

Free Debt Consolidation Advice

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Introduction to Debt

There are many reasons why we get into debt, sometimes it just creeps up on us and other times you just take on too much! One of the main reasons most people are in debt today is due to the rise in the housing market and the fact that it is so easy to obtain credit.

Take credit cards for instance, they lead you into a false sense of security whereby they offer you a 0% interest rate over a period of three, six and sometimes even twelve months, then when the 0% interest period is finished they hit you with the standard credit card rate, which can be anywhere between 10 – 20%

Using your credit card and paying the minimum off every month can only spell disaster. Paying the minimum payment hardly ever decreases the amount you have paid off the balance? This is due to the amount of interest charged to the card after the payment is made. Also if you keep on spending, you will soon find yourself with a huge bill, a huge minimum payment and a huge amount of interest every month.

The same applies to the high street store card? These cards work almost the same as a credit card but after the initial welcome period or special offer, the interest rockets and you find yourself with an unmanageable bill.

When you eventually realize that your debt is getting away from you, and managing your bills is not as easy as it used to be. You turn to the bank for a loan, or get another credit card to pay off the old card. At this point, we see who is on a downward spiral and who is not? The sensible ones among us will consolidate all debt and take losing control of debt a lesson learned. The not so sensible ones will consolidate, and then revert back to using their cards once more, thus doubling their current debt to out of control proportions.

Next you will find some question and answers to debt related problems:

Q. Do certain bills have priority over others?

A. Try paying off the credit cards with the highest rates of interest first? Also if you are in arrears with your mortgage or utility companies, prioritize these first

Q. I have run up a large amount of debt, what next?

A. Be aware of your problem. Seek advice from a friend, family member or a professional. Your debt will not just disappear.

Q. Will a loan help me get out of debt?

A. As mentioned before. A loan will consolidate all your debt problems to one manageable amount. However you must have the will power to want to stay out of debt. This means "get out and stay out" don't be tempted to fall back into the debt you have just consolidated.

Q. Would it be better to save up and pay my debt or pay my debt as it comes?

A. Pay your debts as they come. There are a couple of reasons for this? The first is once you have paid your monthly payment, you can't spend it. Secondly the interest rate on your cards will be reduced, the more you pay and the more frequently you pay it the less the interest will be next month.

Q. Will the lender take serious action against me for missing payments?

A. Most lenders are sympathetic to you when it comes to managing your debt. If you keep the lender informed of the problems you are having. A solution can be worked out. County court judgements, Bailiffs and other credit return agencies cost money. Don't be scared of your creditors, communicate with them.

Q. Should I use a debt management agency?

A. There are certain debt management agencies out there for you to use. However only use these companies if you feel that you cannot manage your debt alone. Some companies charge you for their services. This has always seemed strange to me as you are the one trying to get out of debt not into it. Also some agencies only agree to help you when you can no longer afford to pay your monthly amounts. This results in negotiations with your creditors, whereby you pay an affordable amount over a longer period. This can result in CCJ's and credit defaults on your accounts, so be careful. There are some charity based companies who dedicate themselves to helping people with debt problems. Consumer Credit Counselling Services (CCCS) is one, you can find them at: <http://www.cccs.co.uk> they do not charge for their services and they are very helpful.

Short Term Debt Problems

Short term debt problems are manageable problems associated with Temporary job loss, sickness, a large one off payment which may leave you short for a month or two or you just have a lot of small out of order debt, which you need to take control of.

Below are just a few things to take into consideration when evaluating your credit situation.

Prioritise your Payments

Prioritizing your payments is a very important step. You must choose the creditors that are most important to you e.g. your mortgage payment and your utility companies.

Next are the credit cards and store cards which charge the most interest, by paying off the cards with the most interest you can reduce the amount of interest calculated on your next bill.

Transferring your credit card balance onto another card, with a 0% interest period is also a recommended action. This allows the full monthly payment to be deducted from your balance, without incurring any interest.

Always remember to pay off your debt with any available money you may have at the end of each week/month. Doing so prevents any arrears and a build-up of interest on credit cards and store cards.

Can you improve?

