

NATIONAL
DEBTLINE

The No.1
guide to taking
control of
your finances

How to deal with debt

The 3-step guide

Solutions inside



National Debtline: who are we and how can we help?

We are a national charity for people with debt problems. We have been providing advice for over 30 years. Our service is free, confidential and independent.

You can contact us for expert, professional advice by phone or webchat.

To phone, call **0808 808 4000**
Monday to Friday 9am to 8pm,
and Saturdays 9.30am to 1pm.

- ✓ Free from landlines and mobiles.
- ✓ Access to a telephone interpreting service with interpreters for over 240 languages.
- ✓ Works with Relay UK.

To webchat with a National Debtline adviser, go to **www.nationaldebtline.org**.

On our website you can also:

- ✓ read this guide;
- ✓ fill in your budget online;
- ✓ look at our fact sheets; and
- ✓ fill in sample letters to send to your creditors.

If you prefer to get advice and help online, you can use our online advice tool instead of this guide. Go to **<https://tools.nationaldebtline.org/dat-reg>** and click on 'Get started'.

Here's what Aisha, 41, from Peterborough has to say about our advice.



"This guide gives you the confidence that you can sort your debts yourself. I found it really useful going through it step by step. The guide takes you from start to finish."

Names and photographs in this guide have been changed for privacy reasons.

Get a fresh start

By simply opening this guide you have already taken the first step towards a fresh start with your finances.

Millions of people in the UK have financial difficulties. We know that this can be tough to deal with. It can sometimes feel overwhelming, but there are solutions.

Introduction



Don't be tempted to skip this section. It's short but gets you ready to deal with your debts.

A quick overview of the guide

Step 1 Know what you've really got **Page 11**

This step shows you how to complete your budget, which is an essential tool for dealing with your debts.



Step 2 Maximise your money **Page 29**

This step looks at how to make the most of your money.



Step 3 Choose your debt solution **Page 43**

This step looks at the different solutions you have for dealing with your debts.



For a full list of what this guide contains, see the last page.

Is this guide for you?

This guide has information to help people in lots of different debt situations. Don't be put off by its size, as you won't need to read all of it.

Before you start, answer the following questions. This will help you check that you have the right guide and whether you might need extra help.

1. Do you live outside of England and Wales?

If you don't live in England or Wales, or have debts that were taken out elsewhere, contact us for advice before you use this guide. This is because you may need a different guide or some extra help.

**BUSINESS
DEBTLINE**

2. Are you self-employed?

If you are self-employed, contact our sister organisation Business Debtline. Their advice, fact sheets and budgets are tailored towards people who are in business. They can help you, even if you just have personal debts. Call them on **0800 197 6026** or go to www.businessdebtline.org.

3. Do you have a debt that needs to be dealt with immediately?

You will need extra advice if you are at immediate risk of losing your home, essential services or goods, such as your car. Contact us for advice straightaway if you have:

- bailiffs (also known as 'enforcement agents') collecting any of your debts;
- been threatened with eviction;
- been told that your gas or electricity supply is being cut off; or
- been threatened with bankruptcy (this includes receiving a form called a 'statutory demand').

We can also check whether you can get standard breathing space, which can prevent further action for **60 days**. For more information, see **Need more time to get debt advice?** on page 7.

4. Are you subject to immigration control?

Being subject to immigration control means you need permission to enter or stay in the UK. If you are subject to immigration control or you are sponsoring someone who is, you will also need specialist immigration advice. This is to make sure that any action you take to deal with your debts and finances does not affect your immigration status or anyone else's. Go to www.gov.uk and search for 'Find an immigration adviser'.

5. Do you have debts that you haven't dealt with for several years?

If you haven't written to a creditor or made a payment towards a particular debt for several years, contact us for advice before you use this guide. This is because you may need different advice.

6. Do you owe money to a loan shark?

A loan shark is someone who lends money, but doesn't have a legal licence to do so. They often use threats to make people pay and usually there isn't a written agreement. If you are worried about an illegal money lender, there are specialist teams that can help. Contact the England Illegal Money Lending Team on **0300 555 2222** if you live in England, or the Wales Illegal Money Lending Unit on **0300 123 3311** if you live in Wales.

✓ If you answered 'no' to questions 1 to 6, this guide is for you.

Why use this guide?

National Debtline is a free debt-advice charity with many years of experience in helping people to deal with their debts and take control of their finances.

- Over the last few years, **hundreds of thousands of people** have used our guides.
- **Over two-thirds of people** who followed our advice said they felt less likely to find themselves in a similar situation again.

As well as this guide, we also produce detailed fact sheets on many areas of debt advice. We have not included our fact sheets with this guide, but we will tell you when one is available to read. To get a copy, go to www.nationaldebtline.org. Click on **Fact sheet library** and choose the title you want.

We will also tell you when there is a sample letter to use. To get a copy, go to www.nationaldebtline.org. Click on **Your sample letter library** and choose the letter you want. To help you contact your creditors, we have also included copies of the most commonly used sample letters in this guide.



Carlton, 26, from Burnley said:

“I have anxiety and was worried about speaking to people I owed money to, so I used your letters. They really helped to make my creditors know what was happening. It was a relief to deal with my situation.”

Everyone's circumstances are different and there may be times when you need some extra help. In this guide, we will recommend you contact us for advice if we think this could be the case.



Do now

Three things to do first

It usually takes a bit of time to follow all three steps in this guide and to set up the debt solution that's right for you. So before you start, take a look at this section. Check which pieces of advice apply to your situation. Do this as soon as you can. It will put you in the best position to start dealing with your debts.

1. Open a 'safe bank account' if you owe any money to your bank



Make sure that any money you get, or any savings you have, go into an account with a bank or building society that you do not owe any money to. This is because if you owe money to a bank or building society, they can take money from an account you have with them to pay towards the debt. This is called the 'right of set-off'.

Our research shows that **83% of people** find it easy to open a safe bank account.

If you are banking or saving with an organisation that you owe money to, you will need to open a safe account. Do this with a bank or building society that you do not owe any money to. This will put you in control of your own money.

It can be more difficult to open a new current account when you have already missed payments on your debts. If a bank won't give you a current account, ask them for a 'basic bank account'. With a basic bank account, you can have wages and benefits paid in and take cash out. Some basic bank accounts also let you set up direct debits and standing orders. You are not usually given a cheque book or overdraft.

Shop around for the best deal for you. See our **Safe bank accounts** fact sheet.

Here's what Erin, 23, from Wrexham said about opening a basic bank account.



"Opening a basic account was very easy. I called into the bank with ID, and the account was opened within 20 minutes."

2. Send a 'hold action' letter to your creditors



Send your creditors a hold action letter to let them know that you are dealing with your debts. Also ask them for time to plan what to do next. Banks and building societies usually agree to this. Some creditors may not agree, but it is still good to let them know that you are dealing with your situation.

You don't have to speak to your creditors to do this. See our **Hold action on your account** sample letter on page 6.

You usually need to send a letter to all of your creditors. This is because if you miss one out, that creditor may think that you are choosing not to pay. However, if you haven't written to a creditor or made a payment towards a particular debt for several years, contact us for advice before you send the hold action letter.

Who are my creditors?

Your creditors include organisations and people that you owe money to, such as banks, councils, debt collectors or family and friends.

3. Check whether you gave a 'continuous payment authority' for any payday loan debts



If you have a payday loan, you will also need to check whether you have given a continuous payment authority (CPA) to the loan company. This is where you give the loan company permission to take money using your debit card or credit card. You may not realise you have given this permission.

You can stop a CPA by telling the bank or the payday loan company to stop making the payment. See our **Payday loans** fact sheet for how to cancel a CPA and for sample letters to use.



Hold action on your account sample letter

Use this letter to ask all your creditors to hold action while you get some advice. You can use this sample letter to contact all of your creditors.

You can either:

- ✓ write out this letter onto fresh paper;
- ✓ photocopy the blank copy in the pocket at the end of this guide and fill in your details; or
- ✓ fill in our letter online. Go to www.nationaldebtline.org and click on **Your sample letter library**.

Remember to keep a copy of any letters you send.

Add your address here

Add the creditor's name and address here

Add the date here

Add the account number for your debt here (find it in the letter from your creditor)

Add your signature here and print your name in capitals underneath it

Dear Sir or Madam

Account number: [redacted]

I am writing to tell you that I am getting advice about my current financial difficulties from National Debtline.

Because of this, I would appreciate it if you could hold action on the above account for **at least 30 days** to give me the time and space I need to do a budget sheet and work out the best way to deal with my debts.

Also, if you are adding interest or other charges to the account, I would be grateful if you would freeze these during this period, so that my debt does not get any bigger.

I will contact you again as soon as I can with further details of my financial situation and my proposals for dealing with my debts.

I look forward to hearing from you as soon as possible. Please send all correspondence directly to me.

Yours faithfully

[redacted]

Do you need breathing space?

You may have a legal right to ask for standard breathing space if you are finding it difficult to pay your debts. If you are eligible, it may give you the time you need to get debt advice.

If your debts are covered by standard breathing space, your creditors will need to hold action for **60 days**. They should not ask you to pay the debt or start any court action to recover the debt. Your creditors will also have to freeze most interest and charges during this time.

If your creditors have already started court action, standard breathing space may also stop them from continuing with the action for **60 days**.

You apply for standard breathing space through an authorised money adviser. There is no fee for this. For more information, see our **Breathing space** fact sheet, or contact us if you want to make an application.

Extra support for mental health issues

Experiencing a mental health issue doesn't mean that you can't manage your money or deal with your debts, but at times it can make it more difficult.

See our **Debt and mental health** fact sheet for information on how to deal with your debts when experiencing mental health issues. It also discusses how making your creditors aware of your situation could help with negotiations. This is because many creditors will have guidelines that they should follow for clients who need extra support.

Or, if you would like to discuss your situation with one of our advisers, contact us for advice. Any information you give will be treated confidentially and we can tailor our advice to suit your circumstances. We can also check if there are other organisations that can offer you different types of support. For example, you may be eligible for a special type of breathing space called mental health crisis breathing space.

Other help to deal with your debts

Most people can deal with their debts themselves. However, in some circumstances, you may feel that sitting down and talking to someone about your situation would help.

If this is the case, contact your local branch of Citizens Advice and ask whether they can help you. To find your local branch, go to www.citizensadvice.org.uk and do a postcode search.

Myth busters

People may offer you advice and opinions about what can happen if you are struggling with debt. We regularly speak to people who are needlessly worried by advice they have been given by well-meaning family, friends or work colleagues. It is important that you separate 'fact' from 'myth'. The following is a list of facts that people often get confused about. Take a look at them and make sure you know where you stand.

1 **FACT: if you are in debt, your name will not be added to a central 'credit blacklist'.**

There is no such thing as a central credit blacklist that names people who creditors should not lend to. Credit reference agencies hold only factual information about you. Creditors use this information to help them decide whether to lend you money.

2 **FACT: you cannot be sent to prison for not being able to afford to pay your debts.**

Having unaffordable debts is not a criminal offence. You can only be sent to prison for debt in very specific and unusual circumstances (for example, as the very last resort for magistrates' court fine debts if you refuse to pay, or had the money to pay but did not do so).

3 **FACT: you do not need to pay a fee for professional debt advice.**

Professional debt advice is available for free from us and other free debt advice agencies, such as Citizens Advice. Instead of paying fees to a fee-charging company, you could use the money to pay off your debts.

Some companies offer to sort out your debts if you pay them a fee. Be careful. Look at what the company is promising to do for you before you send them any money or sign any paperwork. Also check if they are authorised by the Financial Conduct Authority (FCA). Go to <https://register.fca.org.uk/s/> to search the FCA's register.

Some companies say they will get your creditors to write off part, or all, of your debts. Unless you have special circumstances, this is unlikely to happen.

4 **FACT: you can still have a bank account if you are bankrupt.**

You are allowed to have a bank account if you have been made bankrupt, but it can be more difficult to get one.

5 **FACT: debt collectors do not have the same powers as bailiffs.**

Debt collectors are not bailiffs. Debt collectors have no more power than your creditors and have no right to come into your home.

If your creditor has passed your debts to someone else to collect, take a look at the latest letters you have received. Check if you have been sent a 'Notice of enforcement' or a letter that says it is from a 'bailiff' or an 'enforcement agent'. If not, you are most likely dealing with a debt collector.

6 **FACT: you are not automatically liable for your husband's, wife's or partner's debts.**

For most debts, you are only liable for the debts of another person if you have taken out the agreement with them or agreed to be a guarantor.

Some debts, such as council tax, have special rules about who is liable. See **Council tax arrears** in the **Common priority debts** section on page 57 for more information.

7 **FACT: bailiffs cannot usually force their way into your home.**

Most bailiffs (including those collecting on county court and high court judgments, council tax debts, child maintenance debt and penalty charge notices) cannot force their way into your home, unless:

- they have already taken control of goods that are in your home; and
- you have broken the payment agreement that you made with them.

Magistrates' court bailiffs can force entry to your home, but only if it is reasonable to do so. We rarely see this happen.

HM Revenue & Customs (HMRC) bailiffs would need to apply to the court for a warrant to let them force entry to your home. We hardly ever see this happen.

If a bailiff is threatening to force entry to your home, contact us for advice.

We use the term 'bailiffs'

Bailiffs are also known as 'enforcement agents'. In this guide we use the term bailiffs.

Check your progress

Use this checklist to make sure you are in the best place to start dealing with your debts.

- I have checked whether I need to open a safe bank account.
- I have sent hold action letters to my creditors.
- I have checked whether I have given permission for any continuous payment arrangements.

Next steps



You can now move to **Step 1** to fill in your budget.

Here to help

If you are unsure of anything in this guide, have extra questions or just want to talk through your situation, contact us for advice.

Step 1

Know what you've really got

This step shows you how to fill in
your budget.



What you need to start Step 1

You need accurate up-to-date information about all your income and spending. This includes the following.



Wage slips



Benefit statements



Pension-income statements



Bank statements



Utility bills

such as gas, electricity and water

If all your income and outgoings go through your bank account, most of the information you need will be in your bank statements.

You will also need:

- your latest letters from your creditors;
- a pen or pencil; and
- a calculator.

Make a start today

Gather together the paperwork listed in **What you need to start Step 1** at the top of this page. You don't need to speak to anyone to do this.



This step tells you everything you need to know to fill in your budget. We have also included blank budget forms for you to use in the pocket at the end of this guide.

This step helps people in lots of different situations. You may find that some advice or questions in the budget don't apply to your current situation. That's okay - just move on to the next piece of advice or budgeting question that applies to you.



Why is this step important?

We know that when you are struggling with debt, the thought of writing down your income and outgoings might feel like the last thing you want to do. But doing a budget might be easier than you think.

Our research shows that **75% of people** found it easy to fill in their budget.

Filling in your budget is the starting point for dealing with your debts.

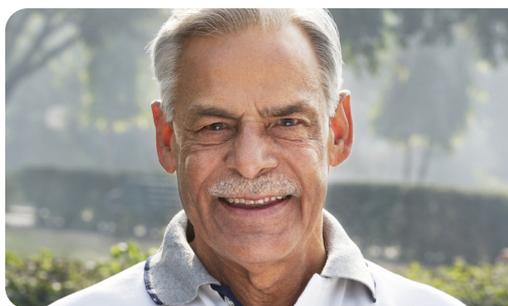
You won't be able to choose a solution to deal with your debts without a budget. All advice agencies will expect you to do a budget before they can discuss your options. Your creditors will also ask for one. It shows you:

- ✓ what money you have coming in (your income);
- ✓ what money you are spending (your outgoings);
- ✓ whether you have enough money to pay your essential bills; and
- ✓ what is available, if anything, to pay your debts.

This information helps you to find the best solution to deal with your debts.

It also allows you to:

- ✓ plan for future spending; and
- ✓ protect yourself against the stress that unexpected bills or increased costs can cause.



Arjun, 62, from Newport said:

“My advice would be to take a nice deep slow breath. It might seem daunting, but facing it head on will improve your life in the long run.”

