



# Advice Centre



# What can creditors do?



## Court action

Creditors have the right to issue court proceedings against you should you fail to make repayments.

However, this is usually the last resort after failure to recover your debt, if previous default notices were ignored. However, a warning must be sent advising that court action is pending. Court action is a way for creditors to ensure repayment but your circumstances should also be taken into consideration when ruling what should be paid and when.

## CCJs

A County Court Judgement (CCJ) means that your creditor has taken legal action to recover unpaid debt from you.

This will stay on your credit file for 6 years. If the debt is repaid within this time then a certificate of satisfaction can be granted, at a cost of £10 to cover legal fees. A CCJ can be prevented if the debt is repaid in full within 1 month of receiving the written notification.

## Charging orders

A charging order allows the court to place an order on the property of the debtor to the value of the monies owed.

This means that when the property is sold, the creditor will receive his money before the debtor does. A charging order is the next step after a CCJ, if the debt remains unpaid. The lender can force the sale of the property but this is very rare and an application to do so must be first approved by the court.

## Default notice

This formal letter is sent to a borrower from his lender after 3-6 repayments have been missed.

It is a notification of how much is needed to bring an account up to date, usually allowing 14 days to make this payment. If the payment is not made, the account will be 'defaulted' and if it is a card or overdraft facility it will be stopped with immediate effect. If the amount is repaid within 14 days then no further action will be taken. When an account has been defaulted, the creditor can sell the debt to a collection agency, recover the goods (if the defaulted agreement was a hire purchase), demand full repayment of the debt or begin court action. A default notice can affect future borrowing as it remains on your credit file for 6 years.

## Debt collection

Being in long term arrears may result in your debt being transferred to a debt collection agency.

A letter will be sent informing you of this. The debt collection agency will either work on behalf of the creditor in recovering the debt, making their money as a percentage of the amount owed, or they will buy the debt from the creditor for a reduced amount, making their money by recovering the full amount from the borrower. Debt collection letters may threaten court action or bailiffs, but this is unlikely unless you ignore the debt. The best thing to do is contact the debt collection agency with a list of your debts and budget to show that you are paying as much as you can, and make sure that a payment is made every month.

## Attachment of earnings

If your debt has still not been repaid following a CCJ, then the court may order an attachment of earnings against you.

This obligates your employer to deduct the amount from your wages, which also gives them the right to deduct another £1 for administrative costs. This order will stay in place until the debt has been repaid in full.

## Bailiffs

A bailiff, or enforcement officer, can be called upon to recover the debt on behalf of the lender.

The bailiff does this by visiting your home and recovering the value of the debt, plus their costs, by taking your property and selling it at auction. You can give the bailiff money when they arrive, but make sure you get a receipt. You must be notified that a bailiff will be recovering the debt at least 14 days beforehand. They must only visit during daylight hours and must show identification if asked. Bailiffs have the legal right to remove any non-essential items from your home such as televisions and game consoles, up to the full value of the debt.

# Types of debt



## Payday loans

A payday loan, as the name suggests, is a small amount of borrowing, usually between £50 and £1000, which must be repaid on the following payday.

This is a short term loan with an uncapped interest rate. The APR on a payday loan is at least 300% and sometimes as much as 4,500% or even higher, which is the main reason for payday loan debt. Failure to repay the debt on time can result in fees and charges from the lender, as well as repayment of the original borrowing plus the increasing interest rate, which equates to roughly £1 per day for every £100 borrowed.

## Credit cards

Credit card debt is a common problem largely because the high interest rates make this type of debt so difficult to repay.

In fact, the UK Payments Council confirmed that there are more credit cards and charge cards in the UK than people, so it is little wonder that this issue is growing, especially as only 1/3 of these cards are interest free. If you feel as though your credit card debt is becoming difficult to manage, stop using your card immediately. Don't forget to let your lender know if you are struggling to make the repayments as there may be a more manageable payment plan they can put in place.