Improving your situation is one of the best ways to acquire extra money. Try to think of ways to maximize your full income e.g. is it possible for you to work more overtime, can you claim any benefits, and do you have anything of value to sell? Also can you afford to cut back more? A drastic measure is to move to a smaller house and pay less mortgage or less rent, however this is a worst case scenario.

Contact your creditors

If you are experiencing money problems, do not be afraid to contact your creditors as they will try to help you. Due to the process the creditors have to go through to get money from you if you do fall into serious money problems, it can work out quite expensive to your creditors. Contacting them could lead to negotiating a new payment plan.

Before contacting your creditors, make a comprehensive list of all the outgoings and a realistic amount that you can pay each month. After you have completed a list of outgoings, make a list of all creditors remembering to prioritize from most important to least important. Upon completion of this list, prepare a formal letter explaining your situation and proposing your payment plan.

When you receive confirmation/acceptance of your proposed plan (or something close to it) always keep your creditors informed of your progress. This process is a long drawn out process and you will have to prove to your creditors that you are struggling with the upkeep of your payments.

Cut backs

You will be surprised on what you can save on when you cut back. Make a list of all of your current outgoings, this includes all your shopping, hobbies, magazines, news papers, treats, everything. When you have produced your list, take a look at it and remove all essentials

From this list also look at the brands of shopping you buy, you can save money buy using a cheaper brand.

The items you have left on your list are obviously non essential to you, therefore can be excluded from your weekly/monthly expenditure. You will be surprised to see how much you can save from this simple money saving technique. However you do have to be tough on yourself when excluding non essential things, think to yourself "do I really need it."

Choose the best rates

If you still have a good credit score and still have the ability to be accepted for a loan, then try switching your outstanding credit to a new loan or credit card.

Search the internet, local papers and magazines, even keep an eye on the adverts on your TV, there are hundreds of creditors offering 0% interest on credit cards. Try doing the same for loans too. It is very unlikely you will find a 0% interest loan, however there a lot out there with rates from 5-9%.

Switching credit cards and loans will save you money on increased interest rates. Look at the big picture over the long term; you will save £100s on interest.

Consolidate through your mortgage

It is possible for you to consolidate your debt on to your mortgage. However doing so does increase the interest you will pay drastically. Imagine you have debts of £10,000 over a five year period. You wish to add this to your mortgage over a period of twenty years. The interest accumulated over five years will be significantly less than the accumulated interest over twenty years.

You must also be sure that the value of your property is significantly more than the amount of your mortgage. Negative equity on your home can lead to problems.

Consolidate with a loan

Consolidate through a loan. Quite like putting all your eggs in one basket so to speak. Then there are a few scenarios you may want to consider:

- How much do I want to pay out?
- Do I want to take the loan over a shorter term and pay my debt back faster?
- Do I want to take my debt over a longer term, pay more interest but take a lower payment?
- Am I going to stick to the loan and not get into more debt?

If you are aware of these simple scenarios then a consolidation loan is recommended. It is cheaper due to one amount of interest paid instead of multiple amounts. Also you will find your money easier to manage due to the one single payment every month/week.

Do pay particular attention to the term of the loan you require, it is better to pay the loan back sooner rather than later. Try to find an amount you are comfortable with. It is easy to take the lower payment over the longer term, which allows you to have more expenditure. However, is this option a sensible one? More interest, longer term, more to pay back. You would be better with shorter term, less interest, less to pay back.

Long Term Debt Problems

Debt counsellors

Debt management companies can offer an excellent service for large amounts of out of control debt. If you are having difficulties keeping up with any repayments, then do seek advice from a debt counsellor. They are professionals and know how the creditors work.

If you have your debt management plan accepted, a singular monthly payment is made to the debt management company, who in turn pay your respective creditors with monthly payments.

The monthly payments that the debt management company pays to the creditors, is negotiated on your behalf by the debt management counsellor. Negotiations are all to do with the amount of debt you are in, amounts you can afford and the term you have left. Most creditors have different policies for handling situations like this. Depending on the creditors terms and conditions and the counsellors negotiation skills, some credit agencies reduce and even freeze interest rates for the term of your loan, some companies extend the term interest free with a lower monthly payment. It really does depend on the creditors and there policies as to what deal you will receive.

