Your guide to debt –

What you need to know

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Introduction

Welcome to Money Village. We are a professional debt advisory service who can help you deal with your debt problems. In this guide you'll find much useful information to help you deal with your debt. For more details, and to discuss your own situation, please contact us at any time.

Request a call-back –

Call free: 08000 114 999*

Text: 07557 183 557

Email: info@moneyvillage.co.uk

Visit: www.moneyvillage.co.uk

*Calls from non-BT landlines and mobile phones may be charged

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Dealing with debt – 5 things you should know

1. You can get free debt advice and services.

You can find out more by contacting the Money Advice Service or by visiting www.moneyadviceservice.org.uk/en/articles/where-to-go-to-get-free-debt-advice.

For an impartial source of information regarding dealing with your creditors, you should visit the following websites:

In England and Wales: www.gov.uk/options-for-paying-off-your-debts.

In Scotland: aib.gov.uk for the 'debt advice and information package' document.

In Northern Ireland: www.economy-ni.gov.uk/publications/debt-dealing-your-creditors.

2. You should have been given advice about all the options for dealing with your debts.

Your adviser will explain all the options that are open to you which may be suitable (which may include bankruptcy, debt relief order, individual voluntary arrangement, debt management plan or solutions available to Scottish residents only). Your adviser will discuss advantages and disadvantages of each option with you so that you can make an informed choice.

3. You will know how much the arrangement will cost you and the time it will take for your debts to be repaid.

If your adviser does not, you must ask. If you have approached a firm that complies with FCA rules, you will always be given this information. You will not be charged an up-front fee by Money Village to set up your debt management plan. Any money you pay to a company to cover their fees will reduce the amount used to repay your debts. Think carefully about your options if any company offers a solution where more money is being used to pay your adviser than your creditors.

4. Your provider will go through a full and accurate budgeting process with you.

This is vital to make sure that the payments you are asked to make are affordable for you and fair to your creditors.

5. If you are not happy with the service you receive, you can complain.

You should complain to your adviser first, to give them a chance to put things right. They should tell you clearly how to do this. If you are unhappy with the outcome, you may be eligible to complain to the Financial Ombudsman (FOS) (www.financial-ombudsman.org.uk). FOS is an independent body that can award you compensation if they decide in your favour.

Please visit our website for details of our complaints procedure and the FOS.

If the adviser's company is a member of a trade body, and the matter is covered by their code of conduct, you can also complain to the trade body. Your adviser should tell you how to do this. This does not affect your right to refer your complaint to the FOS.

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Money Village is a profit-seeking company. Depending on the best option available to you there may be fees after a Personal Advisor has looked closely at the facts. Some solutions may need to be referred to an associate specialist who may include charges in any plan.

Until we're aware of the right solution it's not possible to quote any costs. However, the charges for each solution are clearly set out on our website, and in detail in the pre-contract documents which will be sent to you before you accept any solution.

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The Money Village Debt Management Plan

What is it?

The Money Village Plan is a debt management programme from Money Village. It is designed to help people who are having trouble paying off their creditors and unsecured debts. Each plan is tailored to suit the individual circumstances of the client.

How does it work?

An experienced Money Village Advisor looks at your financial situation by collecting information about your income and outgoings. Once you have provided this information the advisor can then calculate what amount you can realistically afford to pay your creditors each month. Once you've seen and agreed to all the details, they'll negotiate an affordable payment plan with your creditors on your behalf.

What does it cost?

We do charge a fee for our service, which will be shown on the Client Agreement Form. You'll need to sign this before any Plan is put into practice. In general our fees are £20.00 + £3.00 per month for each debt included in the plan. We will always send not less than 55% and in many cases a great deal more of your payment to your creditors. Our maximum monthly fee is capped at £75.

What are the *pros* ?

- You make just one single, affordable payment each month which includes our fee. This is distributed, less our fee, amongst your creditors on a pro-rata basis within 5 working days of receipt of cleared funds.

- It's very flexible. Your payments can go up or down, to reflect the changes in your financial situation at the time. Also, should your circumstances change you can switch to an alternative solution, such as an Individual Voluntary Arrangement (IVA), should this be suitable. What's more if you acquire extra funds, say through an inheritance, we could negotiate reduced settlement figures with your creditors.

- You can also cancel the agreement at any time without charge or notice period (although see below re failure to maintain monthly payments).

- As we have established relationships with creditors, they're more likely to consider any requests to stop interest and other charges, although this is not guaranteed.

- You can afford to meet your priority monthly outgoings such as your mortgage, rent, council tax, utility bills and childcare expenses. We take all these costs into account before we calculate and agree with you what monthly payment you can manage.

- Your Money Village Personal Advisor deals with your creditors on your behalf, saving you time and hassle.