Your full budget

You have been sent two budgets with this guide: **Your full budget** and the **Summary budget for creditors**. Both budgets are in the pocket at the end of this guide.

The budget used in this step is **Your full budget**. This budget is for you and not for your creditors. It is where you list all your income and outgoings in detail. This makes sure that you take into account all of the money you receive and all your commitments. It gives you an accurate picture of your money situation.

The **Summary budget for creditors** is the shorter budget. It is a summary of your financial position which you use to negotiate with your creditors. You don't need to do anything with it yet. We will explain if and when to use it in **Step 3**.

Always fill in **Your full budget** before deciding how to deal with your debts.

Do I have to cut back on all my spending?

Lots of people think that doing a budget means they will not be allowed to spend money on anything but bills and debts. This is not the case. Your budget needs to be realistic. Take a look at **Your full budget**. You will see that it includes costs for many areas of spending, such as hobbies, pocket money, leisure, gifts and saving.

It doesn't matter if you make a mistake on **Your full budget**, or need to change some figures. In fact, most people do. You could use a pencil to begin with, or just cross out any amounts that you want to change. If you need another form, contact us and we will send you one.

If you prefer, you can use our online budget. You still need to gather all the same information, but it adds up your figures and does any calculations for you. You can also save and print your form. Go to www.nationaldebtline.org and click on **Your budget**. Once you have filled in your budget, go to **Step 2**.

Research shows you are more likely to do something if you write down when you will do it. Decide when you are going to start filling in your budget and write it down.

Are your circumstances changing?

You may need some extra help to fill in your budget if your circumstances have recently changed, or are about to, and you are unsure of your income or outgoings. If so, contact us for advice.



Tips for filling in 'Your full budget'

Tick the ones you plan to try.

- Keep all the paperwork you have gathered in one place. Use an envelope or folder, so you can find it quickly when you need to. It will make filling in your budget easier.
- Add any new statements and letters to your envelope or folder as you get them. Then you will always have up-to-date information to hand.
- Get to know your budget. Before you start, take **10 minutes** to look at the form.
- Double-check that the amounts you include in your budget are correct, even if you already know some of the figures. For example, check how often you pay each bill – monthly or weekly. Do this as you are filling in your budget.
- Start a spending diary. It's easy to underestimate how much you spend on some essential living costs. Decide what type of spending you want to look at (such as groceries). Then note down how much you spend every time you buy something. All you need is a pen and paper. You can start this today.
- Don't forget to send a hold action letter to your creditors. See **Send a 'hold action' letter to your creditors** in the **Three things to do first** section on page 5. Do this as soon as you can.

Finding out what you owe

If you haven't kept the letters from your creditors, or need more up-to-date figures, contact your creditors and ask them how much you owe. If you would prefer not to speak to them on the phone, send them an email or letter instead.

If you speak to your creditors about what you owe, do not agree to a payment arrangement. It is important that you only offer what you can afford to pay. You won't know what this is until you have done **Your full budget**.

Don't worry if you can't remember who you owe money to, or can't find your creditors' details. We can discuss ways of finding this information, so contact us for advice.

If things get tough

Sometimes seeing how much you owe is scary. Opening your letters doesn't change how much you owe. But it is a key step in taking control of your situation. If looking at letters about your debts makes you feel uneasy, remind yourself that you are making a positive change to your money situation. You could also ask someone that you trust to open your letters with you.

You don't have to do everything at once. Many people fill in their budget in stages and take a breather between sections. Do what works for you. The most important thing is that you keep going.

It might feel like it at times, but you are certainly not alone

- In 2021, we helped more than **130,000 people** over the phone, by webchat and through our online advice tool.
- Our research shows that **around two-thirds of the people we helped to fill in a budget** say it improved their emotional and mental wellbeing.

Filling in 'Your full budget'

Read through all of this step. Don't be tempted to rush through your budget. It is an important tool that will help you to deal with your debts. It needs to be accurate, so take the time to check your figures. Research from MoneyHelper shows that people get the most from their budget when they give themselves enough time to fill it in accurately.

Sole or joint budget?

If you live with a partner and are dealing with your debts together, we recommend you fill in **Your full budget** together. This means that you need to include all the income and outgoings for you and your partner. Include your debts and your partner's debts.

If you don't live with a partner but live with other people, just include your income and your share of the household expenses in **Your full budget**. Only include your debts.

Contact us for advice if you are unsure who to include in **Your full budget**, or if you live with a partner and are not dealing with your debts together.



Use monthly figures

Your full budget asks for monthly figures. This is because your creditors will expect to see how much you can offer to pay them monthly.

If any part of your income or outgoings is not paid monthly, you will need to work out the monthly amounts. This will help you to create an accurate budget, which is easier to keep to.

Change weekly amounts to a monthly amount

Step 1: write down your **weekly** amount and multiply it by 52.

Step 2: divide the answer from **Step 1** by 12. This is your monthly figure.

Or

Change fortnightly amounts to a monthly amount

Step 1: write down your **fortnightly** amount and multiply it by 26.

Step 2: divide the answer from **Step 1** by 12. This is your monthly figure.

Or

Change four-weekly amounts to a monthly amount

Step 1: write down your **four-weekly** amount and multiply it by 13.

Step 2: divide the answer from **Step 1** by 12. This is your monthly figure.

Example

Joe gets paid £50 every four weeks from a private pension, so he needs to use the four-weekly instructions.

Joe writes down his four-weekly payment of £50 and multiplies it by 13 = £650 (**Step 1**). This gives Joe his yearly amount.

He then divides £650 by 12 = £54.17 (**Step 2**). This gives Joe his monthly figure.



If you need more help working out your monthly figures, contact us for advice. Or, instead you can use our online budget tool which will do it for you. Go to www.nationaldebtline.org and click on **Your budget**. When you have filled in your budget, go to **Step 2**.

Working out your income

Make sure you include all of your income and your partner's income if you are doing a budget together.

If you, or your partner, are having money taken from your wages or benefits to pay a debt, such as council tax, contact us for advice. We can explain how to show this in your budget.

Income from self-employment, including a business partnership

Do not use this budget if you (or your partner if you are doing a budget together) get any income from being self-employed. You need to fill in a different budget that works out what your business can afford to pay you after you have put aside your ongoing tax and National Insurance contributions. Business Debtline has a range of business budgets to help you.

Business Debtline is a national charity that gives free, impartial and confidential advice to small businesses and self-employed people. Go to www.businessdebtline.org and click on **Your budget**, or call them on **0800 197 6026**.

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Income that changes

Not all income is regular.

- You might get some payments just once or twice a year, for example, from small pension pots.
- You may be a seasonal worker and earn more in some months than in others.
- If you have a zero-hours contract or aren't guaranteed work, your income might change from week to week or from month to month.

It is important that your budget is as accurate as possible. If your income changes or isn't guaranteed, you usually need to work out your average monthly income. This helps to create a budget that you can keep to every month.



If the changes to your income are regular and expected (so you **know** when and how much you will get paid), work out your average monthly income over the last 12 months.

Work out your average monthly income over 12 months

Step 1: add up all the income you have received over the last 12 months.

Step 2: divide the total from **Step 1** by 12. This is your average monthly income.

If you are on a zero-hours contract or your take-home pay changes a lot (so you **don't know** when or how much you will get paid), you usually need to work out your average monthly income more often.

Dealing with income that changes can be complicated. If you want extra help, contact us for advice.



Working out your outgoings

This part of the budget shows you how much you spend on your essential living costs. Do not include payments towards any arrears in your outgoings. You will be asked about these at the end of **Your full budget**.

What are 'arrears'?

We use 'arrears' to describe payments that you have missed on your debts and household bills. Arrears can also include interest and charges that have been added.

It is important to be as accurate as possible, so that you know how much you need for your living costs. This also affects what you have left to pay towards your debts.

The budget splits your monthly outgoings into two groups: **fixed costs** and **flexible costs**. Many of your fixed costs will be based on your regular bills, such as council tax and water. Your flexible costs generally cover outgoings that vary from month to month, such as food and housekeeping costs.

Some costs you will have little control over and others will depend on your circumstances. Make sure that the figures in your budget show how much you actually spend. If they don't, it will be difficult to keep to your budget. Remember to include small purchases, those you use cash for and things you need to buy now and then, such as new tyres if you have a car. These costs add up and can easily be overlooked.

Don't be tempted to include less than you are really spending, as this will make it difficult to keep to your budget. For example, we often find that people underestimate how much they spend on gifts, so take a few minutes to work out your actual costs.

Work out your average monthly spending on gifts

Step 1: write down everyone you buy a gift for over a year and the amount you usually spend. Include the cost of cards and gift paper.

Step 2: add up all of the costs from **Step 1**. This is your yearly cost.

Step 3: divide the total from **Step 2** by 12. This is your average monthly spending on gifts.



What is reasonable spending for my type of household?

Creditors are more likely to agree a payment arrangement if they think your flexible costs are reasonable for your household. People often ask us what is reasonable to spend on food and housekeeping. The table below shows how much we typically find that people spend in this area. After you have filled in your outgoings in **Your full budget**, compare your food and housekeeping costs (**Box 23**) with our **Food and housekeeping monthly amounts table**.

Remember that everyone's spending will be different and that your costs should be based on your household's needs. For example, you may find that your grocery costs increase as your children get older.

Food and housekeeping monthly amounts table

This includes various costs, such as groceries (but not toiletries), nappies, school meals, meals at work and laundry. These are guidelines only.

Single person	£260 to £370
Couple	£420 to £610
Each child	£80 to £230

Example

To compare his costs with our typical spending figures, Pat adds up the following amounts.

Lower amount	Higher amount	
£420	£610	(for Pat and his partner)
+£80	+£230	(for their child)
<u> </u>	<u> </u>	
= £500	= £840	

Pat's actual spending of £680 is between £500 (the lower amount) and £840 (the higher amount) and is likely to be seen as reasonable.



If the figure in **Box 23** of **Your full budget** is much more or much less than the amount shown for your type of household, your creditors may ask you why. You may have extra costs because of a special diet, illness or disability. If so, tell your creditors.

If a creditor says that your spending is too high, contact us for advice.

Savings

Your full budget also asks you to list costs for things you have to pay for every now and then, such as gifts and repairs. Make sure you work out an average monthly figure to cover these costs. Consider keeping this amount in a separate savings account. It will make it easier to keep to your budget.

You can also include an amount towards savings in your budget. It is important to think about doing this if you can. Savings help to protect you against unexpected expenses, such as replacing a broken phone or a child's lost sports kit. They also allow you to plan for replacing larger-value items, such as a new fridge.

Most creditors will think it's reasonable if you save a monthly amount of up to **10% (up to a maximum of £25)** of the money you have left over after paying for your essential living costs. So, for example:

- if you have £50 a month left over, you can save up to £5 a month; and
- if you have £260 a month left over, you can save up to £25 a month.

Box 29

See **Box 29** in **Your full budget**. It shows what you have left over after paying for your essential living costs.

If **Box 29** is a minus figure, you do not have any money left over for savings at the moment.

Work out how much you can save

Step 1: divide the figure in **Box 29** of **Your full budget** by 10.

Step 2: what you do next depends on the amount you get from **Step 1**.

- If the amount from **Step 1** is **£25 or less**, you can add all, or part, of this amount as **Your savings (Box 26)**.
- If the amount from **Step 1** is **more than £25**, you can add up to £25 as **Your savings (Box 26)**.



Example

Callie has filled in her budget and **Box 29** shows £65.

She divides £65 by 10 = £6.50 (**Step 1**).

As £6.50 is **less than £25**, Callie can choose to add this amount, or less, as her savings (**Step 2**).



Know what you owe

It may seem obvious, but before you list your debts, make sure you know what you are liable for and how much you owe. It can make a big difference to how you deal with your debts and how long it takes to pay them back. Read through the following checklist.

Do you owe the money?

Only pay towards debts that you are **personally** liable for. Paying money to other people's debts usually makes your situation more difficult to deal with. If you are unsure who is liable for a credit card, bank account or loan, check whether you are named on the agreement.

If you are currently paying towards someone else's debt and are worried about how stopping payments would affect them, contact us for advice.

Have you checked your statements?

Check that the amount you are being asked to pay is correct. Make sure that all payments you have made have been included in your statement.

Need a copy of your agreement or a statement?

If you need a copy, contact us for advice. You may have the right to ask for one.

Have you taken out any debt with another person?

If you take out an agreement with another person, usually you are both responsible for the full debt, not just part of it. This is called 'joint and several liability'. For example, if you take out a bank loan with a friend, the bank can ask just you, or just your friend, to pay the whole debt. Or, they can ask you both to pay towards the debt. This doesn't mean that the debt is paid twice, just that you owe the full amount until the debt is paid.

Are you a guarantor?

Some creditors ask for a guarantor before agreeing to lend money or provide a service. If the person who borrowed the money or used the service doesn't pay, the creditor will ask the guarantor to pay. If you are a guarantor for someone else, contact us for advice.

Guarantors for your debts

If someone else agreed to be a guarantor for any of your debts, they will need separate advice.

Sort your debts into priority and non-priority debts

The final part of **Your full budget** asks you to list your debts. To do this, you will also need to sort them into priority and non-priority debts. All advice agencies will ask you to do this.

The law gives different creditors different ways of getting their money back. Priority creditors have more power to get you to pay. This is why priority debts are more important than other debts. Sort your debts using the following information.

Common priority debts

Rent	Mortgage	Secured loan or second mortgage	Council tax
Energy such as gas, electricity, coal or oil	TV licence	Magistrates' court fines	Child maintenance
Tax debts such as income tax, National Insurance and VAT	Tax credit overpayments	Benefit overpayments	Penalty charge notice for parking
Hire purchase or conditional sale	Bill of sale also called a logbook loan		



Most other debts are non-priorities. This is because these creditors have less power to get their money back than priority creditors. You will still need to deal with your non-priority debts.

Common non-priority debts

Credit cards	Store cards	Overdrafts	Loans if unsecured
Catalogue debts	Doorstep-collected loans	Payday loans	Personal debts to family and friends
Water and sewerage debts	Private parking tickets these are not the same as penalty charge notices	Mortgage shortfalls money owed after the sale of a property	Business supplier debts if you have stopped trading

We understand that some non-priority debts may feel more urgent to you. But to get the best results, sort your debts based on the power creditors have to get their money back, not on how the debts make you feel.

If you are unsure whether a debt is a priority or non-priority, or you want to treat a debt differently to how we have advised, contact us for advice.

Offers of payment

Step 3 will show you how to work out offers of payment to your creditors. For now, just add details of any offers of payment that you have already agreed with your **priority** creditors to **Your full budget**.

Once you have filled in 'Your full budget'

Go to **Box 31** in your budget. This figure shows what you have left over for your creditors.

If the figure shows that you can afford the monthly payments on your debts but you are struggling to pay them, contact us for advice before you take any further action.

If the figure is less than what you need to pay all the normal monthly payments on your debts, that's okay. This guide will show you what options you have for dealing with your debts and what to do next.

- While you work on what to do next, cancel your normal payments to your non-priority debts. If you pay any of your non-priority debts by standing order or direct debit, you will need to cancel these too. This will help you to keep up to date with your more important commitments, such as your rent, mortgage, council tax, food and energy bills. If you are unsure which payments you need to cancel, contact us for advice.
- Also make sure that you have completed the **Three things to do first** section starting on page 4.

Reduced or missed payments usually affect your credit reference file

See page 92 for more information.

Our research shows that **89% of people** find it easy to cancel their non-essential direct debits.

Have you received a letter saying that you are in 'persistent debt'?

If so, this means that in the last **18 months** the amount you have paid your creditor in interest, fees and charges is bigger than the amount of borrowed money that you have paid back.

If you have filled in your budget because you received a persistent debt letter and can afford the monthly payments on your debts, see our **Persistent debt** fact sheet. This will give you information about what to do next.



Tips for sticking to your budget

Plan for when your income drops

If your take-home pay goes up and down, try to plan for when this happens. Your budget will help you to do this.

Make a note of your average monthly income figure. When you earn more than this, put the extra money to one side. This will build up a fund to help pay your living costs when your income drops.

