

Strategies for Dealing with Debt

This chart illustrates options for dealing with debts based on different client circumstances. It is intended to be used as a basic guide after income maximisation. More detailed references should always be checked and consequences considered.

Tenant or boarder

Pension options
Since the changes to defined contribution pension schemes or 'pension freedoms' in 2015, clients who are 55 or over may be able to access their pension fund. Clients might have options to realise their pensions in some form to deal with their debts. In line with best advice practice, debt advisers should not tell clients whether they should access their pension fund or not, but we can explain how this will affect the debt options available to them at the time and that their options may affect their tax and benefit situation. Clients should be referred for specialist pensions, benefit and tax advice to look at their options where appropriate.

No assets or minimal assets

Available income

- Debt options**
- Ask creditors to hold action or apply for breathing space if appropriate.
 - Informal arrangement such as pro-rata offers of payment to creditors.
 - DMP through free provider (usually only if can repay debt in reasonable time).
 - IVA has no minimum or maximum level of debt, but due to the level of IP fees only likely to be appropriate if have two or more creditors and cannot afford to pay debts in full in a 'reasonable' time period such as five years.
 - Bankruptcy with possible income payments agreement.
 - Debt relief order if debts £30,000 or less, total assets of £2,000 or less (plus a vehicle worth less than £2,000) and available income of £75 per month or less.
 - Administration order if owe under £5,000 and have a CCJ or HCJ. Consider a composition order.
 - Unsecured consolidation loan. Watch out for high interest rates, how long the loan lasts and payments that are higher than client can afford.

No available income

- Ask creditors to hold action or apply for breathing space if appropriate.
- Moratorium or token offers of payment to creditors.
- Bankruptcy (but check if a DRO is more appropriate).
- Debt relief order if debts £30,000 or less, total assets of £2,000 or less (plus a vehicle worth less than £2,000) and available income of £75 per month or less.
- Administration order if owe under £5,000 and have a CCJ or HCJ, based on small token monthly payment with composition order.
- Ask creditors to write off the debt.

Assets

Available income

- Ask creditors to hold action or apply for breathing space if appropriate.
- Informal arrangement such as pro-rata offers of payment to creditors.
- DMP through free provider (usually only if can repay debt in reasonable time).
- IVA has no minimum or maximum level of debt, but due to the level of IP fees only likely to be appropriate if have two or more creditors and cannot afford to pay debts in full in a 'reasonable' time period such as five years.
- Bankruptcy with possible income payments agreement.
- Debt relief order if debts £30,000 or less, total assets of £2,000 or less (plus a vehicle worth less than £2,000) and available income of £75 per month or less.
- Administration order if owe under £5,000 and have a CCJ or HCJ. Consider a composition order.
- Unsecured consolidation loan. Watch out for high interest rates, how long the loan lasts and payments that are higher than client can afford.

No available income

- Ask creditors to hold action or apply for breathing space if appropriate.
- Moratorium or token offers of payment to creditors.
- Bankruptcy (but may lose assets).
- Debt relief order if debts £30,000 or less, total assets of £2,000 or less (plus a vehicle worth less than £2,000) and available income of £75 per month or less.
- Administration order if owe under £5,000 and have a CCJ or HCJ, based on small token monthly payment with composition order.
- Sale of assets. Full and final settlement or lump-sum IVA using assets.

Homeowner

Pension options
Since the changes to defined contribution pension schemes or 'pension freedoms' in 2015, clients who are 55 or over may be able to access their pension fund. Clients might have options to realise their pensions in some form to deal with their debts. In line with best advice practice, debt advisers should not tell clients whether they should access their pension fund or not, but we can explain how this will affect the debt options available to them at the time and that their options may affect their tax and benefit situation. Clients should be referred for specialist pensions, benefit and tax advice to look at their options where appropriate.

No equity or other assets

Available income

- Debt options**
- Ask creditors to hold action or apply for breathing space if appropriate.
 - Informal arrangement such as pro-rata offers of payment to creditors.
 - DMP through free provider (usually only if can repay in reasonable time).
 - IVA has no minimum or maximum level of debt, but due to the level of IP fees only likely to be appropriate if have two or more creditors and cannot afford to pay debts in full in a 'reasonable' time period such as five years.
 - Bankruptcy with possible income payments agreement. Beware as equity might increase over the three years.
 - Administration order if owe under £5,000 and have CCJ or HCJ. Consider a composition order.
 - Unsecured consolidation loan. Watch out for high interest rates, how long the loan lasts and payments that are higher than can afford.

No Available income

- Ask creditors to hold action or apply for breathing space if appropriate.
- Moratorium or token offers of payment to creditors.
- Bankruptcy with no income payments order. Beware as equity might increase over the three years.
- Administration order if owe under £5,000 and have a CCJ or HCJ, based on small token monthly payment with composition order.

Equity or other assets

Available income

- Ask creditors to hold action or apply for breathing space if appropriate.
- Informal arrangement such as pro-rata offers of payment to creditors.
- DMP through free provider (usually only if can repay in reasonable time).
- IVA has no minimum or maximum level of debt, but due to the level of IP fees only likely to be appropriate if have two or more creditors and cannot afford to pay debts in full in a 'reasonable' time period such as five years. Beware equity release clause and inclusion of other assets.
- Administration order if owe under £5,000 and have a CCJ or HCJ. Consider a composition order.
- Secured or unsecured consolidation loan. Watch out for high interest rates, how long the loan lasts and payments that are higher than can afford. Secured loan puts property at greater risk.
- Consider equity release options depending upon age. (Bear in mind benefits and tax implications.)
- Sale of assets. Full and final settlement using assets.
- Bankruptcy with possible income payments agreement. Assets and home may be sold.

No Available income

- Ask creditors to hold action or apply for breathing space if appropriate.
- Moratorium or token offers of payment to creditors.
- Administration order if owe under £5,000 and have a CCJ or HCJ, based on small token monthly payment with composition order.
- Release equity through selling home (including downsizing).
- Consider equity release options depending on age. (Bear in mind benefits and tax implications.)
- Sale of assets. Full and final settlement or lump-sum IVA using assets.
- Bankruptcy but assets and home may be sold.

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The strategies and tactics in the chart do not constitute an exhaustive list as there may be further tactics to consider. Always base advice on the circumstances and wishes of the client. Some of the options may not be suitable for your client in their specific circumstances.

Bear in mind the tax and benefit implications when considering appropriate options. **The information is accurate as of July 2021.** We cannot be held responsible for changes in the law or for developments in case law since this was published.