



Debt Solutions

Debt Management Plan (DMP)

A Debt Management Plan is an informal arrangement with your creditors, this arrangement is managed via a third-party debt management company, or some charities can offer them free of charge. You would make one affordable payment to the third party which is calculated by completing an income and expenditure review, and this would be distributed amongst your unsecured creditors.

Advantages:

- One monthly payment
- Sometimes creditors will agree to freeze interest and charges
- If you use a charity, there will be no fee

Disadvantages:

- A debt management plan is not normally recommended if it would last 10 years or more
- Your creditors are not under an obligation to agree to the arrangement or to freeze interest and charges
- Your credit file will be negatively affected for at least 6 years
- Certain debts cannot be included within a DMP such as tax debts and court fines
- You will have to pay all of your debts in full plus any charges that may apply

Debt Relief Order (DRO)

A Debt Relief Order, or DRO as it is sometimes referred to is a formal debt solution There is an initial set up fee of £90. Qualifying debts would be frozen for 12 months and providing you continue to meet the eligibility criteria; the qualifying debts will be written off at the end of the 12-month period. You may qualify for a DRO if you do not have assets worth more than £2,000, owe less than £30,000, are not a homeowner and cannot afford to pay more than £75 per month toward your debts¹. You can only apply for a DRO through an approved intermediary.

Advantages:

- A DRO includes most debts

¹ Different limits apply in Northern Ireland

- You will not need to make any further payments into the DRO
- You will not have to pay anything towards your debts

Disadvantages:

- A DRO is a formal insolvency procedure and will have a negative effect on your credit file
- If your circumstances improve during the moratorium period, your DRO could be revoked
- Your details will be listed on the Insolvency Register

Bankruptcy

Bankruptcy is a formal insolvency procedure. You make an application online to the Insolvency Service which costs £680. This can be paid in instalments. The Official Receiver will review your income, expenditure, assets, and liabilities. You will usually be discharged after 12 months however, if you have agreed or been ordered to make payments this may last for 3 years.

Advantages:

- Bankruptcy includes most debts
- Your creditors can no longer enforce their debts once your Bankruptcy is approved
- You can pay the fee in instalments; however, you cannot submit the application until it is paid in full
- In straight forward cases you will be discharged from bankruptcy in 12 months
- You may not have to pay your debts in full depending on the assets that are available and the amounts that are paid in

Disadvantages:

- If you're in employment you may have to make monthly contributions into your bankruptcy for a period of 3 years, this is referred to as an Income Payment Order / Arrangement.
- If you own assets they could be at risk
- Your details will be listed on the Insolvency Register
- Your credit rating will be negatively affected for 6 years
- Certain debts cannot be included within an IVA such as Social Fund loans and court fines

Individual Voluntary Arrangement (IVA)

An Individual Voluntary Arrangement, or IVA, is a legally binding arrangement with your creditors. You can only apply for an IVA through an Insolvency Practitioner. You would usually make a monthly payment for between 60 and 72 months toward your debts. At the successful conclusion of the IVA your unsecured debts would be written off.

Advantages:

- Usually there are no upfront fees in an IVA
- If you have assets these may be protected during the IVA
- The creditors included in the IVA cannot continue to enforce their debt
- Your Insolvency Practitioner will liaise with your creditors on your behalf

- You may not have to pay your debts in full subject to the terms of the IVA

Disadvantages:

- Your details will be listed on the Insolvency Register
- Your credit rating will be negatively affected for 6 years
- You cannot apply for any further credit during the IVA without the Supervisor's consent
- Certain debts cannot be included within an IVA such as Social Fund loans and court fines

Consolidation Loan

A consolidation loan is a form of credit taken to consolidate all your debts into one manageable payment each month.

Advantages:

- All your debts are in one place with the same provider
- It makes the repayments easier to manage

Disadvantages:

- Depending on your current credit status a consolidation loan may have a relatively high interest rate
- You may not be accepted for a consolidation loan if your credit rating has been negatively affected
- You may get into further debt once the interest on the loan is added to the overall balance or if you're unable to borrow as much as you currently owe.

The formal insolvency solutions detailed above only apply to residents of England, Wales, and Northern Ireland. The formal solutions are bankruptcy, Individual Voluntary Arrangement, and a Debt Relief Order. Separate solutions apply in Scotland, but these are not provided by The IVA Advisor Limited.