Use a separate account

Some people find it helpful to have a separate account to transfer their extra money into. You can also put your savings and money for one-off payments in a separate account to your normal bills. This keeps it apart from your normal bank account and stops it being swallowed up by day-to-day spending.

You can open a savings account with a bank or building society and earn interest on your money.

Update your budget if your circumstances change

Most people's circumstances change from time to time and so will their budgets. It is important that your budget continues to give you an accurate picture of your money situation. If it doesn't, you will find it difficult to keep to.

We suggest that you review your budget every six months, or earlier if your income goes up and down or your circumstances change.

Which bank or building society to use?

If you owe money to a bank or building society and do not pay them, they can take money from an account you have with them to pay the debt. **This includes savings accounts.** It is called the 'right of set-off'.

To avoid this happening, save money with a bank or building society that you do not owe money to.

Make sure that you use a savings account that is best for you.

MoneyHelper can give you advice about different ways of saving (including credit union accounts) and what to look out for. Go to www.moneyhelper.org.uk and search for 'Types of savings' or call **0800 138 7777**. To speak to a Welsh-speaking adviser, call **0800 138 0555**.



Check your progress

Use the checklist below to make sure that you've done everything you can to create a realistic budget for yourself.

- I have listed all of my income.
- I have included all of my outgoings.
- I have used monthly figures.
- I have thought about adding an amount for savings.
- I have filled in the 'Your overview' section of the budget.

Next steps

You have filled in your first full budget. This is a big step in taking control of your situation.

You can now move on to **Step 2** to see whether you can maximise your money.



Here to help

If you are unsure of anything in this step, have extra questions or just want to talk through your situation, contact us for advice.

Step 2

Maximise your money

This step looks at how to make the most of your money by doing a 'money makeover'.



What you need to start Step 2

It will help to know the following.



What money you have coming into your household.



How much you spend on everyday living costs.

It is best to do your budget first, as the information in it will help you with **Step 2**.

If you haven't already filled in your budget, take a look at **Step 1**.

Why is this step important?

This step has useful tips and advice to help check whether you:

- ✓ can pay less for your everyday living costs;
- ✓ are getting everything you should be, such as benefits and tax credits; and
- ✓ can get any help from a charitable grant.

Take a breather if you need to

The advice in **Step 2** will help you to get the best outcome for your debts. Consider taking a break when you need to or when you see this icon.



Need a break?



Don't miss out

Life can be busy. You may feel like you don't have time to look at making the most of your income and spending. But there are several things you can do which are quick and easy.

Here are some examples you can start with.

- ✓ Make a shopping list. It only takes a **couple of minutes** and will help you save time and money in the supermarket.
- ✓ You can do a free online benefits check with Turn2us. On average it takes less than **10 minutes**.
- ✓ It takes less than **five minutes** on average to do a free online grants search with Turn2us.

Turn2us is a national charity. Its website has a free **Benefits Calculator** and a **Grants Search** tool. You can use these to find out what benefits or charitable grants you may be eligible for.

Go to www.turn2us.org.uk. If you can't access the internet, you can call Turn2us on **0808 802 2000**.



You might think that this step doesn't apply to you, but it does. In our experience, almost everyone can make a difference to their situation. Put some time aside this week to look at **Step 2** and maximise your money. It really is worth doing.

Even small changes to your outgoings or income can make a difference to your day-to-day life. They may also affect how you deal with your debts. The sooner you start the better.

It is also a good idea to do a money makeover every **six months**, or earlier if your circumstances change. This will make sure that you keep making the most of your money.

Practical tips to pay less for your everyday living costs

You wouldn't choose to pay more than you need to for your everyday goods and services, but you could be doing just that. Take a look at your spending. Making a few simple changes could save you money.

MoneySavingExpert.com

MoneySavingExpert.com says that by doing a money makeover, many households can save **thousands of pounds over a year**.

Read through the following tips and tick the ones you plan to try first.

Do you spend more than you need to on your grocery bill?

Groceries can be a big part of your household spending. Many of us regularly spend more than we plan to and leave the supermarket with items that we didn't intend to buy. Planning when and how you shop will help you keep to your budget and get the most out of your money.

- Always check what you already have in your cupboards and fridge before you go shopping. This will help you to cut down on unnecessary spending and on what you throw away.
- Plan your meals for the week and write a shopping list. This will help you to focus on only buying what you need.

MoneyHelper

MoneyHelper research shows that **60% of people** who use a shopping list spend less in the supermarket.

- Remember to include items for packed lunches. It will be cheaper to make your own.
- Use loyalty schemes and money-off coupons if they give you the best deal.
- Be 'money smart' and check the unit prices (supermarkets usually put this information on the front of the shelf). Bigger jars and multi-packs aren't always the cheapest option.
- Consider buying cheaper brands, especially on your regular buys. Supermarket own brands can be just as good quality as the big brand names. See if you actually notice a difference.



Can you pay less for your energy costs?

Energy costs are one of the biggest costs for most households, so it's worth checking whether you can save money.

- Use a free price-comparison site to check if you can get a cheaper deal for your energy. Although, be aware that when energy prices are high, switching deals may not be your best option. Go to <https://energycompare.citizensadvice.org.uk>. If you can't access the internet, you can call Citizens Advice consumer helpline on **0808 223 1133**. To speak to a Welsh-speaking adviser, call **0808 223 1144**.
- Switching to a new supplier is easy. However, if you want to stay with your existing supplier, you may still be able to save money. Contact your supplier and ask if you are on their cheapest deal.

No cheaper deals available

If you can't find a cheaper deal, it may be better to continue with your current arrangement and do another price comparison in a month's time.

- If you have a fixed deal, do a comparison before your agreement ends. Plan ahead and add a note to do this in your diary.
- Paying for your energy by fixed monthly direct debit can be a cheaper option. This is where you pay an amount each month based on what your supplier thinks you will use.
- If you have a prepayment meter, you are probably paying more for your energy than you would on a credit meter. See whether your supplier will let you change to a credit meter. For more information, go to www.citizensadvice.org.uk and search for 'Decide if prepayment is right for you'. If you can't access the internet, you can call Citizens Advice consumer helpline on **0808 223 1133**. To speak to a Welsh-speaking adviser, call **0808 223 1144**.
- Using less energy will save you money. Simple Energy Advice has useful information on saving energy, cutting costs and home energy grants. Go to www.simpleenergyadvice.org.uk or call **0800 444 202**.
- If you live in Wales, you may also be able to apply for free home energy-efficiency improvements through the Nest scheme. Go to www.nest.gov.wales or call **0808 808 2244**.

MoneyHelper also has tips on how to reduce your spending on a wide range of household costs. Go to www.moneyhelper.org.uk and search for 'Cutting costs' or call **0800 138 7777**. To speak to a Welsh-speaking adviser, call **0800 138 0555**.

Can you pay less for your water supply?

This is an area that people often overlook, but you could save money by paying less for your water.

- Water meters charge you for the water you actually use. Switching to a water meter could reduce your water bill. Use the Water Meter Calculator on the CCW website to check if you can save money. Go to www.ccwater.org.uk and search for 'Water Meter Calculator'. If you can't access the internet, you can call CCW on **0300 034 2222** if you live in England or **0300 034 3333** if you live in Wales.

Can I change my mind?

You usually have **12 months** to change your mind and go back to unmetered bills. But if you live in an area that is short of water, you might **not** be allowed to switch back. Always check with your supplier.

- You may be able to get your bill reduced if you are on a water meter, get certain benefits and meet other conditions. There are two schemes to look at: WaterSure if you live in England and WaterSure Wales if you live in Wales. Contact your water supplier for more information or go to www.turn2us.org.uk and search for 'Water schemes'.
- If you are on a water meter, reducing the amount of water you use will also help to reduce your bill. CCW has tips on how to use less water. Go to www.ccwater.org.uk. If you can't access the internet, you can call CCW on **0300 034 2222** if you live in England or **0300 034 3333** if you live in Wales.
- Most water companies have special tariffs that offer lower bills for some customers. Contact your supplier and ask for details.

Carry on being money smart

You can keep up to date with money-saving ideas by signing up to a free weekly money tips email at www.moneysavingexpert.com.

7.5 million people already do.



Are you getting the best deal for your phone and broadband?

Whether it's a landline or a mobile contract, phone costs vary between providers. Broadband costs also differ depending on the type of contract or package you have. You could be paying a lot more than you need to.

- Check if you can get a better deal elsewhere. Ofcom has a list of approved comparison sites that you can use. Go to www.ofcom.org.uk and search for 'Price comparison'. If you can't access the internet, call Ofcom on **0300 123 3333**. To speak to a Welsh-speaking adviser, call **0300 123 2023**.
- See if you can save money by buying your broadband and landline in a package from the same provider. This is called a 'bundle'. **Ofcom** says that you could save **at least £15 a month** by buying your broadband and landline services as a bundle.
- Check whether you are eligible for a social tariff. If you get certain benefits, several providers offer reduced prices for broadband and some landline services. To see what deals are available, go to www.ofcom.org.uk and search for 'Cheaper broadband and phone packages'. If you can't access the internet, call Ofcom on **0300 123 3333**. To speak to a Welsh-speaking adviser, call **0300 123 2023**.
- Check your contract. Are you paying for a service that you do not need, such as voicemail or call barring?

Fai's story

Fai is a stay-at-home parent with two children. She was juggling her bills and finding it difficult to pay for all her essentials. Fai decided to see whether she could reduce her everyday spending and make managing her money easier.

Fai started with her grocery bill and drew up a weekly meal plan. She made a shopping list and kept to it. Fai also set herself a challenge to buy at least one cheaper brand each week. By the end of the first month, she had saved over £70 on her grocery costs.

Fai then looked at her energy costs and was surprised at how easy it was to do a price comparison. However, because wholesale energy costs were higher than normal, Fai found she was better off staying with her current supplier until a cheaper offer became available. Fai plans to regularly check for better energy deals. To help keep her costs down, she is also looking at ways to use less energy.

The changes Fai has made so far should save her over **£800 a year**. She told us that she 'gets a buzz' from saving money and getting a good deal. But best of all, she doesn't have to worry about her money lasting until the end of the month.



Are you getting all the money that you should?

This is also an easy one to overlook. But it can make your situation more difficult to deal with if you aren't getting all the income that you should be.

- Make sure that any grown-up children or other adults that live with you are paying enough towards the household expenses.
- If you have children from a former relationship, check you are getting the correct amount of child maintenance. Child Maintenance Options can give advice on arranging child maintenance. Call them on **0800 953 0191**. To speak to a Welsh-speaking adviser, call **0800 408 0308**. You can also find useful information online. Go to www.gov.uk and search for 'Making a child maintenance arrangement'.

Child maintenance will not affect any benefits that you are claiming. However, the rules for the Council Tax Reduction scheme (also known as Council Tax Support) can vary from region to region. This means that if you apply for help through your local Council Tax Reduction scheme, your council may take into account any child maintenance you are paid. Ask your council whether your child maintenance will affect the amount of Council Tax Reduction you may get.

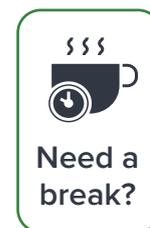
- Look at your insurance policies to see what cover you are paying for and whether you have any payment protection policies. If you have payment protection and have been made redundant, or are unable to work due to illness, make a claim. This income could help to pay towards your living costs.
- Check you are being paid the right minimum wage. This usually goes up every year and is linked to your age. Go to www.gov.uk and search for 'National Minimum Wage and National Living Wage rates'.
- Everyone is entitled to a personal tax allowance, which is the amount you can earn before you pay income tax. There are also other tax allowances and reliefs which depend on your age and personal circumstances. Check you are getting all your allowances. Go to www.gov.uk and search for 'Income Tax rates and Personal Allowances'.
- You can ask for tax allowances to be backdated for up to four years. Check your position by calling HM Revenue & Customs general enquiries on **0300 200 3300**. To speak to a Welsh-speaking adviser, call **0300 200 1900**.
- Do you have a spare room in your home that you could rent out to a lodger? The Rent a Room Scheme allows you to earn up to a certain amount without paying tax. You will need to check how this income will affect any benefits you are claiming and that your landlord or mortgage lender agrees to this. Go to www.gov.uk and search for 'Rent a room in your home', or contact us for advice.



Benefits and tax credits

Many people we speak to miss out on extra money because they assume they aren't entitled to any help. You may be surprised to know the following.

- In February 2021, **more than 23 million people** in Great Britain were claiming benefits.
- In September 2021, **more than a third of people** getting Universal Credit were working.
- There are **billions of pounds' worth of benefits** that people are entitled to, but do not claim.



Sometimes, we speak to people who feel uncomfortable about claiming benefits and who are embarrassed to get help. Benefit entitlement is a right and not a handout. It's no different to making a doctor's appointment if you are unwell. Don't miss out on what you are entitled to and don't struggle unnecessarily.

There are lots of different types of benefits and tax credits. Some benefits are designed to help you with your rent, mortgage, council tax and daily living costs (including childcare). Some help to replace income when you are unable to work or lose your job. Others help with the extra costs that a disability or caring for another person can bring. There are also benefits that your employer must pay if you are off work due to sickness, maternity, paternity or adoption leave.

Each benefit has its own set of rules. What you are entitled to will depend on your personal circumstances. It can be affected by things such as your age, household income, savings, National Insurance contribution (NIC) record and whether you are able to work.

You do not need to know the rules. Most of us watch the TV or use a washing machine without knowing how all the parts fit together. It's just the same for benefits. Turn2us is an expert in this area and will do the work for you.

Don't miss out

You can do a free personalised benefits check with Turn2us in **less than 10 minutes**. Millions of people already have. So don't miss out: go to www.turn2us.org.uk and see what you could get.

Ben and Leanne's story

Ben works full-time and his partner, Leanne, works a few hours a week. They have one child. When they contacted us, Ben and Leanne were struggling to pay their living costs and credit cards, and were finding their situation stressful.

Leanne was already getting Child Benefit and thought they wouldn't get any other help because they both worked.



A quick benefits check with Turn2us showed that they could get Universal Credit and help from the Council Tax Reduction scheme (also known as Council Tax Support). This has increased their income and reduced their monthly council tax bill.

Ben and Leanne now find it easier to pay their essential bills. They also have a small amount left each month to pay towards their credit cards. Leanne told us that she feels more confident about her money situation and will feel even better when they have cleared their debts.

Leanne wishes she had checked their benefit situation earlier and now plans to do a charitable grant search with Turn2us.



Help from charitable grants

Lots of organisations have set up charitable funds that give grants if you are in financial difficulty. This is money that could help make your situation easier to manage and you do not need to pay it back.

In 2021, charitable organisations made **hundreds of millions of pounds** available to help people.

Each organisation has its own rules for who it will help. These vary and could, for example, be based on:

- where you live;
- your, or your partner's, current or previous job;
- whether you have any medical needs; or
- your financial situation.

Turn2us can search over 1,600 charitable grants for you.

Use the Turn2us Grants Search tool to find charitable organisations that might be able to help you. Go to <https://grants-search.turn2us.org.uk>. It takes less than **five minutes** on average.

Kari's story

Kari lives alone and works part-time. She used to do quite a lot of overtime, but because of personal reasons hadn't been able to do any for some time. When Kari contacted us, her personal circumstances had started to improve, but she was behind with her rent. Kari was worried about what would happen next.

We advised Kari that it is important to check what help she can get whenever her circumstances change. She did a charitable grant check with Turn2us and was surprised to find that there was help available.

Because Kari had worked in retail for several years, she was able to apply to retailTRUST for a grant to pay towards her rent debt.

With this help, Kari is now up to date with her rent. She also told us that she can now sleep more easily.



Help from energy and water grants

Several energy and water providers also have charitable grants that can help people to pay their bills if they are in financial difficulty. You can contact your supplier to check, or go to www.askbill.org.uk for information about the different types of help available.

Eddie and Milo's story

Eddie and his partner, Milo, are retired and both get a State Pension. They had used all their savings to pay towards their bills and had fallen behind with their gas and electricity payments. Eddie was worried about keeping their home warm during winter.