A debt management programme can take a long time to clear any outstanding debt. However programs like this are often an excellent solution. Your debt is handled by professionals, this relieves the stress of debt and gives you piece of mind knowing you have a professional taking care over your debt.

There are a couple of things you need to be wary of. Some debt management companies require a monthly fee which can be quite costly. Others require a one off start up fee. It is best to look into debt management company's policies before committing to a debt management plan. Charity based companies are usually the best <http://www.cccs.co.uk> offer a service for free. CCCS only use the interest from your monthly payment to your creditors as payment.

Bankruptcy

When an individual is deemed bankrupt, it means the individual has become insolvent. Personal insolvencies in England and Wales are dealt with usually under the Insolvency Act 1986. When the court is satisfied that there is absolutely no hope of the debt being paid, a bankruptcy order is issued on the petition of the debtor (which is you) or one or more of your creditors who are owed £750 or more.

The official receiver investigates the financial affairs of the debtor for the period before bankruptcy and is appointed to act as trustee from the date of the bankruptcy order until a trustee takes control.

Bankruptcy is by no means the best way of dealing with your debts. When an individual becomes bankrupt there are severe restrictions placed against a bankrupt person, for instance:

- Acting as a director of a company, starting, managing or promoting a company without the consent of the court's
- Continuing to run a business in a different name from that for which the bankruptcy was made without informing all associates doing business with you
- Obtaining credit of £250 or more without disclosing to the creditor, your bankruptcy

Upon bankruptcy all banks will be informed of your insolvency, bank accounts will be closed, all future assets lost, and all hire purchase items will be returned. In effect you will be left with nothing but the home you live in. However you will be debt free. Only as a last resort should you opt for bankruptcy. The ability to obtain a new bank account or any future credit will be considerably harder to achieve for a term of around 7 years.

Individual Voluntary Arrangements (IVA)

An Individual Voluntary Arrangement (IVA) is a legal process for UK residents with major debt problems. An IVA can be arranged with the help of professional insolvency practitioners.

An IVA can be effective at curing debt problems without many of the negative aspects that can be produced by bankruptcy. An IVA is an especially viable solution for those with equity to protect.

Depending on your circumstances, IVA's can write off a high percentage of your debt. If you keep up the arranged monthly payments, you can be debt free in as little as five years.

You the client agree to the details of an IVA with your creditors at a creditors' meeting. A 75% majority vote, in favour of an IVA is needed for an agreement.

With an IVA you can avoid any legal actions, freeze all interest charges, remove CCJ's and design a programme of manageable monthly payments based around what you can afford.

You also avoid the penalties associated with bankruptcy as mention earlier:

- Acting as a director of a company, starting, managing or promoting a company without the consent of the court's
- Continuing to run a business in a different name from that for which the bankruptcy was made without informing all associates doing business with you
- Obtaining credit of £250 or more without disclosing to the creditor, your bankruptcy

However, IVAs are usually only suitable for those with unsecured debts of at least £20,000.

Although an IVA protects you from the stigma of bankruptcy, where all details are advertised publicly. If your application for IVA fails, you could still be made bankrupt. You will also be charged for the cost of the IVA; however this would be added to the debts.

Why is My Credit Score so Low?

Too many credit applications

Every time you apply for credit, your credit file is checked and a credit footprint is recorded. Applying for credit from a range of applicants, over a very short space of time can have a negative effect on your credit score. Having credit refused by a large amount of creditors over a short space of time, can prove to creditors that the individual is desperately trying to obtain credit to no avail. This in turn can arouse suspicion regarding the applicant's credit situation.

Try to keep the number of applications for credit down to one a month. If you have made an unusual amount of credit applications, which have been refused. Do not apply for more credit for around six months, this allows time for your credit file to look a little more respectable.

Living at current address for less than 3 years

This applies to tenants more than home owners. If you move around a lot and apply for credit from different locations, your credit file will reflect this. Creditors do like you to have a fixed location for correspondence. Home owners are different, creditors like the applicant to live at the current address for a minimum of 1 year. This proves to the creditor that the home owner is committed to owning the home and has no financial difficulty repaying debts.

Lack of employment

Lenders usually prefer an applicant who has had the same job for a number of years. Changing jobs for more money will usually have no effect on credit status or the application process; however it is better to have been in a new job for a few months before applying for credit.