- Our team of Personal Advisors are on hand to give you professional help and support you need on an ongoing basis.

And the *cons*?

- If you reduce your monthly repayments it means that the overall repayment period – and the total amount you repay – will be higher. We will let you know the details before you sign-up.

- Your credit rating will suffer. This is because you're no longer making the payments you have agreed to in the past. This will stay on your record for six years, and means you might not be able to get credit in the short term and possibly longer.

- Some debts can't be included in a Plan. These include mortgages, other secured loans, HP or other consumer hire agreements, utility bills and arrears, council tax arrears, fines, taxes and child support payments. If you don't pay these you could be evicted or have your home repossessed, as well as losing essential goods and services such as gas and electricity.

- Non-statutory plans like these are not legally binding on creditors, which means we can't guarantee that your creditors will accept our repayment proposals. Nor can we be sure they'll suspend interest, charges, and any current recovery or legal action. All these may incur extra costs for you and increase the total amount payable and the period over which the debt is to be repaid.

- If you don't keep up your monthly repayments, your creditors may restart collections or legal action. If you find you can't manage your monthly plan payment, tell us immediately.

- Your creditors may still contact you directly. Don't ignore them as this could result in default notices and litigation, the cost of which could be added to your debt. You should ask your creditors to contact us in these circumstances.

Individual Voluntary Arrangement or IVA

What is it?

An Individual Voluntary Arrangement, generally known as an IVA, is a formal, legally binding agreement. It is between you - the debtor - and the people you owe money to – your creditors.

For many people in debt, an IVA is a realistic alternative to bankruptcy.

Are you eligible?

For an IVA you should have a minimum level of debt of around £7,000. However, in practice this may vary. You need to be a resident of England, Wales or Northern Ireland. You will also need a minimum level of disposable income.

Money Village can advise whether an IVA is suitable for you or whether a Debt Management Plan or bankruptcy would be better options.

How long does it last?

An IVA usually lasts for 5 years, although it can be extended. During this period you make regular monthly payments to your creditors.

What then?

You'll be debt-free as any remaining debt will be written off.

How do you apply?

You apply for an IVA to an Insolvency Practitioner. Again, Money Village can help. We can complete an application with you and submit this to our preferred Insolvency Practitioner. If this is accepted, the Insolvency Practitioner will then draw up a formal IVA proposal for submission to your creditors.

How much will it cost?

Good question. The fees for an IVA are generally around £4,500 and are taken from your monthly payment. The fees may vary depending on your circumstances. The Insolvency Practitioner will tell you the full fees before you proceed. If Money Village handle your application, the Insolvency Practitioner will also pay us a referral fee.

So what are the pros?

- After 5 years you'll be debt free.

- Your creditors can't get in touch with you directly.

- You may be able to take a payment break of 6 months, possibly longer. This would mean your IVA term being extended, and is at the discretion of the Insolvency Practitioner.

- The self-employed can continue to trade. You should note that the affect on your personal credit rating (see below) may affect your ability to obtain credit for business purposes.

- There are none of the restrictions imposed by bankruptcy. Notably, you can still continue to use your bank account.

- Should you work in a profession such as finance, the police or armed forces you could lose your job if you go bankrupt. An IVA gives you some protection here.

- Nor will you automatically lose your home. However, you may have to use the equity to help pay your creditors. This is the difference between the market value and the amount of mortgage that's outstanding.

And the *cons* ?

- There's no guarantee your IVA will be approved. You need 75% (by value of debt owed) of your creditors to approve your proposal.

- An IVA usually lasts for five years. In contrast, bankruptcy is just one year.

- You'll be free of the debts you've included in the IVA. However, if you have other debts they will not be affected and will remain outstanding after the five years are up.

- Nor can you include all debt in an IVA, only unsecured debt such as credit cards and store cards, Inland Revenue debt and debt with County Court Judgements attached. This means secured debt such as mortgages and secured loans, HP payments, current utility and council tax payments, child maintenance payments, student loans and fines can't be considered and will still need to be paid, plus any debts incurred after the IVA has commenced. Any debts not included will not be discharged at the end of the IVA term.

- You must keep paying priority monthly commitments like mortgage, rent, council tax, utility bills and child care. You face repossession or eviction from your home, or loss of essential goods and services if you don't. However, these are considered before a realistic monthly repayment to your creditors is calculated.

- Your credit rating is affected for six years, not just the five of the IVA itself.

- Entering into an IVA may affect your employment. You should check your employment contract or speak with your HR department to see if this would be an issue.

- There are restrictions on the way you spend money.

- You may have to use the equity in your home to pay some or all of your debt. A re-mortgage may attract higher interest rates so you need to be sure you could meet higher payments if you do re-mortgage. However, if you can't remortgage your IVA can be extended for 12 months.

- If you can't keep your payments up your IVA may fail. This means you could be declared bankrupt.