Eddie and Milo had never asked for help and didn't know where to start. We advised them to check whether their gas and electricity supplier offered a charitable grant.

They checked and applied to the British Gas Energy Trust. The trust agreed to help clear their gas and electricity debt.

Eddie was relieved that this debt had been dealt with, but was still concerned that they didn't have enough money to cover their living costs. We suggested that Eddie and Milo also do a benefits check and grant search with Turn2us.

When we last spoke, Eddie and Milo were up to date with their bills and were getting benefits to top up their income. They were glad they had checked what extra help was available. They also realise that they may have kept some of their savings if they had checked their position earlier.



Local welfare assistance

In England, some councils have a welfare assistance scheme which can help if you are in an emergency situation. Individual councils decide on the rules for their scheme. Contact your local council to see whether they run a welfare assistance scheme and what it offers.



In Wales, the Discretionary Assistance Fund may help if you are in financial difficulty because of an emergency or disaster. It can give grants or provide items, such as white goods (for example, fridges and washing machines) to help with essential needs. It can also help vulnerable people to live independently. Go to <https://gov.wales> and search for 'Discretionary Assistance Fund (DAF)', or call **0800 859 5924**.

Unhappy with a benefit or tax credit decision?

You might have already applied for benefits or tax credits and been told that you aren't entitled to any help, or to less than you thought. This can be disheartening. If you think that the decision is wrong, you can ask for your application to be looked at again. You may also be able to make an appeal.

There are time limits for making these requests, so it is important that you act straightaway. You should also get specialist advice to help you explain why you think the decision is wrong. Contact us, so we can help you find a welfare benefits specialist.



Check your progress

Before you move on in the guide, use the checklist to make sure that you have done everything you can to maximise your money.

- I have checked that I am not paying more than I need to for my shopping and bills.
- I have checked that I am not paying for things that I do not need.
- I have checked all the ways I can increase my income.

Next steps

Now you have completed **Step 2** and maximised your money, do the following.

- Carry on being money smart. Add a note to your diary to review your income and outgoings in **six months**. Do this earlier if your income goes up or down, or if your circumstances change.
- Go to **Step 1** and update your budget. See what difference you have made to your income and outgoings.
- If your budget shows that you **don't** have enough money to pay your essential living costs, contact us for advice.
- If your budget shows that you **can** pay your essential living costs, go to **Step 3** to deal with your debts.



Here to help

If you are unsure of anything in this step, have extra questions or just want to talk through your situation, contact us for advice.

Step 3

Choose your debt solution

This step looks at the different ways you can deal with your debts. We call these 'debt solutions'.



What you need to start Step 3

You need to know the following.



What money is available to pay your debts. See **Box 31** in **Your full budget**.



Who you owe the money to.



How much you owe each creditor.



Whether you have any assets, such as savings, vehicles or equity in your home.

You will also need a pen or pencil and a calculator.

Why is this step important?

This step is important because it explains:

- ✓ what to think about when choosing your debt solution;
- ✓ why you need to deal with some debts before others;
- ✓ when to use the **Summary budget for creditors**;
- ✓ how to make offers of payment to your creditors; and
- ✓ what creditors can do to try to make you pay.

Take a breather if you need to

The advice in **Step 3** will help you to get the best outcome for your debts. Consider taking a break when you need to or when you see this icon.



Need a break?



How to use this step

Have you skipped any essential steps?

As this step has information on debt solutions, it can be tempting to skip other parts of the guide. But before you start **Step 3**, make sure you have read **Step 1** and **Step 2**. This will put you in the best position to choose the debt solution that is right for you. So, if you:

- haven't already filled in **Your full budget** and sorted your debts into priorities and non-priorities, go to **Step 1**; and
- haven't checked whether you can maximise your income, go to **Step 2**.

A quick overview of Step 3

In **Step 1** you sorted your debts into priorities and non-priorities. The type of debts that you have will affect what you need to do next. Here's a quick overview.

Priority debts only?

Make an offer of payment to your priority creditors first.

Then choose your debt solution.

Priority and non-priority debts?

Make an offer of payment to your priority creditors first.

If you haven't done so already, ask your non-priority creditors to hold action.

Then choose your debt solution.

Non-priority debts only?

If you haven't done so already, ask your non-priority creditors to hold action.

Then choose your debt solution.

Don't be put off by the size of this step

This step covers most people's situations, so it includes information about many types of debts and debt solutions. The good news is that you don't need to read it all, just the sections that deal with your situation.

Take **10 minutes** to read the following instructions. They explain what sections are a 'must read' for your situation. This will save you lots of time.

1. Look at the chart on the opposite page and circle the situation that applies to you.
2. Read each section of the guide listed underneath your situation. Do this in the order they are shown. For example, if you have priority debts only, start by reading **Deal with your priority debts first** on page 48, then go to **Summary budget for creditors** on page 49, and so on. Read all of the sections listed for your situation, as they include the information you need to deal with your particular debts.
3. Sometimes other sections in this step may also be useful. Where possible, we will tell you if you need to look at another section for more information. It will also help if you get to know what's in this step, so have a quick scan through **Step 3**.
4. You don't need to do everything in one go. Decide what time you can spare and work through the sections that apply to you. Do this at your own pace and keep going. You can also contact us for advice if you need to.

Terms used in this step

Arrears

We use 'arrears' to describe payments that you have missed on your debts and household bills. Arrears can also include interest and charges that have been added.

Bailiff

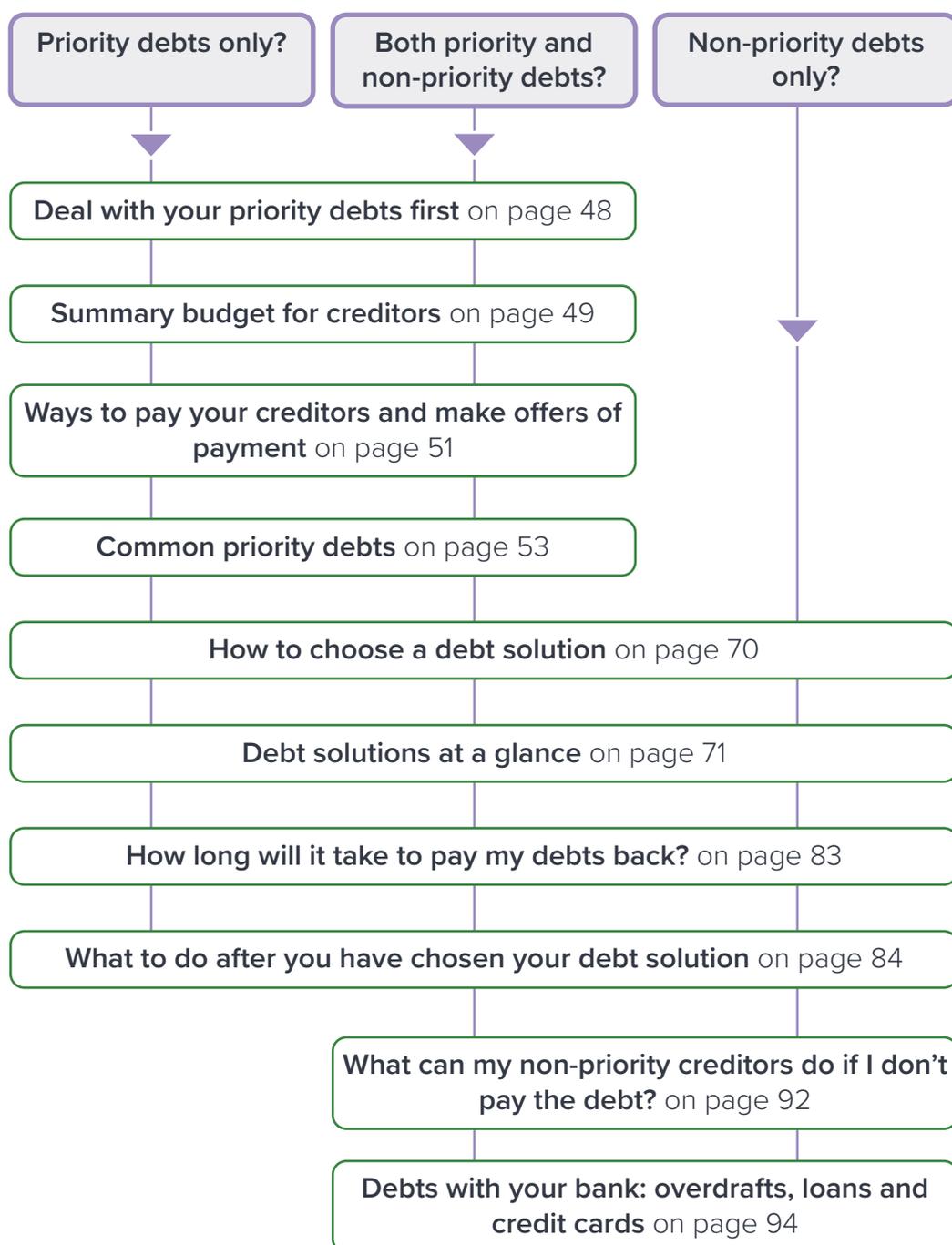
Bailiffs are also known as 'enforcement agents'. In this guide we use the term bailiffs.

Creditor

Your creditors include organisations and people that you owe money to, such as banks, councils, debt collectors or family and friends.

Equity

Equity is the difference between how much your home is worth and the total amount owed on any mortgage and other lending that you have secured on it. If your home is worth more than your mortgage and secured lending, there will be equity.

**Read the sections that are relevant to your situation****Do you need to double-check which type of debts you have?**

You sorted your debts into priorities and non-priorities in **Step 1**. For a quick recap, go to **Sort your debts into priority and non-priority debts** on pages 24 and 25.

Deal with your priority debts first

Many people owe money to priority creditors. It is important to try to get a payment arrangement agreed with these creditors before moving on to deal with your non-priority debts. This will help to protect you against further action and give you time to look at your debt solutions.

citizens
advice

Citizens Advice research shows that UK households owe nearly **£19 billion** to these types of debt.

In our experience, creditors like you to get in touch as soon as you can. But it's never too late to contact them. Contact your priority creditors if you have missed a payment or are worried that you can't afford your next one. Use your latest letter or statement to find their contact details.

Remember, your creditors can't help you if you don't contact them. Here's what Jack, 43, from Plymouth has to say about following our advice.



“Contact people as soon as possible and take control back. So glad I did. It has completely changed my situation. It reduced my stress and helped our family.”

Priority creditors usually expect you to pay your normal payment, plus something extra towards the arrears. You will need to send your priority creditors the **Summary budget for creditors** to show that the offer you are making is reasonable and affordable. See **Summary budget for creditors** on the next page for more information.

If you have more than one priority debt, make sure that you share out the money you have for paying your debts so that you can make an offer to all your priority creditors.

Sometimes you will need to make your offer several times. Only increase your offer if it is affordable. If you can't afford to pay more, do not offer to. If you have difficulty getting a creditor to agree to your offer, contact us for advice. In the meantime, start making the payments you have offered.

Read your post

Priority creditors can act quickly, but should warn you about what they are going to do. Make sure you read all the letters you get from your creditors.



Don't be tempted to deal with your debts based on who is chasing for payment the most. Always check whether your debts are priority or non-priority debts.

If you don't have any priority debts, go to **How to choose a debt solution** on page 70.

Summary budget for creditors

This is the shorter budget, which you will find in the pocket at the end of this guide. It is a summary of your financial position which you use to negotiate with your creditors. The layout has been agreed with creditor organisations and gives them the information they need to look at your offers.

Your creditors do not need to see all the detail in **Your full budget**. Follow these steps and send them the **Summary budget for creditors**. It will help you to keep in control of your finances and only pay back what you can afford to.

In the **Summary budget for creditors**, start by filling in the **Your personal and household details** section. The table below will help you.

Question	What to include
Number of dependent children	A dependent child lives with you and is either of pre-school age or in full-time education. If any children live with you for part of the week, explain this in the Additional notes section of the Summary budget for creditors . Say whether you have included them in the total number of dependent children.
Number of other dependants	This is someone who is not a child, but who is financially dependent on you. For example, an adult who is out of work and is not entitled to any benefits.
Total number in household	This includes everyone in the household: you, your partner, any dependent children, other dependants and non-dependants. Non-dependants are adults who live with you, but who can support themselves financially. For example, a lodger or a grown-up child who is working.
Number of vehicles in the household	Include the total number of vehicles you and members of your household use. Don't forget to include vehicles that you pay for through a hire or hire purchase agreement. If you need more than one vehicle, explain why in the Additional notes section.

Remember to tick the boxes to show that you have considered:

- using your assets to pay your debts; and
- saving an amount each month.

You do not have to use your assets or save money, but you do need to show that you have thought about it.

Now, use **Your full budget** to fill in the rest of the **Summary budget for creditors**. The numbered boxes in **Your full budget** match the numbered boxes in the **Summary budget for creditors**. All you have to do is copy the amounts over. For example, copy the amount in **Box 1** in **Your full budget** to **Box 1** in the **Summary budget for creditors**, and so on.

Add any extra information you want your creditors to know in the **Additional notes** section.

Finally, look at the first page of the **Summary budget for creditors**. We have already filled in the **Debt admin fee** for you as our help is free. Check you have:

- signed and dated the form;
- added the **Date of statement**; and
- added a **Date of next review**. This is usually in **six months' time**, or earlier if your income or spending changes.





Ways to pay your creditors and make offers of payment

Ways to pay your creditors

You will need a convenient way to pay your creditors. There are several options to consider. Whichever option you choose, keep a record of all the payments you make.

- Check if your bank account offers free standing orders. Standing orders are regular payments you ask your bank or building society to make. See our **Safe bank accounts** fact sheet.
- Check whether your creditor accepts payments through their website.
- Ask your creditors for a paying-in book. Make sure there are no fees to pay.
- Check if you have a local PayPoint or Payzone outlet and whether your creditors accept payments this way. For your nearest PayPoint, go to www.paypoint.com. For Payzone, go to www.payzone.co.uk.
- See if you can pay at a creditor's local office or shop.
- Send a cheque with a covering note and your reference number. You could use a postal order instead of a cheque, although the Post Office will charge you a fee when you buy a postal order.

We have detailed fact sheets covering a range of debt topics. Our fact sheets are not included with this guide, but we will tell you when one is available. To get a copy, go to www.nationaldebtline.org or contact us and we will send you a copy.

How to contact your creditors to make offers of payment

- First decide how you want to contact your creditors. This will usually be by letter, email or phone.
- If you contact your creditors by email or letter, send them a copy of the **Summary budget for creditors** and make an offer of payment.
- If you contact your creditors by phone, have the **Summary budget for creditors** in front of you and make an offer of payment.

If you have a priority debt

For more information on making offers for particular priority debts, see the **Common priority debts** section on page 53.

- Do not offer more than you can afford. The **Summary budget for creditors** shows what you can pay towards your debts.
- Tell your creditors the date that you will start making payments.
- Ask your creditors to freeze any interest and charges they are adding to your account. This will help to stop your debt increasing. Your creditors may agree to do this.
- Tell your creditors about any circumstances that will help them understand your situation (for example, if you are unwell).
- Keep copies of all emails and letters that you send and receive. Keep them together in an envelope or folder, so you can easily find them.
- Keep a record of anyone that you speak to. Write down their name, what was said and the date and time of the call.
- If your creditors agree to a payment plan over the phone, ask them to confirm it in writing.

If you have difficulty getting a creditor to agree to your offer, contact us for advice. In the meantime, start making the payments you have offered.

Reviewing your offers

After you have come to an agreement with your creditors, they may contact you a few months later to ask if you can pay more. If you can't afford to pay any more, explain this to them and send the **Summary budget for creditors** again.

Most people's circumstances change from time to time. Remember to review your budget and offers of payment if this happens.



Common priority debts

The type of priority debt that you have affects what action the creditor can take to try to get you to pay. It also affects whether there are any rules or guidelines that the creditor should follow.