As a period of continuous employment is what the lender preferably wants to see. It is better for the applicant not to have been through a period of unemployment between jobs and have 3 or more jobs in

the last 3 years. This can adversely affect your credit score. Lenders do like to see three months worth of bank statements and payslips when reviewing credit situations.

No bank account or new bank account

Not having a bank account is probably the worst case scenario possible. It is highly unlikely you will ever receive credit without a bank account. A new bank account can also cause problems, as most creditors require bank statements for credit evaluation. If you have been with your current bank for a long period of time, this proves to the creditors there is a long standing history with commitment to your bank. A long term bank account rates very highly on the credit rating.

History of bad credit

Your credit history accounts for around one third of your credit score. Not only do County Court Judgements (CCJ's) or defaults on your credit report have a negative impact. Also missed and late payments have an adverse effect. Some of these credit entries stay on your credit file for 6 years. If you have been making payments on time for at least the last 12 months the damage to your credit file is greatly reduced and entries will begin to have less and less influence on your score as long as timely payments are made.

Not registered on the electoral roll

Registering yourself on the electoral role will help you gain credit. Most applicants are checked against the electoral role for proof of address. If you are not registered, try ringing your local council for details regarding registration.

How to Steer Clear of Debt

One of the main problems to face is not overspending. Be true to yourself; only spend what you can afford. It is hard when you see things you want to buy, like a new outfit or a package holiday. You must ask yourself the question "can I really afford it?" if the answer is yes, great do it treat yourself. You deserve it! If the answer is no, then you have to be honest. Do not use the credit card. Save a little, make your treat a goal, an aim, a challenge!

Store cards

Store cards are the worst type of credit card. Stay away from store cards all together, unless you are sure you can pay off the balance

before the interest is calculated. Some store card interest rates can be as large as 29%. If you want to steer clear of debt, forget about owning a store card.

Credit cards

If you feel you can do without a credit card, then do it! If you feel that you need a credit card but are led into spending temptation, you must take great care and monitor your spending. You cannot say "well I will just buy this and pay it back later." Or "I will get that because I think I need it". Keeping a good eye on your spending will help you keep the debt down.

If you do decide to keep your credit card, be sure to find the best deal. Shop around, look for the 0% introduction offers, and find a card with a low flat rate. Once you have found a card suitable for yourself, the same rules apply. Keep an eye on your spending!

By watching your spending, you will make yourself aware of your balance, and have a good idea what your bill will be at the end of the month. Always try to clear your balance by the end of the introductory period. If this is a problem then, try to find another creditor with a 0% offer. At least you will be interest free, which does allow you to pay your balance quicker.

Cutting Back

Make sure you keep a constant eye on your spending. It is ok to buy treats now and then, however do not spend what you cannot afford.

Make a list of your entire out goings each month; try to save on the list by cutting back? You will be surprised to see how much money you can save by working out your outgoings this way.

Always remember! What you have left at the end of the month/week, is all you have left, No more! Do not overspend beyond your means; this is one of the main rules which will keep you clear of debt.

Removing a County Court Judgement (CCJ)

Most County Court Judgements are the result of an undefended court summons. Usually because the defendant is not aware of the correct course of action needed. So the court enters a judgment by default.

The Central Registry then passes the judgements to the credit agencies.

Debts to a specific creditor can be paid in full; however the CCJ will stay on file. This is partly because a request for the removal of the CCJ has never been issued. Simply because whoever received the judgment did not know that it was necessary.

If a CCJ is set aside or reversed, e.g. by appeal or the outstanding arrears have been settled within one month, the courts will automatically remove the entry from the Register of County Court Judgments.

The details below are required to process the removal of a CCJ:

- The name of the plaintiff (usually the creditor)
- The Case Number! Without the case number the courts will not even read an application.
- The original summons.
- The name of the court

Getting a CCJ removed

First of all you have to obtain a current copy of your credit file. After the credit file is obtained, write or e-mail the credit agencies asking for a copy of your credit file. Copies of your files can be obtained from Experian or Equifax

Secondly, gather any details of the CCJ that has been issued against you. When the information you requested from the credit agencies is received. Take note of the county court judgements set against you.