- It's public. Evidence of your entering into an IVA will be entered on the Insolvency Services' public register.

Please note

Please note your creditors may contact you directly whilst your IVA proposal is being considered. You should not ignore them as this may result in default notices and litigation, increasing your overall debt. If you make no payments whilst your IVA is being set up, you will fall into, or further into, arrears, thus increasing the total amount owed and the repayment period should your application not be approved. We can advise you as to the best course of action.

It takes about 6-8 weeks to set up an IVA, although this period can vary.

An alternative solution

A lump sum IVA

If you have the funds available, you could also consider a *Lump Sum* IVA. Again, this is a legally binding arrangement with your creditors. However, as the name suggests, rather than 60 monthly instalments you repay a portion of your debt in a single, one-off payment.

Your proposal for a lump sum IVA must be accepted by 75% (by value of debt) of your creditors. Before they will agree, you must prove that you can't make any additional monthly payments.

If your creditors do agree, the IVA will become legally binding on all your creditors. This means they must freeze interest, stop charges being added to the debt and refrain from taking legal action. As long as you keep the terms agreed, the rest of your debt will be written off.

How does it work?

Your Insolvency Practitioner collects the funds to settle with your creditors, and then distributes them on a pro-rata basis.

The fee for the IVA will be agreed with you upfront, and fully disclosed before you enter the agreement. This will include any referral fee paid to Money Village by the Insolvency Practitioner, should we help you make the application.

You should be aware that, as with a regular IVA, your credit rating will be affected for six years and will be entered onto a public register. There are also no guarantees that your lenders will approve the lump sum IVA proposal. As per the 'cons' above, not all debts can be included and so will remain outstanding.

It takes about 6-8 weeks to set up a lump-sum IVA, similar to a regular IVA, although this period can vary. Your creditors may contact you directly whilst your IVA proposal is being considered. You should not ignore them as this may result in default notices and litigation, increasing your overall debt. If you make no payments whilst your IVA is being set up, you will fall into, or further into, arrears, thus increasing the total amount owed and the repayment period should your application not be approved. We can advise you as to the best course of action.

There are alternative solutions if you have a lump sum available which may be more suitable. We can discuss these with you.

Settlements

What are they?

Have you had a windfall? Maybe you've sold your house, taken a lump sum from your pension or been left an inheritance? If so, you should seriously consider paying off your debts. This is known as a settlement, and there are two kinds – full and partial.

What if there's not enough money?

If you have enough funds then you should pay off your debts in full. Your creditors will then mark the debt as 'satisfied' on your credit file.

Of course, there may not be enough funds to pay in full. In which case, and assuming you have a debt management plan such as a Money Village Plan in place, you have several options:

- Pay off one or more of your debts in full. This will cut the total amount you owe and allow you to pay off the remaining debt more quickly. Remember, though, that you must continue the payments to your plan.

- Ask your creditors whether they're prepared to accept a lump sum and write off the remaining balance. This is known as a 'partial settlement', and creditors might mark your credit file as 'partially satisfied'. You can settle some or all of your unsecured debts in this way. Again, it will mean paying off your debt management plan sooner.

- If your creditors won't accept a partial settlement, you could still make a lump sum payment towards one or more of your debts.

How do you do it?

If you're in a suitable position and are considering settlement of some or all of your debts, just let Money Village know and we'll discuss the matter with you. We can give you expert advice, and negotiate with your creditors on your behalf.

What are the *pros* ?

- You settle at least some of your debt now, either in full or at least part

- Your other debts can be paid off sooner and you can make a fresh start more quickly.

- If your creditors accept your partial settlement offer, you'll be paying back less than you otherwise would.

- Once your debt is settled your credit file will be marked accordingly.

And the *cons*?

- Your creditors don't have to agree to a partial settlement. They can reject it out of hand, ask for more money or insist on full repayment.

- If you can only afford to pay off some of your debt, you have some decisions to make. You have to decide what's fairest, as some creditors may not like other people being paid before them.

- When you make the offer, creditors are likely to want to see an up-to-date financial statement. You may also be asked to reveal where you are getting your funds from and prove that they are available.

- If you've been served with Default Notices or County Court Judgements – CCJs – they will stay on your credit file for six years from the date they were served. As we've said, for partial settlements creditors can mark the debt as 'partially satisfied' on your credit file. This could still have a negative effect on your credit rating.

- Money Village can negotiate a partial settlement with your creditors for you. However, we do charge a fee based on how much they agree to write off. This is currently 10% of the amount written-off. This means you may end up paying more than you would if you dealt directly with your creditors yourself.

Please note

Until your settlement offer is accepted by the lender, you should continue to make your regular monthly payment. If you do not, any agreed payment arrangement may fail and you will fall into, or further into, arrears, thus increasing the total amount owed and the repayment period should the settlement offer not be approved.

