

Debt Problems?

As responsible and ethical advisors we assiduously try to help clients get rid of debt. Where clients hold significant amounts of cash or other investments and have mortgages or other debts, we always stress that paying down debt is an option. £1 saved in loan interest payments is as good as £1 earned on an investment.

If you have significant levels of borrowing on credit cards and overdrafts you may have a debt problem. Constant short-term borrowing of this nature may be a sign of poor cash management and indicate difficulty in taking on any other financial commitments. If you are struggling it's best to get in touch with those you owe money to as soon as possible. The lenders may be able to set up an arrangement where you can spread your payments until you get your finances sorted. You should be aware that you may have the start of a debt problem if you are -

- Using credit (loans) to pay bills
- Considering taking out a consolidation loan to reduce your monthly payments
- Paying no more than the minimum payments due on your credit cards
- Using your credit card to take out cash advances
- Using your credit card to pay your mortgage
- Borrowing money without planning how you are going to pay it back.

Property Loan Risks

It is very important to understand that loans secured on your property – your home - such as a mortgage, can result in you losing your home if you fail to make the required repayments. If you have mortgages on other properties as well as your main residence, such as 'buy to let' property investments, be aware that if those 'go bad' they can put your own home at risk also.

Assess Income

Working out how much money there is coming in and going out is an essential first step to managing debt. Income may include –

- Your salary or self-employed earnings
- Any benefits you receive
- Any pension you receive
- Any income from savings and investments
- Any maintenance from a former partner
- Any other sundry income e.g. room rent from lodgers.

It is always important to check if there are any benefits or tax credits you may be entitled to but are missing out on.

Identify and Prioritise Debts

Draw up a list of the people and companies to whom you owe money. These should then be prioritised under three headings -

- Essential Spending (e.g. housing costs, insurance, council tax, utilities (gas electric water), childcare etc.)
- Everyday Spending (e.g. food, cleaning, travel, school etc.)

Occasional Or Non-essential Spending (e.g. clothing, entertainment, birthdays, holidays etc.)

If there is not much money left over and you are finding you are regularly struggling to make ends meet, you need to reduce your spending. These tips may help:

Consider making small cut-backs on non-essential items. What could you do without to get back on track? (Sky TV, believe it or not, is not essential!)

Check the APR on your credit cards and any loans. The APR shows the overall cost of borrowing including interest and charges. Try and shop around for a better deal – www.moneyfacts.co.uk is one useful website. Avoid cards and loans specifically targeted at borrowers with poor credit history; APRs can easily be 200-300% per annum. Here’s a tip – if it’s a loan or credit card being sold by Provident Financial Group of Bradford, who also own Vanquis Bank, it’s probably expensive. We’ve recently seen a loan marketed by them with an APR of 272.2%. They are a legitimate company and they lend in a high-risk market where a lot of people default on their borrowings, but that makes their credit expensive for everyone. Avoid if you can.

Utilities - you may get a better deal by switching services such as phones, electricity or gas to new suppliers. There are various internet switching services or search engines you can use.

If you find that your debts are spiralling out of control, do not panic! Several organisations offer free debt-help services - check out the websites linked below. These advice agencies can help you tackle your debts, set up a budget sheet, prioritise payments and work out how you can live within your means. Never ignore the problem.

<http://www.debtadvicefoundation.org/talk-about-debt>

http://www.adviceguide.org.uk/index/your_money/money_management_index_ew/help_with_debt_index_ew/how_to_sort_out_your_debts.htm <http://www.cccs.co.uk/>

<http://www.nationaldebtline.co.uk/>

Beware when searching the Internet. If you Google ‘debt charities’ the first searches that come up are all commercial companies who do it as a business. Here are some options if you do have a debt problem -

Debt Repayment Plan

A debt repayment plan (DRP) is an informal self-managed option whereby individual repayments are agreed with each creditor. You can handle this yourself if you feel able or alternatively a more formal agreement can be made where a debt charity handles the payments.

Debt Management Plan

A debt management plan (DMP) may be the best way forward if you have surplus income and you have a number of unsecured debts. These involve an adviser negotiating with your creditors and establishing acceptable repayment plans with each. These plans then consolidate all debts into one monthly affordable payment, which is distributed by the adviser managing the debt. Private companies will charge a fee for this service, although free services are also available from debt charities. Advisers who do charge for the service must be properly licensed under the Consumer Credit Act.

Debt Consolidation

Consolidation means negotiating a new loan to repay an existing loan or loans with a lower interest rate and lower monthly payments. If you have high-cost borrowing on a long term basis such as large credit card bills which with interest being added never seem to get any smaller – or worse still get larger every month – then steps should be taken to see if they can be replaced with cheaper finance. If you do source a personal loan at a competitive rate of interest that is lower than that on your existing borrowings it can be beneficial. Be aware though that companies who

aggressively market consolidation loans often charge high fees. (Typically these are the kind of companies you see advertising on daytime TV – Ocean Finance and the like.) They make it all sound very friendly and very easy but even though the monthly payment might be lower, you can end up paying much more over the length of the loan. There may also be charges for paying off the original loan early. Be aware of the risks of consolidation. If the loan is secured on your home, you may lose it if you cannot keep up with the repayments. If you have a habit of running up credit cards say there is a risk that, having consolidated once, if you don't cut up your cards you may simply continue do the same again and eventually put yourself in a more serious position. Equally if you cannot service the new loan that may lead to higher costs and penalties that, ultimately, make your financial position worse. Always think carefully about borrowing more money to pay off existing debts. Check the terms of any loan, such as the APR (interest rate) and the length of time it has to run, and make sure you can afford to pay it back.

Canvassers and Cold Callers

You may also see adverts or get calls from companies offering to help you manage your debts. They offer a similar service to advice agencies, but they will charge a fee. Before using them, make sure you have considered all your other options. If you find that your debts are spiralling out of control, do not panic! Several organisations offer free debt-help services either face-to-face or by phone, for example, the Citizens Advice Bureau National Debtline, Payplan and the Consumer Credit Counselling Service. These advice agencies can help you tackle your debts. They will help you set up a budget sheet, prioritise your debts and work out how you can live within your means. Never ignore the problem.

Last Resorts

Failing all else, the final options are bankruptcy or an individual voluntary arrangement. Both of these involve formal legal proceedings and are never to be considered lightly. They damage your credit rating for years and can make it difficult to live a normal life. For example, if you go bankrupt you will find it difficult in the future to get credit cards. That in turn will make things such as car hire very difficult to obtain, if not impossible, especially abroad.

And finally…

We will always help our clients in any way we can, so if you are an existing client of ours and you do have a debt problem, please get in touch as soon as possible.