The next step is to write a letter asking the court to send all of the details they have against you regarding your CCJ.

Example letter Requesting information regarding your CCJ

Your Name
Your Address

The Clerk of the Court
Your County Court
County Court Address

Date

Dear Sir/Madam

Could you please send me all of the information on the judgements that were made against me in your county court? The judgements are as follows;

1. Case Number: [case number here] Date: [date here]

These judgements were made against, Your Name

Kind Regards.

Your Name

If you feel you have been unfairly or incorrectly issued with a CCJ? Then a N244 form is used to request to a court the removal of the unfair or incorrect CCJ. N244 forms are readily available free of charge from the county court. Complete the N244 giving details relating to your county court judgement, with reasons why the judgement should be set aside. Some valid reasons for setting aside a CCJ are as follows:

- Not given 28 days notice to pay outstanding debts
- Incorrect postal address when the summons and judgement took place
- Summons not received
- The CCJ issued has appeared on your credit file even though all arrears were settled within 28 days
- Not given 21 days to reply to the court due to a late summons. If the summons was 21 days late then the judgement would have already been made.
- Your name was used by another to gain credit, resulting in a CCJ
- Out of court settlements with the plaintiff, resulting in all arrears paid
- If you did not receive any notification of the judgement/s made against you, then you can appeal.
- Unable to attend court, due to other circumstances
- Summons taken out against both yourself and another person jointly and only one party received summons

Contact your finance company, make enquiries regarding any outstanding defaults or arrears.

If there are still outstanding debts to be paid. Please could you send written information regarding the details of what you would require to settle the outstanding amount?

Kind Regards,

Your Name

When confirmation has been received from your creditors, explaining any outstanding debts have been repaid in full. You must now proceed to inform the credit agencies of the situation.

**Example letter
Requesting removal of CCJ's from your credit file**

**Example Letter
Contacting your finance company regarding any outstanding defaults**

Your Name
Your Address

Finance Company Name
Finance Company Address

Date

Dear Sir/Madam

Ref: [Your Reference Number]

Please could you give me any information regarding any defaults or arrears that have appeared on my credit file issued by the credit reference agencies concerning any debt owed to you.

If the debt in question has now been repaid and settled in full. Please could you confirm in writing, so that I can clear my credit file with the credit reference agency.

Your Name
Your Address

Credit Agency Name Experian, Equifax
Credit Agency Address

Dear Sir/Madam

Please find enclosed confirmation from the county court that the enclosed judgement has been set aside. I would be most grateful if you would remove this county court judgement from my credit file.

Please find enclosed, a letter from [creditors] stating that the amounts of credit has now been repaid in full and that they are prepared to have the default on my file removed.

Please could you send any information regarding my revised credit file to me for my records?

Kind Regards

Your Name

County court judgements do remain on your credit record for up to six years. However when a potential creditor examines your credit file, they will be able to see that all debts were paid in full.

Expenditure Check List

You will find below an expenditure check list that will help you figure out your entire monthly out goings. Use this list to work out what you can spend and what you can't.

At the end of the expenditure check list, calculate all of your outgoings and compare them to your income. You will then be presented with a realistic amount of what cash you have available at the end of the month.

Income per Month:

1st salary

2nd salary

Other income

Outgoings per Month:

Credit cards and other loans

Contribution to pension fund

Other rental/HP agreements

Savings contributions

Household protection insurance

Food

Household goods

Clothes

Toiletries

Dry cleaning and Washing

Gas

Electricity

Water

Council tax

Telephone (including mobile)

Life assurance and protection products

Prescriptions

Eye care

Petrol/diesel

Car insurance

Public transport

Car tax

Car maintenance

Children's education (Meals, Uniform, Trips or Nursery fees)

Holidays

Gym or leisure club membership

TV license

Pets (food, Vet bills)

Socialising (Smoking, Drinking, Restaurants, Cinema)

Hobbies

Computer equipment

Anything Missed

Total income per Month:

Monthly Outgoings Total:

Thank you for reading I hope you found this material informative. If you are in debt and are having problems, it is never for ever. Try to be positive and act on some of the advice you have read here today. If you do feel completely lost, I do recommend talking to a professional e.g. your bank manager, your creditors or a debt management company like <http://www.cccs.co.uk>