Bankruptcy

What is it?

A much used – even abused - term, 'bankruptcy' actually refers to the process whereby a person formally declares that they can't pay their creditors. This is available to all debtors in the U.K. except Scotland, who has its own process known as 'Sequestration'.

Depending on your individual circumstances, it can sometimes be the best option. However, you should explore all other suitable options (such as an IVA, a DRO or a debt management plan) before considering bankruptcy.

What happens when you're declared bankrupt?

Bankruptcy means that most of your debts at the time of the bankruptcy order will be written off automatically when a period of one year is over. However, note this is *most* debts. Not all types of debt are written off. In these cases, creditors can still take action to get their money back. The type of debts that aren't written off automatically include:

- Magistrates court fines
- Payments a court has ordered you to make under a confiscation order
- Maintenance payments and child support payments. These include lump sum orders and costs from family proceedings, although possibly you can ask the court to order that you don't have to pay these.
- Student loans
- Secured loans and debts, such as debts secured with a charging order.
- Debts you owe because of injury to or the death of another person. Although again, you may be able to ask the court to order that you don't have to pay.
- Social fund loans
- Some benefits and tax credit overpayments

So, before you apply for bankruptcy, sit down and work out how you'll deal with debts such as these. Your Personal Advisor can help you.

How do you apply?

In England and Wales a bankruptcy application now has to be filed online, which means the courts are no longer involved.

Applications must be submitted via GOV.UK, the government's website. An adjudicator in the Insolvency Service will then decide whether the application is successful. You have to submit the application yourself, as advisors such as Money Village are not allowed to do it for you.

This contrasts to Northern Ireland, where you complete a bankruptcy petition form and statement of affairs and then take these to the High Court. You still go online to find the forms, however. You must also swear an affidavit before a solicitor stating that the information you are giving the court is true. To find out more, visit www.citizensadvice.org.uk/nireland and click on the 'Debt and money' link.

What happens then?

If your application is successful, a bankruptcy order will be sent to the Official Receiver. They'll take control of all your assets, arrange for their sale or disposal and then manage payments to your creditors.

Creditors may do it for you

Please note that bankruptcy is not always in your own hands. One of your creditors can petition to have you made bankrupt if you owe them £5,000 or more. This will then be heard at court.

What does it cost?

At present, the total cost of bankruptcy in England and Wales is £680. This is levied by the Insolvency Service and includes an adjudicator's fee of £130 and a bankruptcy deposit of £550. In Northern Ireland the total is £647, consisting of a £525 deposit, a £115 adjudicator fee and a £7 solicitor's fee for the sworn affidavit.
There is no fee remission scheme. However, in England Wales you can pay by instalments at a minimum of £5 per payment.

What are the *pros*?

- Bankruptcy usually lasts for just one year, after which you are debt free.

And the *cons?*

- You lose control of your assets.
- Your bank account will be frozen after you go bankrupt and could eventually be closed.
- You could also lose your home.
- Not all debts can be written off – see the list above.
- In some cases, you may also be subject to an Income Payments Order or Agreement. This means that you may have to make a regular monthly

contribution towards the debts included in your bankruptcy arrangement. This normally lasts for 3 years.

- Your credit rating will take a significant hit. Credit reference agencies record your bankruptcy for 6 – 15 years, depending on the circumstances.

- If you apply for a loan or mortgage, the lender will probably ask for previous bankruptcies to be declared.

- Self-employed? Bankruptcy means your business will close. There will also be restrictions on any future self-employment while you're in bankruptcy:

    - You can't borrow more than £500 without telling the lender you're bankrupt.
    - You can't create, manage or promote a company without the Official Receiver's permission.
    - You can't manage a business without telling people you do business with that you're bankrupt.
    - You can't act as a director of a company.

- Employed? There could still be consequences. For example, you can't be a solicitor, the trustee of a charity or take any position regulated by the Financial Conduct Authority. Before applying for bankruptcy, check your contract of employment or see your HR department.

- You'll also need to reveal all information about your financial affairs. This includes details of any property you own, plus any redundancy and pension plans. Indeed, you may need to be interviewed by the Official Receiver.

- Details of your bankruptcy will be held on a public register maintained by the Insolvency Service.

To find out more

If you're considering bankruptcy, we recommend you visit the GOV.UK website and search under 'Options for dealing with your debts'. Here you can complete a 'decision tree', which will help you decide whether bankruptcy is the right option for you.

If you're in Northern Ireland you should visit www.nidirect.gov.uk/articles/what-happens-when-you-become-bankrupt.

Debt Relief Order or DRO

What is it?

A Debt Relief Order or DRO is another potential solution to your debt problems. It is a low cost alternative to bankruptcy, specifically for people with relatively low debt levels, few assets and little surplus income.