Here we give more information about the most common priority debts. Circle any debts that you owe and then go to the pages shown. This will give you the extra ‘know-how’ you need to deal with your priority creditors.

If you need more time to get advice, you may be able to apply for standard breathing space. For more information, see **Need more time to get debt advice?** on page 7.

Common priority debts

Rent Page 54	Mortgage Page 55	Secured loan or second mortgage Page 55	Council tax Page 57
Energy such as gas, electricity, coal or oil Page 58	TV licence Page 60	Magistrates' court fines Page 61	Child maintenance Page 62
Tax debts such as income tax, National Insurance and VAT Page 63	Tax credit overpayments Page 64	Benefit overpayments Page 65	Penalty charge notice for parking Page 66
Hire purchase or conditional sale Page 67	Bill of sale also called a logbook loan Page 69		

Be aware that as well as the extra powers priority creditors have, most can also recover money in the same way as non-priority creditors. See **What can my non-priority creditors do if I don't pay the debt?** on page 92.

Rent arrears

Why are these a priority?

Rent arrears are a priority debt because you could lose your home if you do not pay them.

What can I do?

The rules about renting in Wales will change on 15 July 2022

If you are using this guide from **15 July 2022** onwards for advice about dealing with rent arrears in Wales, you will need to check how the rule changes affect you. For up-to-date information about dealing with rent arrears in Wales, go to www.nationaldebtline.org. Click on **Fact sheet library** and choose **Housing**.

Your right to stay in your home and how your landlord should treat you depends on the type of tenancy you have. Each type gives you different rights. For example, it is usually easier for a private landlord to evict you from your home than it would be for a council landlord.

Immigration status

There are different rules if you live in England and are being asked to leave your home because of your immigration status. Contact us for advice. You will also need specialist immigration advice. Go to www.gov.uk and search for 'Find an immigration adviser'.

If you live in England and are unsure what type of tenancy you have, use Shelter's Tenancy Rights Checker. Go to www.shelter.org.uk and search for 'Tenancy Rights Checker', or call Shelter on **0808 800 4444**. If you live in Wales, Shelter Cymru has information about different tenancy types on its website. Go to <https://sheltercymru.org.uk> and search for 'Understanding your tenancy', or call Shelter Cymru on **0800 049 5495**.

Get a breakdown of your rent account from your landlord. It is important to check that all rent payments have been added to your account. This is because with some tenancies, the amount of arrears can affect your right to stay in your home.

Use the **Summary budget for creditors** to make an affordable offer towards the arrears. Keep paying your normal rent. If you can't afford the full monthly payment, pay what you can.



If you rent your home from a social landlord (such as the council or a housing association), your landlord must follow the 'pre-action protocol for possession' by social landlords. This means that they should make reasonable efforts to try to come to an arrangement with you before starting any action in the court to take possession of your home.

What if my landlord starts court action?

You cannot be evicted from your home without a court order. Even if you are taken to court, this does not mean you will automatically lose your home. The court's power to let you stay depends on the type of tenancy you have and other factors, such as the amount of arrears you owe. Our **Rent arrears** fact sheet gives more information on what a court can do for different tenancy types. Even if the court decides that you cannot stay in your home, you will not be evicted on the day of your possession hearing.

If your landlord starts court action, the court will send you forms to fill in and usually set a hearing date. If you get court forms, contact us for advice.

Even if you have already been to court, **it is not too late**. You may still be able to ask the court to keep your home. If you have missed a payment set by the court or have received an eviction notice, contact us for advice straightaway.

For more information, see our **Rent arrears** fact sheet.

Know your rights

Certain tenancies do not give you the same rights as mentioned in this section, for example, if you are a boarder, live in a hostel or are a squatter. Contact us for advice if this applies to you.

Mortgage arrears and other secured loans

Why are these a priority?

Mortgage arrears are a priority debt because you could lose your home if you do not pay them.

The advice in this section also applies if you have missed payments on a secured loan or second mortgage. A secured loan is similar to a mortgage because you give your lender security (usually against your home), which they can use if you cannot keep up with the payments. Check your loan agreements to see if any of them are secured on your home. If they are, treat them as a priority debt.

Do you have a secured overdraft?

The advice in this section does **not** apply to secured overdrafts. The rules are different and it can be more difficult to keep your home if your lender starts court action. If you have a secured overdraft, contact us for advice.

What can I do?

Pay as much as possible towards your mortgage. Use the **Summary budget for creditors** to make an affordable offer towards the arrears. If you can't afford the full monthly payment, pay what you can.

Your lender must follow the 'pre-action protocol for mortgage possession'. This means that they should make reasonable efforts to try to come to an arrangement with you before starting any repossession action in the court. Court action should be the last resort.

Your lender will also have their own policy for dealing with customers who are having difficulty paying. Ask for details of their policy and what arrangements are available to you. Our **Mortgage arrears** fact sheet lists the most common types of arrangement that lenders will consider.

If your lender is threatening court action, keep trying to come to an arrangement. Keep paying what you can afford.

Do you have mortgage payment protection insurance (MPPI)?

Remember to check whether you have any MPPI that you can claim.

What if my lender starts court action?

This doesn't mean that you will lose your home, but you do need to act quickly. You cannot be evicted from your home without a court order and cannot be evicted on the day of your repossession hearing.

If your lender starts court action, the court will send you forms to fill in and set a hearing date. The court will look at what is fair for you and your lender. It is important that you let the court know what you want and how much you can pay. If you get court forms, contact us for advice.

Even if you have already been to court, **it is not too late**. You may still be able to ask the court to keep your home. If you have missed a payment set by the court, or have received an eviction notice, contact us for advice straightaway.

For more information, see our **Mortgage arrears** fact sheet.



Council tax arrears

Why are these a priority?

If you are married, in a civil partnership or living with a partner, both of you will be liable for the council tax bill, unless one of you is exempt.

Council tax arrears are a priority debt because the council can apply to the magistrates' court for a 'liability order'. This lets the council take the following action.

- Use bailiffs to try to take your goods.
- Tell your employer to take money directly from your wages.
- Ask for money to be taken directly from certain benefits.
- Ask the court for a charging order to secure the debt against a property you own if you owe at least £1,000. This could put your property at risk. A charging order cannot be made against a property that you rent.
- Ask the court to make you bankrupt if you owe at least £5,000.
- In England, ask the magistrates' court to send you to prison if you refuse to pay, or had the money to pay but did not do so.

Councils in Wales can no longer start any action to ask the court to send you to prison for not paying your council tax.

Contact us for advice if the council threatens to make you bankrupt or send you to prison.

What can I do?

You are normally asked to pay your council tax over 10 months. If you miss a payment, you can lose your right to pay by instalments. If the council says you now owe the current year's council tax in full, ask it to let you continue paying in instalments. Use the **Summary budget for creditors** to make an affordable offer towards the arrears. Do not just stop paying. If you can't afford to pay your normal council tax amount, pay what you can.

If you get certain benefits, you can ask the council if it would arrange for money to be taken from your benefit to pay towards your arrears. The council should not take any further action while the money is being taken from your benefit.

If you are in a vulnerable situation, for example, you are unwell, let the council know. Ask if the council has a vulnerability policy. It may need to be more flexible in how it asks you to pay the debt.

If you are in severe financial difficulty, you can ask the council to reduce your council tax debt. If you plan to do this, contact us for advice.

For more information see our **Council tax arrears** fact sheet.

Energy arrears

Why are these a priority?

Energy arrears are a priority debt because your current gas and electricity suppliers can cut off your supply if you owe them money. This action is quite rare.

Do you have coal or oil debts?

If you owe money to a coal or oil supplier, they can refuse to provide further supplies. The debt is a priority if you cannot get a new supply elsewhere.

What can I do?

Your gas and electricity suppliers should have a code of practice saying how they deal with customers in arrears. Ask them for a copy. It will explain your rights and how to make a payment arrangement.

If you are finding it difficult to pay your bill, your supplier should take into account your ability to pay. They should also offer you a range of methods to help you pay. This could include asking for money to be taken directly from certain benefits or installing a prepayment meter if it is safe to do so. They cannot cut off your supply unless they have offered these options first.

Prepayment meters

If you can't afford to top up your prepayment meter and are at risk of running out of credit or have already done so, contact your supplier. Explain your situation and ask for extra credit to keep you going.

You **cannot** be cut off:

- between October and March if all the adults in your household are over pensionable age; or
- at any time of the year under the Energy UK Vulnerability Commitment if you are considered vulnerable or have young children in the property.

You **should not** usually be cut off:

- between October and March if you are over pensionable age, disabled or have a chronic (long-term) illness.



Energy UK is a trade association. Check if your energy supplier has signed up to the Energy UK Vulnerability Commitment. If so, you should not be disconnected if your supplier knows that you cannot protect your personal welfare, or the personal welfare of other members of your household, due to your:

- age;
- health;
- disability; or
- severe financial difficulty.

For more information, go to www.energy-uk.org.uk.

Use the **Summary budget for creditors** to make an affordable offer. You need to cover the cost of the energy you are using plus an amount towards the arrears. Your supplier will usually want you to pay the arrears before your next bill is due. If you can't do this, start paying what you can afford and remind your supplier that they should take into account your ability to pay. See our **Ask your energy supplier to accept affordable payments** sample letter.

Sample letters

To get a copy go to www.nationaldebtline.org or contact us and we will send you a copy.

If you get certain benefits, you can ask the Department for Work and Pensions (DWP) to take money from your benefit to pay towards your arrears. Unless you are on a prepayment meter, they will also take an amount to pay towards your ongoing energy costs.

What if my energy supplier still threatens to cut off my supply?

It is rare for gas and electricity suppliers to cut off your supply. This should be a last resort and your supplier should give you notice. You can usually avoid being disconnected if you agree to repay your debt at a rate you can afford. This could be by instalments, having money taken from certain benefits or through a prepayment meter.

If your supplier is threatening to cut off your supply, get advice straightaway, as it can happen within a few weeks. Contact Citizens Advice consumer helpline. Go to www.citizensadvice.org.uk or call **0808 223 1133**. To speak to a Welsh-speaking adviser, call **0808 223 1144**.

For more information, see our **Gas and electricity arrears** fact sheet.

TV licence arrears

Why are these a priority?

TV licence arrears are a priority debt because TV Licensing can cancel your TV licence if you fall behind with payments. You can be fined in the magistrates' court if you need a TV licence but do not have one.

What can I do?

You can apply for a free TV licence if you are aged 75 or over and you, or your partner, get Pension Credit.

If you do not have a TV licence and are not eligible for a free licence, you need to buy one as soon as possible. There are several ways you can pay, including weekly, fortnightly, monthly and every three months. Choose a method that suits you best. Go to www.tvlicensing.co.uk or call **0300 790 6071** for more information.

If you have a TV licence but have missed payments, contact TV Licensing straightaway. You will need to make up the missed payments to keep your plan. Discuss how you can do this with TV Licensing.

If you are being threatened with prosecution, contact us for advice. We may be able to refer you to TV Licensing for their Simple Payment Plan. If TV Licensing agrees to set up a Simple Payment Plan and you keep up with the payments, it could stop any further action being taken. For more information, go to www.tvlicensing.co.uk and search for 'Simple Payment Plan'.

What if I am being fined in the magistrates' court?

TV Licensing mainly uses the Single Justice Procedure (SJP) to take action in the magistrates' court. If the SJP is used, you will receive a SJP Notice and may be able to have your case decided by a magistrate without going to court.

If you receive a SJP Notice, contact TV Licensing straightaway and ask whether they will come to an arrangement with you and agree to withdraw the SJP action.

If TV Licensing will not agree to withdraw the magistrates' court action, it is important to respond to the SJP Notice within the timeframe given in the notice. If you don't have a licence, it is usually a good idea to plead guilty. Fully explain the reasons why, even if you just forgot to buy one. If you haven't already done so, buy a TV licence as soon as you can. Send a copy to the court. Even if you get a fine, you will still need to buy a TV licence.

If you are being fined, or already have a fine for not paying your TV licence, also see **Magistrates' court fines** on page 61.



Magistrates' court fines

Which court?

This information covers magistrates' court fines only. Court action for non-priority debts, such as credit-card debts, is dealt with by the County Court. If you are unsure which type of court you are dealing with, contact us for advice.

Why are these a priority?

The magistrates' court can order you to pay a fine, for example, for a driving offence or not having a TV licence.

The magistrates' court can do the following if you don't pay.

- Tell your employer to take money directly from your wages.
- Ask for money to be taken directly from certain benefits.
- Use bailiffs to try to take your goods.
- Include the fine on the Register of Judgments, Orders and Fines. This can affect your ability to get credit.
- Make a clamping order, which could lead to your vehicle being sold.
- Ask the County Court to collect the debt.
- Send you to prison if you refuse to pay, or had the money to pay but did not do so.

What can I do?

The court will tell you what you must pay and when. If you have missed a payment or are struggling to pay, act quickly. If the court hasn't started any further action, use the **Summary budget for creditors** to make an affordable offer and send a copy to the court. Check your letters from the court to see who you should contact. Keep paying what you can afford.

Sometimes the court will ask you to attend a hearing so it can look at the payment arrangement. Always go to court hearings.

For more information, see our **Magistrates' court fines** fact sheet. If the court has already started action to collect the fine or asked you to attend a hearing, contact us for advice.

Child maintenance arrears

Has the court ordered you to pay maintenance?

This advice does **not** apply to maintenance ordered by the court as part of a separation or divorce. You will need specialist advice. To find a solicitor in your area, go to www.gov.uk/find-a-legal-adviser.

Why are these a priority?

The Child Maintenance Service (CMS) can order you to pay child maintenance. CMS arrears are a priority debt because a court order isn't needed to take money:

- directly from your wages;
- from certain benefits; or
- from your bank account.

If this doesn't work, the CMS can ask the magistrates' court for a 'liability order'. This lets the CMS take the following action.

- Use bailiffs to try to take your goods.
- Pass information about the arrears to a credit reference agency. This can affect your ability to get credit.
- Ask the County Court for a charging order to secure the debt against certain kinds of property that belong to you, such as your home or any stocks that you own. This could put your property at risk. A charging order cannot be made against your home if you rent it.
- Ask the County Court for a third party debt order. This can freeze funds in your account or tell someone who owes you money to pay the CMS instead.
- Ask the High Court to stop you getting rid of assets if they think you are doing it to avoid paying.
- Ask the magistrates' court to send you to prison.
- Ask the magistrates' court to disqualify you from driving.
- Ask the magistrates' court to remove your passport or ID card.

Prison, disqualification from driving and removing a passport or ID card

These actions should be a last resort and only used if you refuse to pay, or had the money to pay but did not do so. Contact us for advice if the CMS threatens any of these actions.



What can I do?

If you have CMS arrears, use the **Summary budget for creditors** to make an affordable offer towards them. Keep paying your ongoing maintenance as well. If you have a change in circumstances, such as a drop in income, let the CMS know. Ask the CMS to work out your new maintenance payments.

Tax debts

Why are these a priority?

Income tax and National Insurance (NI) arrears are a priority debt because HM Revenue & Customs (HMRC) can take the following action.

- Change your tax code so it can take money from your wages.
- Use bailiffs to try to take your goods.
- Take money directly from your bank account if you owe at least £1,000.
- Use the magistrates' court if you owe less than £2,000. (Although this power exists, it is not currently being used by HMRC.)
- Ask the court to make you bankrupt if you owe at least £5,000.

VAT

Many of the recovery options listed can also be used for VAT debts.

Some NI arrears can also affect whether you are eligible for certain benefits.

If HMRC threatens to make you bankrupt, contact us for advice.

What can I do?

Contact HMRC as soon as possible. Use the **Summary budget for creditors** to make an affordable offer. HMRC may ask you to pay more than you can afford. If so, explain that you are offering all that you can and start making payments.

If you are in a vulnerable situation, for example, someone close to you has recently died, you are dealing with mental health issues or are elderly or sick, let HMRC know. HMRC should look at your individual circumstances and may be more flexible in how it recovers the debt.

