- **National Debtline**
Phone: 0808 808 4000
Website: www.nationaldebtline.co.uk
- **StepChange Debt Charity**
Phone: 0800 138 1111
Website: www.stepchange.org

All of these are free, confidential, independent and reliable. Under the Lending Code, banks will work with any of them if you ask them to but, for confidentiality reasons, they cannot do so without your permission. So, the advice agency will ask you to sign a form giving your bank permission to discuss matters with them.

There are other organisations that do not charge consumers for debt advice. Banks will work with an adviser from an organisation not listed above, but, again, they will need your permission to do so.

Should I consider using a fee-charging debt management company?

You are probably aware that there are companies that charge a fee for managing your debts. You may have seen adverts for companies that handle debts on behalf of customers for a fee. However, their fees mean that you will be paying your debt for a longer period. It is your responsibility to check the fees that may be charged before asking these companies to act on your behalf. If you decide to use one of these companies, you should make sure that you read all of the small print and fully understand the terms of the agreement before you continue.

It is worth asking yourself why you would want to pay an organisation for a service that you can get for free elsewhere.

How can a money adviser help?

If you have debts with many creditors, banks should recommend a free money advice service (see the list on page 7).

Money advisers will check whether you are eligible for any more benefits or tax relief, and make sure that you pay the most important debts first. You should tell the money adviser about any other issues or problems that may affect your finances.

How do I work out my priorities for repaying my debts?

Money advisers can help you work out and agree repayment plans with the people you owe money to, based on what you can afford after you have paid your living costs. Important costs will usually be your rent or mortgage, gas, electricity, and water bills, council tax, child support maintenance, income tax and VAT liability.

Banks and money advisers have worked together to produce the Common Financial Statement, which should speed up getting your repayment plans agreed. Check that your adviser is using this statement where possible (or other similar statements that banks accept, such as that used by StepChange Debt Charity).

The adviser will work out what is left from your income after your essential spending and may suggest that you offer a 'pro-rata payment' to each person you owe money to. This means that you will divide your disposable income (the difference between your income and essential spending) fairly between the people you owe money to. It is then up to them whether they choose to accept your offer.

If your adviser is linked to the Paylink programme, they may be able to automatically distribute your payments to the people who you owe money to. Ask your adviser for more details if you are interested.

What options are available to help me manage my debt problems?

There are a number of possible options that are available to help you manage your debt problems. These are the main options:

- Informally negotiated arrangement
- Offer in full and final settlement
- Reorganisation of finances or debt restructuring (sometimes also called 'debt consolidation' or a 'debt consolidation loan')
- Debt Management Plan
- Court Administration Order
- Individual Voluntary Arrangement (IVA) or Scottish Trust Deed
- Bankruptcy (or Sequestration in Scotland).

Each of these options can have different outcomes and affect you in different ways. You need to be aware of this when considering which option is likely to be suitable for you. If you find this difficult to do, remember to ask for help or seek advice from a specialist debt counsellor or money advisor.

Is bankruptcy a way out?

Applying for bankruptcy is very much a last resort, which is not recommended in most cases. You are likely to lose all your assets, including your home if you own one, and if you make yourself bankrupt, you will have to pay bankruptcy fees yourself. You should always get advice before you apply for bankruptcy.

What is the worst that can happen to me?

Debt won't go away on its own. If you miss instalments or ignore reminders, calls and letters, and if all attempts to agree an alternative arrangement or plan are unsuccessful, the bank may pass the matter to a reliable debt-collection agency or take legal action through the courts as a last resort.

If banks pass your debt to another organisation or debt-collection agency, they will always choose reputable firms which agree to follow the Code. In other circumstances, banks may sell your debt. Again, they will always choose reputable firms if they do this. Banks will inform the third party of any relevant arrangements currently being complied with. It is common practice for third parties taking on debt to request a new statement of income, expenditure and assets to understand your most up-to-date financial position.