There should also be no prospect of this situation improving. If it's possible that you will see an improvement in your financial circumstances, a DRO is not suitable for you. However, there will be other debt remedies available which may be more suitable.

As an alternative to bankruptcy, a DRO is worth considering. However, as we've suggested you must meet certain conditions.

What does it do?

Debts included in a DRO are written off after one year. Once entered into, any creditor included in the arrangement is prevented from taking action to recover or enforce their debts against you.

Are you eligible?

Specifically, to qualify for a Debt Relief Order you must:

- Be unable to pay your debts
- Owe less than £20,000
- Have total assets not exceeding £1,000. However, you can also own a car worth up to £1000.
- Have no more than £50 a month disposable income, after paying tax, national insurance and usual household expenses.
- Live in England, Wales or Northern Ireland – or have been living and carrying on business there in the last three years.
- Have not been subject to another DRO in the last six years.
- Not be involved in any other formal insolvency procedure at the time you apply.

What does it cost?

There's a single fee of £90 for a Debt Relief Order.

How do you apply?

You can't apply for a DRO yourself. You must do it through an approved intermediary. The intermediary must have been given permission by a competent authority to complete the forms and give advice.

If we consider that a Debt Relief Order is the right option for you, Money Village can refer you to a suitable intermediary.

For further information, you can visit www.gov.uk/options-for-paying-off-your-debts/debt-relief-orders

What are the *pros* ?

- The DRO lasts 12 months. Once this period has ended, your debts (that is, those listed in the DRO) are discharged - and you're debt-free.
- It's cheaper than bankruptcy. Once you've paid the £90 fee, you don't have to pay anything else.
- Your creditors can't start or continue legal action against you for repayment of any debt included in the DRO.
- It's relatively private. Your DRO won't be advertised in your local paper, nor in the London Gazette.

And the *cons* ?

- You can't include all debts in a DRO. For example, student loans, child support and maintenance, court fines and confiscation orders aren't eligible.
- If you want to apply for credit of £500 or more you must tell the lender you are subject to a DRO. This is required whether you apply alone or jointly with another person.
- Similar conditions apply if you want to carry on a business, either directly or indirectly, in a different name to the one under which you were granted the DRO. You must tell all the people you did business with under the name on the DRO that you are doing this.

- You can’t form, manage or promote a limited company, either directly or indirectly, without the court’s permission

- Nor can you be a company director without the court’s permission

- If you’ve been subject to a previous DRO in the last six years you can’t apply for another one.

- Your DRO will be on your credit file for six years. This will reduce your ability to gain credit and possibly even a bank account.

- Your DRO will be held on a public register maintained by the Insolvency Service.

- If the Official Receiver finds you have been dishonest before or during your DRO, or that you are otherwise to blame for your position, they can take measures against you. Specifically, they can apply for a Debt Relief Restrictions Order. This will extend the period the restrictions we’ve described apply for up to 15 years.

Administration order

What is it?

Essentially, an administration order is a repayment plan, arranged by your local county court. It's only available in England, Wales and Northern Ireland.

How does it work?

You make just one payment to the court every month. This is the amount you can afford after paying for essential bills like gas and rent. After taking their 10% administration fee, the court pays the balance to your creditors on a pro-rata basis.

How long does it last?

Generally, an administration order lasts until the debts are repaid in full.

Are you eligible?

You must owe less than £5,000 in unsecured debt. This figure can include any arrears you've built up on utility bills, plus things like rent arrears and fines. In addition, you must have at least two separate debts, and at least one current County or High Court judgement.

Money Village can let you know if an administration order is a suitable option for you. Alternatively, for more information you can visit www.advice.org.uk. Click on the 'Debt and Money' link and under the 'Debt Solutions', click on 'Administration Orders'.

What do they cost?

The only cost is the 10% of your monthly payment which the court takes for administration.

How do you apply?

You should get application form N92 from the County Court. List all your debts on the form, and complete the statement of means. You'll find notes to guide you on form N270.

What are the *pros* ?

- You don't have to pay any set-up fee.
- Your creditors can't contact you directly for payment without the court's permission.
- Creditors can't add extra interest once the order is arranged.

- You can try to include any debt you have.

- If you can only afford to pay a small amount you could apply for a composition order. This will set a date for the administration order to end, after which your creditors write off the remaining debt.

And the *cons* ?

- Priority creditors are likely to object to the administration order, in which case the judge may exclude them. This means you'll have to carry on paying them.

- The court will only consider a composition order if your payments won't clear the debts in, say, three years.

- Administration orders are registered with the Register Trust. As the Trust passes the information on to credit reference agencies, it will show on your credit file for six years. This will make finding further credit difficult credit during this time.

Debt Arrangement Scheme or DAS

What is it?