The best way to use a credit card is to repay the balance in full each month. If this is not possible, pay as much as you can afford. Avoid paying only the minimum repayment as this will cause the interest to build up making the debt even more difficult to pay off.

## Overdrafts

An overdraft is attached to your bank account, and allows you to spend more money than is in your account up to an agreed limit.

Borrowing from your overdraft usually comes with high interest rates and don't forget that this is a 'payable on demand' debt, which means that the bank has the authority to request repayment in full at any time.

There are two types of overdraft; arranged and unarranged. An arranged overdraft means that the bank has agreed to you spending more than you have in your account up to a limit. There will be interest applied to this borrowing, but additional charges are applied if you go over this agreed amount.

Exceeding this amount or exceeding your remaining balance without an overdraft in place results in an unarranged overdraft. High charges are applied to an unarranged overdraft, especially if cheques and direct debits have to be returned as a result.

## Store cards

A store card works in a similar way to a credit card, but this borrowing can usually only be used in one particular chain of shops.

A store card allows you to make purchases on credit, on which interest is applied. If the store card is paid off in full each month, this can be a convenient way to shop, and may even come with discounts or reward points. However, because the interest rates are so high, sometimes over 25%, if the card cannot be repaid in full each month, debt can mount up quickly.



## Bank accounts

Bank accounts offer features including cash credit or debit cards, overdraft facility, loyalty points, discount rewards and cheque books.

Some of these features come for free, and some accounts charge a monthly fee. You should check if this monthly fee is appropriate for your needs and that you are getting good value for money. For example, some bank accounts offer free travel insurance and discounted gym membership but if these perks are offered through your job, then there is no point paying for this. Be aware that you will be charged if your bank account falls into an unarranged overdraft, so be sure to keep on top of your spending. A good way to check your account frequently is to sign up for internet banking.

## Car loans

A car can be financed in a number of ways:

### **Personal loan**

This fixed interest agreement is easily budgeted for and a popular choice as the car is bought outright and paid for over a fixed term. The car cannot be repossessed if repayments are missed, but similarly you cannot return the car if you decide you don't need it, or can't afford to keep hold of it.

### **Hire Purchase**

The car belongs to the finance company until the final payment has been made. If payments are missed, the car can be repossessed. The car can be handed back and the scheme stopped if the debtor can no longer afford to keep the car but you cannot sell the car without written permission from the HP Company.

### **Personal contract purchase (PCP)**

In this case, the finance company owns the car and you make payments for an agreed term length (often between 12 – 48 months). You can use the car in this time, and when the term ends you have the choice of buying the car or returning the car to the finance company and leasing a different one.

### **Conditional sale**

This is similar to Hire Purchase in that the property can be repossessed should repayments not be made, and the car is not legally yours until the final repayment has been made.

# Resources



## Creating a budget

A budget is an invaluable tool to help you take control of your household finances, and improve your financial situation going forward.

So what is a budget? It's simply a list of all the money you receive and everything you spend. Usually income is received and bills are paid on a monthly basis, so it's usually best to prepare a monthly budget. A budget allows you to see areas where you may be able to cut back, and ensure you don't overspend in the month.

### Step 01

Firstly you need to add up all the income that comes into the household. This includes wages, benefits, pensions – everything. Remember – if any income is paid weekly you need to multiply the amount by 52 and divide the answer by twelve – this gives you the monthly amount.

### Step 02

Now you need to make a list of everything you spend in the month. This should include all the bills and direct debits. It's also helpful

to look at recent bank statements to see how much you spend on average on food, clothing etc. Add an average for these items into your budget. It's also important to make an allowance for yearly spending; Christmas, holidays etc. Estimate how much you will spend and divide by 12.

### Step 03

Now it's time to see how you perform on a typical month. Deduct your spending from your income. If you're spending more than you receive then it's time to look at ways to cut back and live within your means. If you still have money left over then that's great – but it's still worth using the budget to see where you can still cut back.