You may not agree that you owe the debt to HMRC. If you have been unable to sort out the matter with HMRC, you may need specialist advice. If you are on a low income and can't afford professional advice, contact TaxAid. Go to <https://taxaid.org.uk>, or call **0345 120 3779** for more information.

For more information, see our **Business debts** fact sheet.

Tax credit overpayments

Why are these a priority?

HM Revenue & Customs (HMRC) may say that it has overpaid you Child Tax Credit or Working Tax Credit. These are priority debts because HMRC can take the following action.

- Take money directly from your ongoing tax credit or Universal Credit award.
- With your permission, take money directly from other benefits.
- With your permission, reduce your tax code so that it can take money from your wages.
- Use the same methods as for income tax debts, such as taking money from your bank account and using bailiffs. See **Tax debts** on page 63.
- Ask the Department for Work and Pensions (DWP) to collect the debt in the same way as a benefit overpayment. See **Benefit overpayments** on page 65.

What can I do?

Contact HMRC as soon as possible. Ask for a copy of its code of practice: **What happens if we've paid you too much tax credit?** It explains:

- how HMRC can ask you to pay; and
- that HMRC can decide not to recover the debt if the overpayment was caused by its mistake and you followed the rules to report any mistakes you noticed and any changes in your circumstances.

Use the **Summary budget for creditors** to make an affordable offer. If you are in a vulnerable situation, for example, someone close to you has recently died, you are dealing with mental health issues or are elderly or sick, let HMRC know. Ask HMRC to take this into account in how it recovers the overpayment.

If HMRC is taking money from your tax credits or Universal Credit award, check whether you can afford this. If the amount it is taking causes you hardship, contact HMRC and explain why. Send a copy of the **Summary budget for creditors** and ask if HMRC will take less.



Benefit overpayments

Why are these a priority?

The Department for Work and Pensions (DWP) may say that you have been overpaid a benefit, such as Universal Credit. Benefit overpayments are usually a priority debt because the DWP can take the following action.

- Take money directly from most benefit awards.
- Tell your employer to take money directly from your wages.
- Get an order in the County Court which lets them use county court enforcement, such as using bailiffs to try to take your goods or a charging order to secure the debt against property you own. This could put your property at risk. A charging order cannot be made against a property that you rent.

What can I do?

Contact the DWP as soon as possible. Use the **Summary budget for creditors** to make an affordable offer of payment. If you are threatened with court action, or receive court papers, contact us for advice.

If the DWP are taking money from your benefit or wages, check whether you can afford this. If what they are taking causes you hardship, contact the DWP and explain why. Send a copy of the **Summary budget for creditors** and ask if they will take less.

Do you have a Housing Benefit or Council Tax Reduction overpayment?

Different rules apply if the council says you have been overpaid Housing Benefit or Council Tax Reduction (also known as Council Tax Support). Contact us for advice.

Penalty charge notices (PCNs) for parking

Why are these a priority?

Local authority PCNs are usually a priority debt because the council can ask the Traffic Enforcement Centre for an 'order for recovery'. This allows the council to use bailiffs to try to take your goods. A bailiff would have details of the car you used when the PCN was issued. If you still have the car, a bailiff may try to take it.

Although rare, the council can then also use the County Court to try to get you to pay. This includes options such as the following.

- Tell your employer to take money directly from your wages.
- Ask the County Court for a charging order to secure the debt against certain kinds of property that belong to you, such as your home or any stocks that you own. This could put your property at risk. A charging order cannot be made against your home if you rent it.

Check what type of penalty you have

What can happen if you don't pay depends on the type of penalty you have. This section **only** covers PCNs for non-criminal parking offences given by, or for, the council.

These are **not** the same as congestion charges, fixed penalties from the police or charges for parking on private land (such as a supermarket car park). If you have one of these other debts, contact us for advice.

What can I do?

You should get a notice telling you what you owe and when you need to pay by. If you can afford to pay the PCN do so. If not, use the **Summary budget for creditors** to make an affordable offer to pay in instalments. Pay what you can even if the council refuses your offer.

For more information, see our **Penalty charge notices** fact sheet.



Hire purchase or conditional sale debts

Why are these a priority?

With most credit agreements, you own the goods straightaway. With hire purchase or conditional sale agreements, you do not own the goods until you have paid off the whole amount under the agreement. You cannot sell the goods without your creditor's permission.

Check what type of agreement you have

If it is hire purchase or conditional sale, your agreement should clearly say so. This advice only applies to hire purchase or conditional sale agreements that come under the **Consumer Credit Act**. Your agreement should say if this is the case. If you are not sure what type of agreement you have, contact us for advice.

They are a priority debt because creditors can repossess the goods if you miss payments. They can then sell them and use the money to reduce your debt.

Your creditor does not need to go to court to take the goods back if you have paid **less than a third** of the amount payable under the agreement. However, if you have paid **at least a third**, they will need a court order to ask you to give the goods back.

What can I do?

If you want to keep the goods, use the **Summary budget for creditors** to make an affordable offer towards the arrears.

Explain to your creditor why it is important that you keep the goods.

Do you have a personal contract purchase (PCP) agreement?

PCPs are a type of hire purchase agreement used to buy vehicles. They follow the same rules as hire purchase. Because of the way payments are organised in PCPs, the usual options may not work as well as they would with other hire purchase agreements. However, a PCP agreement may also give you extra options. For example, if you stick to the agreed payments, you may be able to give the vehicle back after a certain amount of time. If you have a PCP agreement, contact us for advice.

If you have paid **less than a third** of the amount payable under the agreement and your creditor is threatening to take the goods back, contact us for advice.

If you don't want to keep the goods, you may be able to return them voluntarily. You must tell the creditor in writing that you want to do this and it is only possible if your creditor hasn't already ended the agreement. Returning the goods voluntarily is a way of limiting what you owe under the agreement to no more than half of the agreement price, plus reasonable costs if the goods are damaged. Once you have returned the goods, you can treat any remaining debt as a non-priority. See our **Hire purchase debt** fact sheet.

Do you have a rent-to-own agreement?

Rent-to-own agreements are usually a type of hire purchase. If you have a rent-to-own agreement, your creditor may also offer other options that could put you in a better position. For example, your creditor may allow you to return the item and write off the arrears, or return the item and replace it with a cheaper one. Check your agreement.

What if my creditor starts court action?

The court will send you forms to fill in. You may be able to keep the goods if you agree to make payments set by the court. You can ask the court to allow you to pay less than your normal payment if you can show it's all you can afford. If you get any court forms, contact us for advice.

For more information, see our **Hire purchase debt** fact sheet.



Bill of sale (also called a logbook loan) debts

Why are these a priority?

A bill of sale uses goods that you own, such as a car, as security for a loan. They are sometimes called ‘logbook loans’. If you don’t pay, the creditor can take the goods you have given as security and sell them. You cannot sell goods that are secured by a bill of sale without your creditor’s permission.

What can I do?

Check whether your creditor is a member of the Consumer Credit Trade Association (CCTA). If they are, they should follow the CCTA code of practice. This says that they:

- must look at options for repaying the debt if you are having difficulty paying; and
- shouldn’t usually take your goods unless you have missed a minimum number of payments.

Go to www.ccta.co.uk for a copy of the CCTA code of practice.

If you want to keep the goods, use the **Summary budget for creditors** to make an affordable offer towards the arrears. Explain why it is important that you keep the goods. Also let your creditor know that you are getting debt advice. If your creditor is a CCTA member, they may put your case on hold while you work out a repayment plan.

Check the agreement

A bill of sale needs to have certain information included in it and be registered with the High Court. If not, the creditor may not be able to take your goods. See our **Bill of sale** fact sheet.

If your creditor won’t agree to a payment arrangement, you may be able to ask the County Court for a time order. If they agree, you may be able to keep your goods and make revised payments to your creditor. See our **Bill of sale** fact sheet.

If your creditor is a CCTA member and you are in arrears, you may be able to hand over the goods to settle the debt in full.

Bill of sale agreements can be complicated. For more information, see our **Bill of sale** fact sheet. If you need extra help, contact us for advice.



How to choose a debt solution

National Debtline research shows that **more than 75% of people** found it easy to choose a debt solution.

This section explains the types of debt solutions available and what to think about when choosing one.

We have divided debt solutions into three categories.

- 1. Informal solutions.** These solutions do not usually affect any assets that you own and are generally easier to leave than other solutions. Most do not charge a fee.
- 2. Formal solutions.** These usually deal with your debts within a set amount of time. They may affect assets that you own (including your home). They also include fees. If you need help with the fees, check whether there are any charitable grants that could help. See **Help from charitable grants** on page 39.
- 3. Using assets.** These solutions are only available if you have a lump sum of money available or assets, such as equity in your home, a pension fund or goods to sell. They may include fees you have to pay.

Everyone's circumstances are different, so the best solution for you depends on your circumstances. Write down your answers to these questions. It will help you to decide which solution is best for you.

- How much debt do you owe?

- Do you have priority debt, non-priority debt or both?

- What does your budget show you have left over to pay your creditors?
See **Box 31** of **Your full budget**.

- Some debt solutions include a fee. Will you be able to pay this?

- Do you have assets, such as equity in your home or a car that you own?



Debt solutions at a glance

Now look at the debt solutions available. Think about your whole situation and take time to consider what you want to do. Circle any debt solutions that suit your situation and make a shortlist. You can then read more about your shortlisted solutions in our detailed debt solution fact sheets.

There are many things to consider when choosing a debt solution, such as how long it will take. Make sure you think about all the advantages and disadvantages before you choose a solution.

Some debt solutions take time to set up or only cover non-priority debts. In the meantime, make sure that you have made payment offers to your priority creditors and sent hold action letters to your non-priority creditors.

If you need more time to get advice, you may be able to apply for standard breathing space. See **Need more time to get debt advice?** on page 7.

Your credit rating will normally be affected if you have missed payments on your debts. This can affect your ability to get credit. However, by taking action to solve your debt problem you are taking steps to improve your credit rating in the future.

1. Informal solutions

Negotiate with your non-priority creditors

You contact your non-priority creditors and offer each of them a fair share of what's available to pay your debts. If you have nothing available, you can ask creditors to accept token payments of £1 a month or no payments.

What debts are included?	Non-priority debts.
Is there a minimum or maximum debt amount?	No.
How long will it last?	Until the debt is paid off.
Is there a fee?	No.
Some things to consider See Negotiating with your non-priority creditors on page 85.	You need arrangements in place for any priority debts first. If your circumstances change, you can change the payments to your creditors. You will be aiming to pay your debts back in full, which may take some time.

Informal solution

Tom's story

Tom's debts became unaffordable when he was unable to work for six months because of illness. He owed almost £6,500 to five non-priority creditors. Tom lived in a rented home. He had a small amount of savings which he needed to help pay his essential living costs.



Doctors told Tom that his health situation should get better, so he decided to negotiate payments with his creditors until his situation improved. He made token offers of £1 a month and most of his creditors stopped interest and charges.

When Tom's health improved, he was able to return to work. He looked at his budget again and worked out new offers of payment for his debts. He also looked at his debt solutions again, but decided that negotiating with his creditors suited him best of all.

Tom contacted his creditors again and told them that his circumstances had changed. He made new offers of payment and started paying the new amounts straightaway. He paid off his debts in just over three and a half years and is now debt-free.

Free debt management plan (DMP)

Informal solution

You make an affordable monthly payment to a free debt management company (DMC). The DMC negotiates with your non-priority creditors for you and shares out your monthly payments to them.

What debts are included?

Non-priority debts.

Is there a minimum or maximum debt amount?

No.

How long will it last?

You usually need to be able to repay your debts in less than 10 years.

Is there a fee?

Always check for fees. We recommend using a free service, such as those offered by PayPlan or StepChange.

Some things to consider

You need arrangements in place for any priority debts first.

You may be able to change your payments if your circumstances change.

A DMP aims to pay your debts in full. This may take some time.

You need to be able to pay a minimum amount to your debts every month.

See our **Debt management plans** fact sheet.

Contact us if you want to ask about a free DMP.



Charitable grant payment	
You apply for financial help with your debts from a charitable organisation.	
What debts are included?	Usually priority debts, although it depends on the charity.
Is there a minimum or maximum debt amount?	No.
How long will it last?	Not relevant.
Is there a fee?	No.
Some things to consider	Charitable grant payments can help to reduce or even clear your debts. Each organisation has its own rules about who it will help, so you will need to check if you are eligible. You will usually need to fill in an application form. There is no guarantee that you will receive a payment, or how much you will get.
See our Help from charitable organisations fact sheet.	

Informal solution

Write off the debt	
You can ask your creditors to write off your debts if you have no money to pay them, no assets or savings and your situation is unlikely to change.	
What debts are included?	Non-priority debts usually.
Is there a minimum or maximum debt amount?	No.
How long will it last?	Your debt will be cleared if the creditor agrees.
Is there a fee?	No.
Some things to consider	You will need to show your creditors that your circumstances are unlikely to change. You may be asked to send proof of your situation, such as medical evidence. Your creditors do not have to agree to this.
See our Write off debt fact sheet.	

Informal solution

2. Formal solutions

A formal solution may be the best solution for you. As they can be more complicated and usually have the most impact on your credit rating, contact us for advice before you apply for one.

Consolidation loan		
Formal solution	You apply to a lender for a new loan which you then use to pay off your existing debts.	
	What debts are included?	Any debts.
	Is there a minimum or maximum debt amount?	No.
	How long will it last?	As long as it takes to repay the new loan.
	Is there a fee?	Not usually, but always check. You will normally pay interest on the money you borrow.
	Some things to consider	<p>Shop around for the best deals.</p> <p>Check that you can afford any new borrowing.</p> <p>Think carefully before you agree to any secured lending, as this can put your home at risk.</p> <p>Your application can be refused.</p> <p>Your debt will increase at first, because you will owe interest on top of the money you have borrowed.</p>
	See our Debt consolidation fact sheet.	

Watch out for loan scams

This is where fraudsters offer you a loan that doesn't exist. They often approve your application very quickly and then ask for a fee up front. You will not receive the loan and you will lose money. Any personal information you have given could also be used for other types of fraud.

See our **Dealing with fraud** fact sheet.



Debt relief order (DRO)	
<p>You apply for a DRO with the help of a money adviser who is an approved intermediary. They make the online application for you. The DRO stops any creditors included in the order from taking further action against you.</p>	
What debts are included?	<p>Most debts are included, but DROs do not include the following.</p> <ul style="list-style-type: none"> • Student loans • Magistrates’ court fines • Budgeting loans • Crisis loans • Maintenance arrears
Is there a minimum or maximum debt amount?	<p>You can owe £30,000 or less. Only debts that can be included in a DRO count towards this amount.</p>
How long will it last?	<p>Your debts will be written off after one year.</p>
Is there a fee?	<p>Yes. There is a £90 fee to pay.</p>
Some things to consider	<p>To apply for a DRO, you can:</p> <ul style="list-style-type: none"> • have up to £75 per month available to pay your debts; • own assets worth up to £2,000; and • own a car worth less than £2,000. <p>You cannot have a DRO if you own your home.</p> <p>You do not make any payments to the debts included in your DRO.</p> <p>You can make a fresh start after one year.</p> <p>If your circumstances improve, the DRO may be cancelled.</p> <p>Contact us if you want to apply for a DRO.</p> <p>Debts built up through fraud could still be recovered after your DRO has ended.</p>
<p>See our Debt relief orders fact sheet.</p>	

Formal solution

Individual voluntary arrangement (IVA)

Formal solution

You apply for an IVA with the help of an insolvency practitioner. You pay back as much as you can for an agreed amount of time. Afterwards, the remaining debts are written off. An IVA can be based on monthly payments, a lump sum payment, or both. It stops creditors included in the agreement from taking further action against you.

What debts are included?

Most debts are included, but IVAs do not include the following.

- Secured debts
- Current rent arrears
- Student loans
- Magistrates' court fines
- Maintenance arrears

Is there a minimum or maximum debt amount?

No. It will depend on your circumstances and the cost of the fees.

How long will it last?

It usually lasts five or six years. The balance of your debt is then written off.