A Debt Arrangement Scheme or DAS is a statutory debt management scheme introduced by the Scottish Government. As you would expect, it applies to Scottish residents only.

What does it do?

If you have unsecured loans, or debt on credit or store cards, a DAS helps you pay for them over an agreed period of time without worrying about court action by your creditors.

You have a longer period of time to pay off your debts than before. What's more, your repayments are based on what you can reasonably afford to pay back. This part of the scheme is known as a 'debt payment programme' or DPP.

Is it for you?

A DAS could be the way to go if you find yourself struggling to meet the repayments to your creditors. However, you'll need to have money left over at the end of the month once you've paid your usual household costs like rent, mortgage or energy bills.

How much does it cost?

10% of your monthly payment is taken as a fee to cover running costs. This is made up of an application fee of 2%, which is paid to the Accountant in Bankruptcy, and a payment distributor's fee of 8%.

Some organisations charge additional fees for setting up a DAS. Money Village will direct you to sources of free, impartial advice if this option is suitable for you.

How do you apply?

First of all, you need to take advice from an Approved Money Adviser. You can find one near you, as well as further information about DAS, at www.aib.gov.uk/debt-arrangement-scheme.

What are the *pros* ?

• There's no limit on the length of the repayment period, or the level of debt. A programme can last for any reasonable length of time, subject to the value of the debt.
• Once the repayment programme is approved, all interest, fees, penalties and other charges are frozen.

• You make just one single regular payment, which means you don't have to deal with your creditors individually.

• You're protected against creditors taking legal action to recover the money you owe them.

• You're not forced to release equity from your property, as you might be with other formal debt solutions such as Trust Deeds and sequestration. Your property is also protected against legal action by creditors.

And the *cons* ?

• You will still have to repay 100% of your debt as creditors don't normally agree to write off any of it. There is a chance that some of your debt could be written off further down the line, through something known as 'an offer of composition'. However, you must have paid off 70% of the amount you owed, or have made payments for a full 12 years excluding payment breaks.

• Because you're paying smaller amounts each month, your total repayment period will be increased significantly.

• You can't include all debts in a DAS. For example, secured loans, student loans and court fines can't be included. It means you'll still need to make payments towards these.

• Once you're on a DPP, your details will be recorded on the DAS register. This is public and anybody can access it.

• A DPP will appear on your credit file for 6 years.

• There's no guarantee that your application for a DAS will be approved.

• If you don't keep up your payments, your DAS can fail. In this case, interest and charges could be added to the amount you owe. This will increase the repayment period and also the total amount you have to pay back. Also, your creditors would then be free to take legal action against you.

What next?

Money Village can help you decide whether a DAS is right for you, or whether another solution for Scottish residents such as a Trust Deed or sequestration would be more suitable. MV does not charge nor does it receive any fees for this solution.

Trust Deed

What is it?

A Trust Deed is a legally binding arrangement between you - the debtor – and the people you owe money to – your creditors. Trust Deeds are only available in Scotland.

Are you eligible?

You'll need to have debts of at least £5,000. You'll also have to have some income left over after paying tax and bills like the mortgage, gas and electric. We can't be more specific here as the exact amount depends on how much you owe. As we say, you also have to live in Scotland.

How long does it last?

Normally for four years, although this can vary. You agree an amount and then pay this every month.

What then?

At the end of the four years any remaining debts you have are written off. However, you must have made all the monthly payments required, as well as fulfilling any other obligations.

How much will it cost?

Good question. The fees for a Trust Deed are generally around £5,500 and are taken from your monthly payment. The fees may vary depending on your circumstances. The Insolvency Practitioner will tell you the full fees before you proceed.

If Money Village handles the application for you, the Insolvency Practitioner will also pay us a referral fee. You'll be able to see all the fees before you commit yourself.

How do you apply?

You can only apply for a Trust Deed through an Insolvency Practitioner, known as a Trustee. Money Village can help you with this. We can complete an application with you and submit this to our preferred Insolvency Practitioner. If this is accepted, the Insolvency Practitioner will then draw up a formal Trust Deed proposal for submission to your creditors.

You should also know

Please note that your creditors may contact you directly while your Trust Deed proposal is being considered. You shouldn't ignore them as this may result in default notices and litigation which can increase your overall debt.

What’s more, if you make no payments while your Trust Deed is being set up, you’ll fall into arrears, or further into arrears. This will increase the total amount you owe, and lengthen the repayment period should your application not be approved. It takes about 6-8 weeks to set up a Trust Deed, although this period can vary.

So what are the *pros* ?

• All interest and charges on your debts are frozen.

• If the Trust Deed is registered as ‘protected’, your creditors can’t petition for your sequestration or bankruptcy.

• You’ll be under less pressure from your creditors as the Trustee deals with all correspondence.