## Increase your income

It goes without saying that increasing the amount of money coming into the household makes a massive difference to the ability to make ends meet and pay the bills.

### Earnings

Is it possible to do overtime at work?  
Or if you work part time could you get another part time job, or look for something full time? This will obviously impact on your free time but it could make a big difference.

### Benefits

Are you claiming all the benefits that are due to you? More than £10 billion in benefits and tax credits are not claimed every year in the UK.

### Tax

Are you overpaying on tax? Make sure that you have the right tax code and claim any tax credits you're entitled to.

## Managing your money

Every household could benefit from improved money management – whether in debt or not. Here are some suggestions to help you make ends meet.

### **Check your bank account**

How many of us simply let our bank statements pile up and never go through them? It's also now easy to check our accounts online or via smartphone apps.

Regular checking through the month allows you to hold back the spending if possible, or let you know that you're on budget. A detailed review of your bank allows you to see how much all those little things add up.

### **Create a budget**

A budget is the best way to take control of your finances. Once you can balance what is coming in versus what's going out, you can then take action to cut your spending and make sure you are in a position to pay your bills every month.

### **Reduce spending**

Once you've completed a household budget, it should be clear where you may be able to make some cutbacks. This doesn't have to be a case of huge changes – often it's cutting back on the small things that can make a big difference. Lose the morning latte on the way to work and you could save over £500 per year!

### **Use cash**

One tactic to help you keep on top of your spending is to use cash rather than cards. Some people take out all the cash they can afford for the month and live on that. Alternatively, if you're going on a shopping trip, taking just what you need ensures you can't overspend.

## Reduce your spending

Reducing the amount you spend will clearly have a huge impact on your ability to pay the bills. Here we take a look at ways to cut back.

### Utility bills

Make sure you're not paying over the odds for your utilities by checking for cheaper providers. There are several online utility checking websites that compare prices.

### Telephones, mobiles, TV and internet

There are many packages available that provide good offers for the combination of phones, TV and broadband. Shop around for a better deal, or if you have separate providers for each of these, look to combine and make savings.

### Vehicles

Many households now have two cars. As we all know, they are not cheap to run when you consider fuel, tax and any repairs. Could you get by with one car instead? Could you downsize for a cheaper option?

### Weekly shopping

Most supermarkets now offer value ranges and a myriad of special offers. Consider switching to these options to save on your weekly shopping bill. Also writing a shopping list is a good way to ensure you only buy what you need.

## What to pay first

For many of us, the list of things that need to be paid every month can seem endless. But not all bills are the same. The consequences of not paying some bills are much more serious than others. These bills must be your priority – for instance, if you didn't pay your mortgage you could lose your home.

Here's a table which explains what the consequences of non-payment might be for different types of bill.

Mortgage	Losing your home
Rent	Losing your home
Secured loan	Losing your home
Council tax or rates	A visit from bailiffs, attachment of earnings order, or imprisonment
Magistrates court fines	A visit from bailiffs, attachment of earnings order, or imprisonment
Tax, VAT or National Insurance	A visit from bailiffs, attachment of earnings order, a fine or imprisonment
CCJs	A visit from bailiffs, a charging order, attachment of earnings order, or imprisonment
Child maintenance	A fine, attachment of earnings order, or imprisonment
TV Licence	A fine, attachment of earnings order, or imprisonment
Gas / Electric / Other	Disconnection
Hire purchase	Disconnection
Telephone	Disconnection



## Claiming benefits

Are you entitled to benefits? It's important to make sure you claim as much as possible to help with household spending and bills. Here are the main areas where benefits are available:

### **Jobseeker's Allowance**

Available if you are out of work

### **Child Tax Credits**

If you have children you may be able to claim child benefit

### **Working Tax Credit**

Available to those with a low income

### **Ill or disabled?**

You may be able to claim Employment and Support Allowance, or a Personal Independence Payment