

Credit Debts

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What is a Credit debt?

People with a number of debts tend to use any spare money they have to pay off the smallest debt they have, as it feels like they are making progress. While paying off your debts this way may be tempting, it is not always the best idea as some debts are more important than others.

Debts can be divided into two types – priority and credit. Credit debts are less important than priority debts because your creditor (the person you owe money to) has no extra power, unlike priority creditors. For example, they cannot repossess your home or belongings, or earn you a prison sentence. Credit debts include credit card debts, loans and overdrafts through banks and building societies, and personal debts to friends or family. Though these debts cannot lead to repossession, fines or prison, they may damage your credit rating which could make it hard for you to get a loan or mortgages. If you want advice on your credit rating, contact a free advice service such as the Citizen's Advice Bureau or Money Advice Service.

Priority debts are the most important, and should be dealt with first. If you have to priority debts, or have money left over after dealing with these, you can start to deal with your credit debts.

Paying off a credit debt

There are a number of ways to deal with a credit debt:

Pro Rata payments

Each of your creditors are offered share of what you can afford to pay them, worked out on based on your income and budget balance. After working out your offer, you then write to your creditors to ask them to accept it. To work out how much to offer each creditor, you take the amount of money left over in your budget after dealing with priority creditors, multiply it by the amount you owe this creditor, and then divide it by the total amount you owe.

EG: The Smith family have £70 left after working out their budget and dealing with their priority debts. In credit debts, they owe a total of £2650, and of this they owe their credit card company £400

To work out their payment to the credit card company, they multiply the money they have (£70) and the money they owe the credit card company (£400), and then divide this number by the total amount they owe (£2650).

$70 \times 400 = 28000$, $28000 / 2650 = 10.56...$

Therefore the Smith family offer to pay their credit card company £10.50 a month towards their debt. For more help on making a payment offer, contact the Money Advice Trust

Free debt management plans

If you meet certain conditions, you may be able to arrange with National Debtline to make one monthly payment towards all your debts. To qualify for this, you must have two or more debts for either the same or multiple creditors, owe £5000 or more, and have £100 or more available to pay to your creditors. If this may be a solution for you, you should contact the National Debtline

Paying off a lump sum

If you have a sum of money which is less than the total amount of your debt, you ask the creditors to take this amount and write off the rest of your debt. They do not have to accept this, but may if it does not look like your circumstances will improve. If you make this agreement with your creditors, it is important to get them to agree to it in writing.

There are many more solutions to credit debts, but these can be risky or may have complicated application processes, so you should contact the Money Advice Trust before considering any of these:

Administration Orders

With an administration order, you make a monthly payment to the county court, which then divides it among your creditors. With an administration order, creditors cannot take any action against you, but to apply for this your debts must be less than £5000



Consolidation loans

You may have seen these advertised on television, offering to combine all your debts into one monthly payment. If you are considering a consolidation loan, contact an advice agency before agreeing to anything. These can end up being more expensive than your original debts, and may be secured on your house, meaning failure to repay could lead to the loss of your house

Individual Voluntary Arrangements

This is an alternative to bankruptcy, in which you arrange to pay an agreed amount of your debts off over a short, set period of time. This is usually only a good idea if you have a large amount of money available to pay towards your debts, as failing to pay could have serious consequences, such as the loss of your home.

Bankruptcy

You can declare bankruptcy or a creditor can make you bankrupt if you owe more than £750 to them. This is a last resort on both sides. A creditor may do this if you have assets that could be sold to recover their money, as it costs them in court fees and they are unlikely to get their debt back if you do not have any assets. If you owe a lot of money, have no assets and cannot see a way of ever paying off your debts, you may declare yourself bankrupt. This usually comes with high fees and may have serious consequences, so contact a free advice service if you think this may be your only option.

What if I cannot afford to repay my credit debt?

If you have very little or no money to repay your credit debts, there are still some options you can take:

Ask for a "moratorium"

Tell your creditors you have nothing left to pay them and show them evidence to support this claim, such as a letter and a copy of your personal budget. You can then ask them to hold action until your circumstances change and you can afford to start paying them.

Token payments

Offer each creditor a token payment of £1 a month as a gesture of goodwill and to show your intention to pay them back.

Debt Relief Order

With this, your debts are written off after 12 months. You can only apply for this if you owe less than £15,000, cannot afford to pay more than £50 a month to your creditors and have assets worth less than £300 and a car worth less than £1000. In order to apply for a Debt Relief Order, you will need help from an approved advice agency such as those mentioned at the bottom of this article.

What happens if I do not pay a credit debt?

As mentioned above, credit debts do not have as much power as priority debts, and there are limits to what they are allowed to do. A creditor is allowed to contact you occasionally to remind you of your debt, but they are not allowed to harass or threaten you into paying them back. If you feel you are being treated unfairly, contact a free advice agency or, if you think they are acting illegally, contact Consumer Direct. This is the same whether you are dealing directly with the creditor or with a debt collection agency – agencies are not bailiffs and have no more rights than the creditors themselves. In addition to this, it is important to remember that if a collection agency tries to charge you for collecting your debt, you may be able to issue a complaint against them. If your creditors take you to county court, you should not panic. County courts are there to settle financial disputes, not to serve the interest of your creditors.

For more information

There are a number of free services that can offer you advice or help on dealing with debt, either in person or over the phone, such as:

- Money Advice Service
- Citizen's Advice Bureau
- National Debtline
- Pay Plan
- Consumer Credit Counselling Service