• A Trust Deed is usually more flexible and allows you to still hold certain public offices. This may not be the case with bankruptcy and other debt solutions.

• Priority monthly costs such as mortgage, rent, council tax, utility bills and child care costs are all taken into account before deciding the monthly amount you can afford to pay.

• You make one just one regular, monthly payment for the agreed term. After this any remaining debts are written off.

And the *cons* ?

• There’s no guarantee you’ll be accepted. At least half your creditors, representing at least two thirds of the total amount owed, must agree to the proposal.

• Only unsecured debts can be included. Secured debt such as mortgages, fines imposed by the courts, student loans and maintenance payments to an ex-spouse can’t be included.

• Any debts not included in the Trust Deed will remain outstanding and you must keep up the payments on these. They will not be discharged at the end of the term. If you don’t your home could be repossessed or you could be evicted. You could also lose essential goods or services like gas and electric.

• Your assets may be sold. Again, this means your home could be at risk. You could also be required to release any equity in your property – that is, its value once liabilities such as the mortgage have been taken away.

• If you have to remortgage to release equity, you may have to pay a higher interest rate. However, if you're unable to remortgage at all you might be able to extend the Trust Deed's 4 year term.

• Entering a Trust Deed will affect your credit rating for 6 years, even though the Trust Deed itself normally lasts for just 4 years.

• There are restrictions in the way you're allowed to spend money.

• You must inform the Trustee if your personal or financial situation changes, e.g. you lose your job or inherit some money.

• Having a Trust Deed could affect your employment. You should check your employment contract. If you're self-employed, it could be harder to get credit to buy goods and services.

• Similarly, if you rent a property from a private landlord you should check your tenancy agreement. Entering a Trust Deed could lead to you being evicted.

• If a Trust Deed fails, your creditors could then petition for your sequestration. Therefore it's vital that you keep up the monthly payments.

• Details of the Protected Trust Deed will be held on a public register, maintained by an official known as the 'Accountant in Bankruptcy'.

What next?
Depending on your individual circumstances, a Trust Deed may be a suitable option for you. However, there may be other solutions, such as a DAS, Debt Management Plan, or Sequestration. Money Village can help you weigh up the alternatives, and advise you on the best option.

Sequestration

What is it?

Sequestration is the Scottish version of bankruptcy. In other words, in Scotland it's the legal process by which you are formally declared insolvent if you're unable to repay your debts.

Please realise that sequestration is a serious process that can have a significant impact on your life. As such, it should be regarded as very much a last resort. You should also consider the assets you own and the effect it would have if you lost them.

Are you eligible?

To qualify for sequestration you must:

• Have debts of at least £3,000.

• Be currently resident in Scotland, or have been resident in Scotland within the last year.

• Have not been made bankrupt in the last 5 years.

Can you include all your debts?

In a word, no. Some types of debt are excluded from sequestration. These include court fines, maintenance payments, student loans, debt incurred due to fraud and payment for damages. You will have to carry on paying for these.

Secured debts are also excluded, although the asset the debt relates to may be sold - see below.

How much does it cost?

There's a £200 application fee for sequestration, payable to the Accountant in Bankruptcy. However, you can pay in instalments.

You should also know

You need to obtain a certificate for sequestration from an approved debt advisor. If your application is successful, a Trustee will take control of all your assets. It's likely that they will then sell them to pay your creditors.

For further information, please visit www.mygov.scot/how-do-i-apply-for-bankruptcy/.

What are the *pros* ?

- Normally, you'll be debt free after 12 months.

And the *cons* ?

- You lose control of your assets to a Trustee. They can then be sold to help repay your debts.

- If you own your home, this may be included. As it's probably your most valuable asset, the Trustee may want to release any available equity to distribute among your creditors. This could mean you having to remortgage or even sell your home.

- Although you're discharged from bankruptcy after 12 months, you may have to keep paying towards your debts for another 36 months.

- Your credit rating will be affected for six years. This means you might find it difficult or expensive to get credit after your sequestration.

- Your name and address will be added to a public register called the Register of Insolvencies. It will remain there for five years.

- Sequestration could affect your employment. You should check your employment contract.

- If you're self-employed, you could find it harder to get credit to buy goods and services.

- If you rent a property from a private landlord, you should check your tenancy agreement. Being declared insolvent could lead to eviction.

- Your bank may freeze or close your bank account. Only a basic bank account may then be available.

- If you've been sequestered you can't be a company director. Nor can you remain in certain public office positions.

What next?

As we say, sequestration is a serious step. There may well be more suitable debt solutions available to you, depending on your circumstances. For example, a DAS, Debt Management Plan, Trust Deed or the Minimal Assets Process could all suit your needs better. Money Village can help you decide your most suitable debt strategy.

Minimal Assets Process or MAP

What is it?