Is there a fee?

Yes. There will be ongoing fees which can be high. You may also be asked to pay a fee up front (we advise against this).

Some things to consider

You need to have money available to pay your debts, or assets that you can use to make payments to the IVA.

As an alternative to bankruptcy, it may help you to keep your home. However, if you do not stick to the agreed payments, you could be made bankrupt.

Any assets that you own may be included in your IVA.

Interest and charges are stopped.

Your creditors will be asked to vote on whether they accept the offer you are making.

If your circumstances improve, you may have to pay back more than you originally agreed.

See our **Individual voluntary arrangements** fact sheet.

Contact us if you want to apply for an IVA without any upfront fees. The provider will also follow guidelines called the IVA protocol to make sure that you are treated fairly.



Zara's story

Zara's debts became unaffordable after a relationship breakdown. She owed £1,000 in mortgage arrears and £15,000 to her non-priority creditors. She had £145 per month available for creditors and was paying £45 of this towards her mortgage arrears. Zara worked out that it would take over nine years to pay her debts back.



There was a small amount of equity in Zara's home, but she didn't have any other assets. Zara didn't want to deal with her creditors directly. She was initially interested in a DMP as she wanted to pay her debts in full.

However, the thought of being in debt for nine years concerned her and she knew it could take longer if her creditors added interest and charges.

Zara considered bankruptcy, but decided she wasn't prepared to put her home at risk. She finally opted for an IVA because she knew how long it would take and that interest and charges would be stopped. She was okay about the fees as she knew she would be debt-free in five to six years.

Administration order (AO)

You pay a monthly amount to the court. They share it out to the creditors included in your AO. These creditors can't take any further action without the court's permission.

What debts are included?	Non-priority debts and some priority debts.
Is there a minimum or maximum debt amount?	You need at least two debts, but must owe less than £5,000.
How long will it last?	No time limit, but the court may agree to set one.
Is there a fee?	The court takes 10% of your monthly payment as costs.
Some things to consider	<p>You need to have a county court or high court judgment in your name.</p> <p>You need to be able to afford payments to the AO.</p> <p>Interest and charges are stopped.</p> <p>Debts have to be paid in full unless you ask the court to limit how long you pay for. Courts often agree a three-year limit.</p> <p>Creditors can object, but the court will decide whether to make the AO.</p>
See our Administration orders fact sheet.	

Formal solution

Bankruptcy

Formal solution

You apply online for bankruptcy. An official receiver is appointed to deal with your bankruptcy. They will contact your creditors and ask you for information about your circumstances.

Bankruptcy stops most creditors from taking further action against you.

What debts are included?

Most debts are included, but bankruptcy does not include the following.

- Student loans
- Magistrates' court fines
- Maintenance arrears

Is there a minimum or maximum debt amount?

Usually no limit.

How long will it last?

Your debts will usually be written off after one year.

Is there a fee?

Yes.
There is a fee of £680 to apply.

Some things to consider

Bankruptcy offers you a fresh start.
You do not need to have money available to pay your debts to go bankrupt.
If you own assets, they may be sold to pay towards your debts. This could include your home.
Unless your only income is from benefits, you may be asked to pay an amount towards your debts for three years. The official receiver will decide how much you reasonably need to pay towards your essential living costs and what you can afford to pay towards your debts.

See our **Bankruptcy** fact sheet.

Debts built up through fraud could still be recovered after your bankruptcy has ended.

Changing your mind

If you are already using a debt solution but want to change to another one, contact us for advice. What you can do next will depend on your circumstances and the type of debt solution you are currently using.



3. Using assets

Full and final settlement offers	
<p>If you have a lump sum of money available, you can ask your creditors to accept a part-payment towards the debt and have the balance written off. Sometimes, creditors will accept payments over several months instead.</p>	
What debts are included?	Non-priority debts usually.
Is there a minimum or maximum debt amount?	No.
How long will it last?	As long as it takes to make the agreed payment.
Is there a fee?	No.
Some things to consider	<p>You will need funds available to make the offer.</p> <p>It aims to pay back less than you owe.</p> <p>It offers a fresh start.</p> <p>If creditors do agree, always get it confirmed in writing before you make the payment.</p> <p>Your creditors do not have to agree to this.</p> <p>Some creditors may decide to take court action to recover the whole debt, if they think you have a lump sum of money available.</p>
<p>See our Full and final settlement offers fact sheet.</p>	

Using assets

Equity release

Using assets

You access money from your home through an equity release scheme and use it to pay towards your debts. You are usually allowed to stay in your home and may not need to pay anything towards the new loan. Usually, you remain responsible for the ongoing repairs and bills for your home.

What debts are included?

Any debts.

Is there a minimum or maximum debt amount?

No.

How long will it last?

It depends on whether the equity release scheme pays you in a lump sum or in regular payments.

Is there a fee?

Yes. There are usually costs, such as legal fees and property valuations. Always check before agreeing to anything.

Some things to consider

You need equity in your home.
 Your age will usually be taken into account.
 You don't need to have money available to pay your debts.
 It will affect the equity you have left in your home and any inheritance you plan to leave.
 The money you get from equity release can affect the amount of benefit you get.
 There are different types of equity release schemes available.

See our [Equity release fact sheet](#).

Always get regulated, independent financial and legal advice, so that you can consider whether equity release is right for you.



Taking money from your pension

If your pension allows it, you can choose to take money out of your pension pot. You can take the whole amount at once, or in chunks of money. You can use this money to pay towards your debts.

Your creditors should not pressure you into taking money from your pension.

Using assets

What debts are included?	Any debts.
Is there a minimum or maximum debt amount?	No.
How long will it last?	It depends on how much you take from your pension and how often you take it.
Is there a fee?	Your pension provider may charge a fee if you leave the plan early. Check this before you make any decisions.
Some things to consider	<p>You usually need to be age 55 or over and have a defined-contribution pension plan (sometimes called a money purchase scheme).</p> <p>You will get a smaller income from your pension in the future.</p> <p>It can affect the amount of benefit you get.</p> <p>You may have to pay tax on the money you take from your pension.</p> <p>Always get regulated, specialist pension advice, so that you can consider whether pension release is right for you.</p>

See our **Pension freedoms and debt** fact sheet.

Watch out for pension scams

Fraudsters may contact you offering a free pension review and say there is a 'loophole' to help you release your pension before age 55. They may also offer you a special 'one-off' investment opportunity to increase your pension if you transfer funds quickly. You could lose your pension and sometimes also be left with a tax bill.

For more information, go to www.moneyhelper.org.uk and search for 'How to spot and avoid pension scams' or call **0800 138 7777**. To speak to a Welsh-speaking adviser, call **0800 138 0555**.

Selling assets

Using assets

You choose to sell an asset that you own, such as jewellery, shares or antiques. You then use this money to pay towards your debts

What debts are included?

Any debts.

Is there a minimum or maximum debt amount?

No.

How long will it last?

It depends how long it takes to sell the asset.

Is there a fee?

There may be fees for advertising your assets or using a service, such as an auction. Always check before you make any decisions.

Some things to consider

You need to own assets and be willing to sell them.
 It may give you more choices for dealing with your debts.
 It does not involve any new borrowing.
 You will need to decide how and where you are going to sell your assets, such as online, in a newspaper or at auction.
 The money you receive could affect the amount of benefit you get.
 You may have to pay tax on the money you make.

See our **Selling assets to clear debt** fact sheet.

Get an independent valuation of your assets before you decide to sell.



Can I get credit again?

When you apply for credit, most companies contact a credit reference agency. There is no such thing as a 'credit blacklist'. But if you do not pay your debts, you may find it difficult to get credit in the future.

If you are refused credit, the finance company should give you reasons why they turned you down and tell you if they used a credit-scoring system. You also have a right to ask if they used a credit reference agency. The finance company must give you the agency's name and address.

To get a copy of your credit report, contact the credit reference agency and fill in an application form. You can usually apply in writing, by phone or online. See our **Credit reference agencies** fact sheet.

Credit-repair companies

Some companies offer to clear your credit record if you pay a fee. These are known as credit-repair companies. **Be careful.** Many credit-repair companies promise to remove judgments when they cannot legally do so.

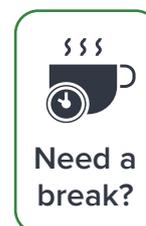
If you are concerned about any items on your credit reference file, contact us for advice. Do this before signing up to any credit-repair agreements.

How long will it take to pay my debts back?

This depends on which debt solution you choose. If you aim to pay your debts back in full, it also depends on what you can afford to pay and whether interest and charges are stopped. You can estimate how long it will take if your circumstances stay the same and your creditors stop adding any interest and charges. It helps to know this when you are comparing solutions to find the best one for you.

It may benefit you to choose a debt solution that deals with your debts quickly. However, do remember that this is just one of several things to consider when looking for a solution that is right for you. Make sure that you think about all the advantages and disadvantages before choosing your solution.

If you need more time to get advice and decide what to do next, you may be able to apply for standard breathing space. For more information, see **Need more time to get debt advice?** on page 7.



Work out how long you will need to pay

Step 1: add up how much you owe to all your priority and non-priority debts (**Box 32** and **Box 34** in **Your full budget**).

Step 2: divide this figure by the amount left over for your creditors (**Box 31** in **Your full budget**).

Step 3: divide the figure from **Step 2** by 12.



Example

Jay owes £2,700 to his creditors and has £75 available to pay them each month.

£2,700 divided by 75 = 36 months to pay (**Step 2**).

36 divided by 12 = 3 years to pay (**Step 3**).

What to do after you have chosen your debt solution

What you do next will depend on which debt solution you have chosen. If you are looking at any of the following solutions, you will need to contact your non-priority creditors yourself.

- Negotiate with your non-priority creditors.
- Write off the debt.
- Full and final settlement offers.

If you chose any of the solutions listed above, you will also need to fill in the **Summary budget for creditors**. This is a summary of your financial position which you use when you contact your creditors. Unless you have done this already, see **Summary budget for creditors** on page 49 for how to fill in this budget.

If you are applying for a charitable grant payment, you may need to send evidence of your financial position with your application. Use the **Summary budget for creditors** to do this.

If you have chosen any other debt solution, our detailed fact sheets will tell you what to do next. If you are still unsure, contact us for advice.



Negotiating with your non-priority creditors

If you have chosen to negotiate with your non-priority creditors, follow these steps.

- Make sure you have arrangements in place with any priority creditors first.
- If you haven't done so already, check whether you need to open a safe bank account. See **Open a 'safe bank account' if you owe any money to your bank** in the **Three things to do first** section on page 4.
- If you haven't done so already, fill in the **Summary budget for creditors**. See **Summary budget for creditors** on page 49.
- If you have any of the following debts, make sure you read the extra information on page 95:
 - catalogue debts;
 - payday loans;
 - personal debts to family and friends;
 - water rates arrears;
 - student loans;
 - mortgage shortfalls; or
 - business debts.
- Work out your offers of payment to your non-priority debts. See the next section for how to do this.

Work out offers of payment to non-priority debts

Use the information in the **Summary budget for creditors** to work out what you have left to offer your non-priority creditors.

1. Take away your **Total payments to priority creditors (Box 33)** from your **Amount left over for your creditors (Box 31)**.
2. Put this figure in the **Total payments to non-priority creditors (Box 35)**.
3. **Box 35** now shows what money you have left to share between your non-priority creditors.

If **Box 35** shows that you don't have any money left over for your non-priority creditors, go to **No money left to pay your non-priority creditors?** on page 90.

If **Box 35** shows that you do have money left over, the next step is to divide this amount between your non-priority creditors. The best way to do this is by **pro-rata distribution**. It means that all your creditors get a fair share of what you have available. The largest debt gets the most of what you have left and the smallest debt gets the least.

The following explains how to work out your pro-rata payments. You will need a calculator.

If you prefer, you can use our online budget. It adds up your figures and does the pro-rata calculations for you. Go to www.nationaldebtline.org and click on **Your budget**.

Work out your pro-rata payments

Use the **Summary budget for creditors** to work out your pro-rata payments.

Step 1: list all your non-priority creditors and the amount you owe each of them.

Step 2: add up the total amount you owe to all your non-priority creditors (**Box 34**).

You will then need to follow **Steps 3 and 4** for each of your non-priority debts.

Step 3: multiply the amount you have left over to pay your non-priority creditors (**Box 35**) by the amount of debt that you owe an individual creditor.

Step 4: then divide the figure you worked out in **Step 3** by the **total** amount you owe to all your non-priority creditors (**Box 34**). This will give you the payment offer you should make to your creditor. You can round this figure up or down to the nearest £1.

**Example**

David and Karen have worked out that they can afford to pay their non-priority creditors £107 every month.

They have listed all their non-priority debts and they add up to £7,227.



Non-priority creditor	Amount owed Step 1	Pro-rata calculation Steps 3 and 4	Monthly pro-rata offer
Newhome catalogue	£918	$£107 \times £918 \div £7,227 = 13.59$ (rounded up to £14)	£14
Alphabet bank loan	£2,842	$£107 \times £2,842 \div £7,227 = £42.08$ (rounded down to £42)	£42
Unicorn credit card	£3,467	$£107 \times £3,467 \div £7,227 = £51.33$ (rounded down to £51)	£51
	Step 2 Total amount owed in non-priority debts = £7,227		Total payments to non-priority creditors = £107

When you have worked out your pro-rata payments, add the amounts to the **Summary budget for creditors**. Don't worry if your offers look small. Your creditors would rather you pay a small amount regularly than make offers you can't keep to.

Contact your creditors to make your pro-rata offers. Use the **Summary budget for creditors** to show that your offers are fair and affordable.

See **Ways to pay your creditors and make offers of payment** on page 51. Also see our **Pro-rata offers** sample letter on page 88.

Pro-rata offers sample letter

Use this letter to ask your non-priority creditors to accept pro-rata offers of payment on your debts.

You can either:

- ✓ write out this letter onto fresh paper;
- ✓ photocopy the blank copy in the pocket at the end of this guide and fill in your details; or
- ✓ fill in our letter online. Go to www.nationaldebtline.org and click on **Your sample letter library**.

Remember to keep a copy of any letters you send.

Add your address here

Add the creditor's name and address here

Add the date here

Add the account number for your debt here (find it in the letter from your creditor)

Briefly tell your creditor how your situation has changed

Add the amounts from the **Summary budget for creditors**

Add a date that works best for you

Add your signature here and print your name in capitals underneath it

Dear Sir or Madam

Account number: [redacted]

I am writing to tell you that I am getting advice about my current financial difficulties from National Debtline.

Since making the above agreement with you, my circumstances have changed. I can no longer afford to make the agreed monthly payments for the following reasons.

[redacted]

I enclose a budget summary which shows my total income and my total outgoings. As you can see, I have only £ [redacted] per month left for my creditors.

I have worked out the offers to my creditors on a pro-rata basis and have written to all my creditors asking them to accept reduced payments.

Because of my circumstances, please accept a reduced offer of £ [redacted] per month. I will make my first reduced payment on [redacted].

If you are adding interest or other charges to the account, I would be grateful if you would freeze these so that all payments I make will reduce what I owe you.

If my circumstances improve, I will contact you again.

Please send me details about the different ways that I can make payments to you.

I look forward to hearing from you as soon as possible. Please send all correspondence directly to me.

Yours faithfully

[redacted]



Token payment or no offer of payment sample letter

Use this letter to ask your non-priority creditors to accept a token payment or no payment on your debts. You can either:

- ✓ write out this letter onto fresh paper;
- ✓ photocopy the blank copy in the pocket at the end of this guide and fill in your details; or
- ✓ fill in our letter online. Go to www.nationaldebtline.org and click on **Your sample letter library**.

Remember to keep a copy of any letters you send.

Add your address here

Add the creditor's name and address here

Add the date here

Add the account number for your debt here (find it in the letter from your creditor)

Briefly tell your creditor how your situation has changed

Choose one of these options only

Delete if you are asking creditors to suspend payments

Add your signature here and print your name in capitals underneath it

Dear Sir or Madam

Account number:

I am writing to tell you that I am getting advice about my current financial difficulties from National Debtline.

