

Dealing with Debt



People get in to debt for various reasons, often because of a change in circumstances such as unemployment, relationship breakdown or illness. Debt becomes a problem when you are unable to meet the usual repayments on existing loans or bills or you may find you are “robbing Peter to pay Paul”.

If you find that your debts are becoming unmanageable take action, do not ignore the situation, the following steps will help you and there is help available:

- Above all – **DON'T PANIC!**
- Open all letters and bank statements and read them - if you ignore them the situation will get worse and you do need to know what you owe in order to deal with the situation.
- Tell the people that you owe money to (your creditors) as soon as you have a problem - the earlier they know the more sympathetic they are likely to be. If you ignore their letters and telephone calls they might think you do not want to pay and could take action to recover the money before you have made them aware of your situation and it will become harder to do something about it.
- Find out how much you owe - make a list of all your loans, credit commitments and arrears payments, when they fall due, and your usual monthly repayments.
- Prioritise your debts - the law gives creditors different ways of getting their money back, depending on the type of debt; some methods will have a more extreme effect such as repossession of, or eviction from, your home.
- Make sure that you are *liable* for the debt – check the bill is in your name and that you have signed an agreement.
- Work out your income – either weekly or monthly. Make sure you use the same basis throughout your calculations. Include only guaranteed income from work e.g. do not include overtime if it is not regular. Include any benefits, tax credits and money from other sources. Include any Disability Living Allowance or Attendance Allowance (this confirms you have a disability) but as these are paid for your care needs or your travel expenses because of your disability/illness, you can show these in your expenditure.
- Ensure you are receiving everything you are entitled to - you may be entitled to some extra money. *See our [Increasing your income fact sheet for more details](#).*
- Write down everything that you spend - include essentials such as rent or mortgage repayments, food and fuel.
- Remember to include occasional costs such as repairs.
- Be realistic - this situation could be long term. If you do not allow enough for food or essentials, it might be hard to manage over the long term.
- Check to see if your priority expenditure can be reduced in any way? - If you have more going out than coming in look at your list and establish what is essential and what you could manage without or cut down on. *See our [Reducing your expenditure fact sheet for more details](#).*
- Once you have established how much you owe and how much you have left after paying for essentials, you can start to make arrangements with your creditors to repay the amount outstanding. *See our [Self help debt leaflet and/or our Non priority debts link to national debtline letters](#)*

If you feel you cannot deal with your debts on your own you should seek assistance - **See our useful links**



Do not take on any further credit or arrange any other loans

Consolidating your debts in to one loan could mean the cost of your monthly repayment may be reduced but this is usually because the repayment term is increased, in some cases to as long as 25 years. Interest rates charged on this type of loan are often higher and there could be charges for the service.

If you own your own home, a consolidated loan will often be secured against your home and you may end up switching unsecured loans such as credit cards to this method, so if you have difficulty in the future your home could be repossessed.

Think carefully before using a debt management company

There is often a charge for using this type of service. Usually the first month's payment will go to the debt management company, which means that you immediately miss a payment to your creditors. In addition to this there will be a monthly charge, usually of about 15%, plus V.A.T., deducted from your monthly payments. This will reduce the amount you are repaying from the debt each month. This method relies on the debt management company making your repayments on time and making them to priority debts first, which is not always the case. If there were any problems with the money reaching your creditors in time you could still face problems.