Exclusive to Scottish residents, MAP or Minimal Assets Process is a form of sequestration or bankruptcy for people with a low income and very little in the way of assets. If you've run out of options and have limited means, then MAP could be the way to go.

What does it do?

Once your application for MAP is approved, you'll be automatically discharged after a period of 6 months. This means you'll then be debt free.

Are you eligible?

For MAP you must have:

- Total debts of at least £1,500 but no more than £17,000.
- Total assets worth no more than £2,000.
- No individual asset worth more than £1,000. If you need a car, say for work, you can have one up to the value of £3,000.
- No property or land.
- A valid certificate of sequestration. This is a formal document confirming that you can't pay your debts when they fall due.
- Not been made bankrupt in the past 5 years.

You should also be able to show you've no money left over to pay your creditors once you've paid essential bills such as rent, gas and electricity.

Can you include all your debts?

No. Court fines, maintenance payments, student loans, debt incurred due to fraud and payment for damages are all excluded from MAP. This means you will still have to keep paying them.

What does it cost?

There's a £90 application fee for MAP, payable to the Accountant in Bankruptcy.

How do you apply?

An Approved Money Adviser will need to look over your finances and check that you can't pay your creditors. You then get a Certificate of Sequestration, and have 30 days to apply to the 'Accountant in Bankruptcy'. Your Money Adviser will help you do this.

What are the *pros* ?

- You'll be automatically discharged after a period of 6 months. You're then debt free.

- Once your application is approved, your creditors can't chase you for payment or add more interest and charges to your debts.

- When it's approved, your creditors can't take legal action.

- You don't need to appear in court.

And the *cons* ?

- Your credit rating will be affected for at least 6 years, making it very difficult for you to borrow money during this period.

- Your details will appear on a public register of insolvencies.

- Your bank may freeze or close your bank account, making only a basic bank account available to you.

- MAP could affect your employment. You should check your employment contract.

- If you're self-employed, you could find it harder to get credit to buy goods and services.

- If you rent your home from a private landlord, check your tenancy agreement. There's a possibility that being declared insolvent could lead to you being evicted.

What next?

MAP might be a suitable debt strategy for you. However, bear in mind that there may well be more suitable solutions available. Depending on your circumstances, a DAS, Trust Deed or Debt Management Plan may all make more sense.

Money Village can help you to decide which way to go. Alternatively, you can visit www.aib.gov.uk/bankruptcy/types-routes-bankruptcy.

Ten top tips to help you budget

Get a notepad and track your spending for a week. Every penny. You'll soon see how even small amounts add up.

Shop around and see what benefits you qualify for. For example, if you live alone you may be able to claim a single person's council tax discount.

Switch utility suppliers - you could cut your energy bills. It's easy and you can do it in a few minutes.

Cut your phone bills. Again, it pays to shop around.

Learn to cook! It's cheaper to prepare your own food rather than buy ready meals. Healthier, too.

Buy own label goods. You'll often find much cheaper alternatives to brands and designer labels.

Got a mobile phone? Of course you have! But did you realise you could save money by switching to pay-as-you-go?

Insurance. Check out those price comparison sites online. Not only can they cut your bills – they save you time and hassle too.

Cheaper days out. Museums and art galleries are often free.

Keep back from the Jones's. You don't have to have things just because your friends have them.

Money Village helped these people with their debt problems. We can help you too.

"I would like to thank you for all your help in advising me what to do in the time I have been with Money Village, and also for the polite phone calls".

Mrs J.F., Cleveland

"Thank you for your help and support in finding a final solution to my debt problem. The information given was very helpful."

Mr K.M, Hull

"I have found everyone I have spoken to during my time with Money Village very helpful during a difficult time of life. I am very grateful for all the support and guidance I have been given."

Mr S.J., London

"The whole experience was handled with care and understanding of my problem. Money Village were patient with me, with all the questions and the time it took me to read and understand the debt solution. They explained all the solutions and gave advice on their recommended solution, which I am glad to say is now completely sorted."

Mrs W.I., Walsall

"I would like to say a big thank you to Money Village for the way they helped me with my problem. They were so kind and helpful at a time when I did not know what to do. From the very first phone call, Money Village staff had such a caring way of talking to me. I felt you had put your arms around me and comforted me. I would advise anyone to phone you if they have a problem such as mine."

Mrs M.L., Cleveland

“My husband and I have been really happy with Money Village. Money Village have really helped and looked after us with our financial situation. I found it was definitely a relief when Money Village were contacting the creditors to arrange the payments.”

Mrs and Mr S., Southampton

“Cannot fault Money Village. Their knowledge and understanding have been a real benefit to me, as I have been very emotional on the phone during the last few years since I got myself into this mess. They have talked me through everything and never failed to help in any way”.

Miss E.R., Wolverhampton