Since making the above agreement with you, my circumstances have changed. I can no longer afford to make the agreed monthly payments for the following reasons.

I enclose a budget summary which shows my total income and my total outgoings. As you can see, I have no money left to make offers of payment to my creditors.

Because of my circumstances, please agree to **suspend payments for six months / accept a token offer of £1 a month for the next six months.**

If you are adding interest or other charges to the account, I would be grateful if you would freeze these so that the debt does not increase.

If my circumstances improve, I will contact you again.

Please send me details about the different ways that I can make payments to you.

I look forward to hearing from you as soon as possible. Please send all correspondence directly to me.

Yours faithfully

No money left to pay your non-priority creditors?

If you have nothing left to pay your creditors, ask them to hold action until your circumstances improve. If you can find the money to do so, you can offer a token payment of £1 a month to each creditor. Don't worry that your offer is small or think that it is pointless. In our experience, your creditors want you to contact them and offer what you can actually afford to pay.

See **Ways to pay your creditors and make offers of payment** on page 51. Also see our **Token payment or no offer of payment** sample letter on page 89.

What if your non-priority creditor refuses your offer?

This sometimes happens. Just make your offer again and ask your creditor to reconsider. Tell them that your offer is reasonable and is all you can afford. Don't be tempted to pay more. The offers in the **Summary budget for creditors** are fair to all your creditors. If you let one creditor persuade you to pay more, you won't have enough for your living costs and other creditors. If other creditors have accepted your offer, tell the creditor that refused. See our **Refused offers** fact sheet. If you still struggle to get your offers accepted, contact us for advice.

Have you been asked for extra proof?

Sometimes creditors ask for extra proof, such as wage slips or letters from other creditors. You may agree to reasonable requests, but if the creditor wants proof of all your spending, point out that the court wouldn't usually ask for this.

Many creditors are members of trade associations and will have agreed to follow a code of practice. The code usually says that creditors should be sympathetic in cases of financial hardship.

Contact us for advice if you feel a creditor is acting unreasonably. We can give you details of their trade association and advise you about the Financial Conduct Authority's (FCA's) Consumer Credit sourcebook (CONC). CONC sets out rules and guidance which most creditors must follow when collecting debt. We can also tell you how to make a complaint.



Can my non-priority creditors add interest and charges?

Debts can include the money you borrowed, interest, administration charges and late-payment charges.

Check your statements to see if interest and charges are still being added. If you're not sure what can be added, check your agreement. Then you can compare what your agreement says with what has actually been added to your account. If you need a copy of your agreement, see **Getting a copy of your credit agreement or account statement** below.

The Standards of Lending Practice – Personal Customers

These guidelines set out good practice for dealing with **credit cards**, **charge cards**, **overdrafts** and **unsecured loans**. They say that creditors 'should consider freezing or reducing interest and charges when a customer is in financial difficulty'. Remind your creditors of this. For a copy of the standards, go to www.lendingstandardsboard.org.uk.

Always ask your creditor to freeze interest and to stop adding charges to your account.

Sometimes, when a creditor accepts your offer of payment, they don't say what they will do about interest and charges. If this happens, ask whether they have frozen interest and stopped adding charges. If they haven't, ask them again. If any of your other creditors have already agreed, point this out. See our **Freeze interest** sample letter.

Getting a copy of your credit agreement or account statement

You usually have the right to ask for a copy of your credit agreement and an account statement. There are different rules which allow you to ask for different types of information. For some requests, you have to pay a small fee. If your creditor doesn't give you the information, they may be limited in the further action they can take. See our **Credit agreements - getting information** fact sheet for more information.

What can my non-priority creditors do if I don't pay the debt?

Your creditors can ask you to pay and also do the following.

Pass details of missed payments to a credit reference agency

Credit reference agencies hold information about county court and high court judgments, administration orders (AOs) bankruptcy orders, debt relief orders (DROs), individual voluntary arrangements (IVAs), electoral roll information and your credit agreements. Your creditor can only pass on information about your agreements with your permission. You usually give this when you sign the agreement. Information is normally kept on your credit reference file for **six years** and can affect your ability to get credit in the future. See our **Credit reference agencies** fact sheet.

Pass or sell your debt to a debt collector

This is quite common, so don't worry if it happens. A debt collector has no more power than the original creditor. They are not a bailiff and have no right to come into your home. Just deal with them in the same way that you would deal with a non-priority creditor.

If a debt collector tries to charge you extra fees for collecting the debt, contact us for advice. You may be able to complain. See **Have you been treated unfairly by your non-priority creditor?** in the **Are you having problems with your creditors?** section on page 98.

Take action in the County Court

The County Court is not a criminal court and is not there to judge anyone guilty or innocent. It simply settles disputes about money owed, and how to repay it.

The court expects you and your creditor to do all you can to avoid court action. If your creditor is planning to start court action, they should send you a letter beforehand. This gives information about the debt and how to contact them to discuss payment. It should also include a reply form. See our **Pre-action protocol in the County Court** fact sheet.

Just because a creditor can take action in the County Court doesn't mean that they will. If they do, most procedures are through the post or online. Usually you won't have to go to a hearing. You will get a claim form and have the chance to say whether you agree you owe the money or not.



If you agree that you owe the money, you can make an offer of payment. This will be the offer you worked out earlier. If you don't agree that you owe all, or some, of the debt, you can put in a defence. We have several fact sheets to help you. The best one to read will depend on your circumstances. If you get court forms, you need to reply within set timescales, so contact us for advice straightaway.

Has a creditor threatened to make you bankrupt?

We rarely see creditors make people bankrupt. If your creditor threatens to do this, or sends you a form called a 'statutory demand', contact us for advice straightaway.

If you already have a county court judgment (CCJ)

If you are up to date with payments set by the court

Your creditor is limited in what they can do if you are up to date with payments set by the court.

They can ask that you attend court so that a court officer can ask you questions on oath about your circumstances. You could be asked about things such as your employment status, who you work for, your income and whether you own anything of value.

Your creditor may also be able to ask the court for a charging order, but this will depend on when they originally applied for the CCJ.

If you have not paid what the court ordered you to pay

If you do **not** pay what the court orders you to pay, your creditor could take further action. This includes:

- asking for a charging order;
- using bailiffs to try to take your goods;
- asking for money to be taken directly from your wages; and
- freezing funds in your bank account or telling someone who owes you money to pay them instead.

Charging orders

A charging order secures the debt against property that you own and could put it at risk. A charging order cannot be made against a property that you rent.

If your creditor applied for your CCJ **on or after 1 October 2012**, they can ask the court for a charging order, even if you are up to date with payments set by the court.

If your creditor applied for your CCJ **before 1 October 2012**, they can only ask for a charging order if you have not paid what the court ordered you to pay.

For more information, see our **Charging orders** fact sheet.

If you cannot afford to pay what the court ordered, you can ask it to reduce the amount. See our **Varying a CCJ** fact sheet.

If the creditor has started any further action, contact us for advice.

Debts with your bank: overdrafts, loans and credit cards

Many people use their current account to have their wages paid into and to pay household bills. This can cause problems if you have debts with the same bank or building society, or your current account becomes overdrawn.

If you have a loan with your bank or building society, the monthly instalment is usually taken directly from your current account. You have little control over this and it could mean that you aren't left with enough money to pay your essential outgoings, such as your mortgage or rent.

The Standards of Lending Practice – Personal Customers

These guidelines say that customers should 'receive appropriate support and fair treatment... to help them deal with their debts in the most suitable way'. Remind your creditors of this.

For a copy of the standards, go to www.lendingstandardsboard.org.uk.



Be very careful when dealing with debts to your bank or building society. Some could react by taking all the money in your account to clear an overdraft, loan or credit card debt you owe them. This is called the 'right of set-off'. If your bank tries to take money from your account in this way, contact us for advice.

Before negotiating a repayment arrangement with your bank, open a safe bank account with a bank or building society that you do not owe any money to. See **Open a 'safe bank account' if you owe any money to your bank** in the **Three things to do first** section on page 4.

Voluntary charges on your home

If you have a large overdraft or loan, you may be asked to agree to a voluntary legal charge on your home before the bank agrees to accept reduced payments. This means that the debt would be secured on your home. You could lose your home if you don't keep up the payments. Sometimes banks ask for an 'all monies charge'. This means that any future borrowing or overdraft you have with the bank is also secured on your home.

If a creditor asks you to agree to a voluntary legal charge, or your partner asks you to sign an agreement to a legal charge on your home, get legal advice first. Contact us, so we can help you find the right legal help for your circumstances.

Non-priority debts with extra rules

Some non-priority debts have extra rules, or can be more difficult to deal with. These include:

- **catalogue debts**, see page 96;
- **payday loans**, see page 96;
- **personal debts to family and friends**, see page 96;
- **water rates arrears**, see page 97;
- **student loans**, see page 97;
- **mortgage shortfalls**, see page 97; and
- **business debts**, see page 98.

Catalogue debts

Mail order catalogues offer a way of buying goods by post and spreading the payments over a set period.

Orders for goods and payment collections are sometimes carried out by a local agent. They may be a friend, relative or neighbour.

Goods ordered from a catalogue belong to you and cannot be taken back if you do not pay. Treat them as a non-priority debt.

Are you a catalogue agent?

If you are a catalogue agent, as long as you set up separate accounts for each customer, you (as an agent) should not be held personally responsible for your customers' missed payments.

Payday loans

A payday loan is a high-cost short-term loan. Many people use them if they have run out of money before their next payday. The interest rates can be very high and charges will be added if you can't pay the loan back on the payday. A payday loan is a non-priority debt.

Check whether you have given a 'continuous payment authority' (CPA) to the loan company. This is where you give the loan company permission to take money using your debit card or credit card. You may not realise you have given this permission. You can stop a CPA by telling the bank or the payday loan company to do so. See our **Payday loans** fact sheet for how to cancel a CPA and for sample letters to use.

Personal debts to family and friends

You usually treat these debts as ordinary non-priority debts and make offers of payment in the same way.

However, family and friends may agree to receive no payments until your circumstances improve, so you can pay off your other creditors faster.

Sometimes, you may want to make higher payments to personal debts. This could be because lending you the money has caused hardship to someone you know, or will affect your relationship. This can be difficult, as your other creditors may be unhappy that you are paying more to a personal debt than is strictly 'fair'. Explain the reasons to your other creditors.



Making higher payments to personal debts can also be an issue if you decide to use an insolvency solution, such as a DRO, IVA or bankruptcy. You may be seen as showing preference to your personal creditors. Contact us for advice, if you want to discuss this.

Water rates arrears

You cannot be disconnected for owing money to your water company. Include any water rates arrears with your other non-priority debts, but keep up with your ongoing bills so your debt does not get any bigger. See our **Water arrears** fact sheet.

Student loans

Most student loan repayments are taken directly out of your wages if you earn over a certain amount. See our **Repaying student loans** fact sheet for how this is worked out.

However, if you took out a student loan for a course that started **before September 1998**, you will have a mortgage-style loan. These loans are paid back over a fixed number of instalments, regardless of the amount you borrowed.

All mortgage-style loans were sold to Erudio Student Loans Ltd, Honours Student Loans Ltd and Thesis Servicing, who now collect the debt. They are non-priority debts.

If you have a mortgage-style loan and are on a low income, you may be able to ask for a deferment. This is where you postpone payments for **12 months**. Contact us for advice, if you are considering this.

Mortgage shortfalls

You may still owe money if your home was repossessed or you handed back the keys to your mortgage lender. This is called a mortgage shortfall. They can be quite large debts, but they are still a non-priority.

Your lender has longer than most non-priority creditors to take court action for any mortgage capital that you owe. However, there are guidelines that your lender should also follow. See our **Mortgage shortfalls** fact sheet.

What is mortgage capital?

Mortgage capital is the money that you originally borrowed. It does not include the interest you were charged to borrow the money.

Business debts

If you were previously self-employed, you may have debts to old suppliers and others. You can usually treat old business debts as a non-priority. However, there are some exceptions, such as business rates debts and tax debts. See our **Business debts** fact sheet.

Are you having problems with your creditors?

If you don't agree that you owe a debt

You may not agree that you owe all, or part, of the money you are being asked to pay. If so, you may be able to challenge the debt. The rules depend on the type of debt you have and why you don't agree that you owe it. Sometimes strict timescales apply. Contact us for advice, if you want to dispute an amount owed on a priority or a non-priority debt.

Have you been a victim of fraud?

If a debt has been taken out in your name through identity fraud, see our **Dealing with fraud** fact sheet.

Have you been treated unfairly by your priority creditor?

If you feel that your creditor has treated you unfairly or not followed the correct procedure, you have the right to complain. Many of our fact sheets include information on how to complain. You can also contact us for advice.

Have you been treated unfairly by your non-priority creditor?

You can complain if you feel that your creditor (or a debt collector) has treated you unfairly, or not followed the correct procedure. You will need to complain to your creditor (or debt collector) first and follow their complaints process. After that, you can usually ask the FOS to look at your complaint. For more information on complaining to the FOS, go to www.financial-ombudsman.org.uk or call **0800 023 4567**.

Also see our **Complaining about your lender** fact sheet.

What is Resolver?

Resolver is a free online service that you can use to make a complaint to your creditor. It lets you set up a personal case file for your complaint. It also has helpful guides and information about your consumer rights. For more information, go to www.resolver.co.uk.



Have you been told that you could be owed thousands of pounds?

Claims management companies (CMCs) offer to make complaints about your financial agreements for you. They may say that they can get your debts written off, or get you compensation. **Be careful!** There is no guarantee of success and some CMCs may still charge you a fee.

You can make a complaint for **free** if you are unhappy with your credit agreement.

Contact us for advice if you are considering signing up with a CMC.

What if a creditor harasses me?

If you don't pay, your creditors can remind you to pay from time to time. They should not threaten or harass you to make you pay. If they do, they may be committing an offence under the **Consumer Protection from Unfair Trading Regulations 2008**.

The Consumer Credit sourcebook (CONC) also sets out the rules and guidance that creditors who are authorised with the FCA must follow when collecting debt. If they break these rules, the FCA may look at whether the creditor is fit to give consumer credit. See our **Harassment by creditors** fact sheet.

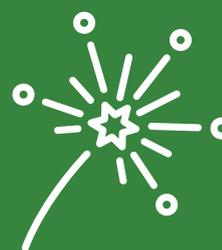
Next steps

Congratulations. You have now completed **all three steps** in the guide. We hope you feel better able to deal with your debts.

Remember we are always here to help.

You can contact us for advice if:

- you are unsure of anything;
- you have extra questions;
- your circumstances change; or
- you just want to talk through your situation.



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This pocket contains:

- a blank copy of **Your full budget**;
- a **Summary budget for creditors**; and
- sample letters.

Use this pocket to store your wage slips, statements and bills. Keeping everything in one place will make it easier to complete your budget.

NATIONAL DEBTLINE

www.nationaldebtline.org

Call us for free debt advice on **0808 808 4000**

Monday to Friday 9am to 8pm

Saturdays 9.30am to 1pm

The development of this guide was funded by MoneyHelper and designed in partnership with the Money Advice Trust, which runs National Debtline, and Ogilvy Consulting Behavioural Science Practice.

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ADVICE TRUST

Money
Helper

Ogilvy
Consulting

The guide was tested extensively with advice agencies and service users. We are particularly grateful to the following organisations and networks for their kind help in preparing this guide.

 **advice uk**

 **citizens
advice**

 **turn
2US** Tackling
financial
insecurity
together.

National Debtline is part of the Money Advice Trust.

Money Advice Trust is a registered charity, (number **1099506**), and a company limited by guarantee (number **4741583**). Registered office: 21 Garlick Hill, London EC4V 2AU.

Money Advice Trust is authorised and regulated by the Financial Conduct Authority (number **618928**).

© National Debtline and Money Advice Trust.

Published April 2022, England and Wales. All information in this booklet was accurate when this edition was issued.


Crystal
Mark
13119
Clarity approved by
Plain English Campaign