If banks decide to take legal action against you, your file will be sent to the bank's solicitors for legal proceedings to be started. Even at this stage, solicitors are prepared to correspond with you or your adviser to agree a suitable solution.

If you are a home owner

None of the debt management options above can affect the rights of secured creditors, for example a bank or building society that has a mortgage or legal charge over your home. They continue to have the right to take possession of your home, if you don't keep up your repayments.

Your house or other goods could be repossessed but this will only happen if the debt is secured by the property and all other attempts to reach an alternative solution with you have failed. Your lender can ask a court to apply a charging order to your property, to recover the debt plus an interest on the debt. In basic terms, the unsecured debt becomes secured on your property and in some circumstances the lender can apply to a court to force the sale of your share of the property.

If you have to go to court, a money adviser can help you prepare your case and may be able to represent you.

How does debt affect my credit record?

All of the above debt management options may affect your credit rating and will in virtually all cases show up on your credit record.

Banks give information to credit reference agencies in many instances (for example: overdrafts) as a matter of course, but report differently on personal debts you owe them if:

- you fall behind with your payments
- you do not dispute the amount owed, and
- you have not made satisfactory plans for repaying your debt, following a formal demand.

If the bank accepts smaller repayments from you, they should tell you whether this is considered as ‘falling behind with repayments’ and whether this information will be passed to credit reference agencies.

If you don't reach an agreement with your bank or anyone who you owe money to – and especially if you get a court judgment against you – the details will be passed to a credit reference agency.

In these cases, banks will give you at least 28 days' notice that they plan to give information about the debts you owe them to credit reference agencies.

At the same time, they will explain the role of credit reference agencies to you and the effect the information they provide can have on your ability to get credit.

If you later try to borrow money, most lenders will check your record at the credit reference agency. If you have a bad credit record they are likely to turn you down. The longer a debt situation is left, the more damaging the record is likely to become.

If you ask them to, banks will tell you how to get a copy of the information that credit reference agencies have about you, or their leaflets that explain how credit referencing works.

You can check what information credit reference agencies have about you by writing to the customer service teams at the following organisations:

Equifax plc

Credit File Advice Centre
PO Box 1140
Bradford BD1 5US

Experian Limited

Consumer Help Service
PO Box 8000
Nottingham NG51 5GX

Callcredit plc

Consumer Services Team
PO Box 491
Leeds LS3 1WZ

You will need to send £2 and give your full first names, surname, date of birth, address including postcode and other addresses you have lived at during the last six years. Once you have cleared any debts, you may want to make sure that they have noted you have paid your debts.

Ten practical steps you can take to help resolve your debt problems

These are some practical steps you can take to help resolve your debt problems:

1. **Be honest with yourself and acknowledge the problem.** Don't ignore post from people you owe money to.
2. **Contact your bank** to let them know if you think you might be getting into financial difficulties. Discuss the matter with your bank and ask how they can help.
3. **Draw up a budget.** Make a list of all your debts and prepare a statement of your financial position, detailing your income and expenditure and how much you owe.
4. **Maximise your income.** Decide on your priority financial commitments and maximise your income by cutting down on non-essential spending and claiming any benefits or tax relief that you may be eligible for.
5. **Make an offer to your bank towards your debts.** Review your financial statement to check what you can afford to pay towards your debts and make an offer to your bank towards clearing your debts.
6. If the bank accepts your offer, **make sure you stick to the deal.**
7. **Review your circumstances regularly and inform your bank about any changes.**
8. If your bank does not accept your offer or you cannot stick to your original proposal because your circumstances have changed, speak to your bank and try to renegotiate. If you cannot reach an agreement, **contact a specialist money adviser who can give you advice.**
9. **Consider other options** to help you manage your debt problems. Again, a specialist money adviser should be able to help you with this.

10. **If you have debts with many creditors,** contact all creditors and let them know that you are facing financial difficulties, so that they are aware of the situation. **Contact a free money advice service,** who should be able to help you work out and agree repayment plans with the people you owe money to.

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