

**Topic 11: Dealing with Debt**

<b>Learning outcomes:</b>	<b>Key terms:</b>	
<ul style="list-style-type: none"> <li>provide solutions for dealing with debts;</li> <li>identify organisations that can help with debt problems; and</li> <li>describe debt management options.</li> </ul>	<p><b>Administration order</b></p>	<p>A repayment plan arranged by county courts in England, Wales and Northern Ireland for people with less than £5,000 in unsecured debt and at least one county court judgment (CCJ) against them. They apply to the court to have an administration order issued, then pay what the court decides they can afford directly to the court each month, and the court makes repayments to their creditors.</p>
<b>Debt solutions:</b>	<p><b>APR</b></p>	<p>Annual percentage rate – the total cost of borrowing over one year, including the interest charged and any fees.</p>
<ul style="list-style-type: none"> <li>getting free, impartial advice from debt organisations and websites;</li> <li>using a budget to calculate what they can afford to repay and changing products or negotiating agreements with lenders to repay a smaller, affordable amount each month;</li> <li>selling an asset such as a car or jewellery and using the proceeds to repay debts;</li> <li>prioritising debts in terms of the consequences of not repaying and the cost of the borrowing (APR and fees);</li> <li>using formal debt management processes such as a debt relief order (DRO), an individual voluntary arrangement (IVA), bankruptcy, debt management plan or administration order.</li> </ul>	<p><b>Assets</b></p>	<p>Things that a person or a business owns. For a person their assets might include property, jewellery or financial products such as company shares.</p>
<b>Advice:</b>	<p><b>Balance transfer</b></p>	<p>Moving the balance (total amount owed) on a card from one card provider to another.</p>
<ul style="list-style-type: none"> <li>The Money Advice Service (MAS) is an independent organisation set up by the government. It is funded by a levy (compulsory charge) on the businesses that operate within the financial services industry. It provides advice online, over the phone and face to face.</li> <li>StepChange Debt Charity – was established in 1993 as the Consumer Credit Counselling Service (CCCS) and changed its name in 2012 as part of its plans to raise awareness of its work in providing free debt advice. It provides online and telephone support to help people to create a budget and work out a plan to reduce their debts.</li> <li>The Citizens Advice service is made up of a network of Citizens Advice bureaux in England and Wales, supported by the central Citizens Advice charity. The service provides free, independent, face-to-face advice on a wide range of issues and campaigns for consumer protection.</li> <li>National Debtline – is a free, confidential and independent service providing personalised debt advice by phone, email or using the online tool My Money Steps, for people living in England, Scotland and Wales.</li> </ul>	<p><b>Bankruptcy</b></p>	<p>A situation in which a person cannot pay their debts and is the subject of a court order that shares out their assets between their creditors.</p>
	<p><b>Benefit</b></p>	<p>A government payment made to individuals who meet specific conditions to help them meet their living expenses. For example, people who are unemployed, unable to work because they care for a disabled person, or have a disability may be entitled to benefits if they meet the criteria.</p>
	<p><b>Budget</b></p>	<p>A plan of expected incomings and outgoings over a set time period such as a month.</p>
	<p><b>Citizens Advice</b></p>	<p>A charity providing free, independent, confidential and impartial advice on citizens’ and consumers’ rights and responsibilities.</p>
	<p><b>Consolidation loan</b></p>	<p>A loan used to pay off a number of different debts, meaning that there is then only one payment to make each month, to the loan company.</p>
	<p><b>County court judgment (CCJ)</b></p>	<p>In England and Wales, a judgment issued by a county court to a person who does not respond to court action from a person or organisation to which they owe money. The CCJ affirms that the money is owed.</p>
	<p><b>Credit card</b></p>	<p>A card that allows the holder to make purchases face to face, online or over the phone, and to withdraw cash from an ATM. Unlike a debit card, where the money is taken from the holder’s own account, transactions are paid by the card provider. The card holder repays the amount owed to the provider either in one payment or in instalments. The provider charges interest on cash withdrawals from the time the withdrawal is made and on purchases after a certain period.</p>
	<p><b>Credit history</b></p>	<p>A record of money borrowed and repaid by an individual. These records are held by credit reference agencies and providers will check the individual’s credit history when a prospective customer applies for a borrowing product.</p>
	<p><b>Creditor</b></p>	<p>A person or organisation to which someone owes money.</p>
	<p><b>Debt Arrangement Scheme</b></p>	<p>A Scottish government-run programme similar to a debt management plan. It involves arranging to make payments via a debt payment programme.</p>
	<p><b>Debt management company (DMC)</b></p>	<p>An organisation to which a person in debt (debtor) pays what they can afford each month. The DMC then deals with the organisations (creditors) owed money.</p>
	<p><b>Debt management plan</b></p>	<p>A detailed plan drawn up by a debt management company (DMC) and sent to an individual’s creditors (entities they owe money). It sets out an affordable monthly payment shared between the creditors.</p>
	<p><b>Debt relief order (DRO)</b></p>	<p>An order a person in specific conditions can apply for if they cannot afford to pay off their debts. It generally lasts one year, during which time none of the people owed money can take action, and after which the listed debts are cleared. Granted by the Insolvency Service, a DRO works out cheaper than going bankrupt.</p>
	<p><b>Debtor</b></p>	<p>A person in debt to an individual or organisation (creditor).</p>
	<p><b>Guarantor</b></p>	<p>Someone who undertakes to repay a financial obligation if the person who took on the obligation in the first place cannot or does not repay it. For instance, a guarantor might agree to pay rent or make repayments on a loan on someone else’s behalf.</p>
	<p><b>IVA</b></p>	<p>Individual voluntary arrangement - formal alternative to bankruptcy comprising a contractual arrangement with those owed money.</p>
	<p><b>Insolvency</b></p>	<p>A situation in which a person cannot repay what they owe because their debts are greater than their assets.</p>
	<p><b>Minimal asset process (MAP)</b></p>	<p>Available in Scotland and similar to a DRO. The MAP is the route into bankruptcy for people with less than £2,000 in assets.</p>
	<p><b>Money Advice Service</b></p>	<p>A consumer information service set up by the government to help people make informed financial decisions.</p>
	<p><b>Mortgage</b></p>	<p>A loan taken out to pay for a property, usually over a long term such as 25 years.</p>
	<p><b>Overdraft</b></p>	<p>A facility that allows an account holder to withdraw more money than they actually have in their account.</p>
	<p><b>Recession</b></p>	<p>A period of at least six months when the amount of goods and services the country is producing is shrinking.</p>
	<p><b>Sequestration</b></p>	<p>The term for bankruptcy in Scotland, which applies to people who owe more than £1,500, have not been bankrupt in the last five years and have had court judgments for payment made against them.</p>
	<p><b>Trust deed</b></p>	<p>Available in Scotland and similar to an individual voluntary arrangement (IVA). An insolvency practitioner helps people who are insolvent to make affordable repayments, and after three years any outstanding debt is written off.</p>
	<p><b>Utility</b></p>	<p>An essential public service, such as electricity, gas, water and sewerage.</p>

