Money Matters – Debt

## Introduction

Debt is a major problem in the UK today. Whether you owe £100 or £10,000, if you can’t afford the repayments it is likely to cause you stress and worry. As a student on a limited income, you have to be very careful how you manage your money to avoid carrying unmanageable debts into your future working life. If you do have a debt problem it is always best to seek help and advice sooner rather than later. Ignoring letters from your bank or credit card company won’t make them go away!

Prevention is always better than cure and working out a realistic budget at the start of each academic year could prevent financial difficulties. The pattern of student income, termly rather than monthly, presents its own challenges. The Finance & Welfare Advisory Team within Student Services is always willing and able to offer confidential and non-judgemental advice on any financial problems you may face.

# **Student Loans**

Most students will fund their university education by taking out student loans. Apart from your interest free overdraft, it is the cheapest form of borrowing. The interest rate is set each year and is based on the retail price index so, in real terms, you will repay roughly the value of the amount you borrowed. You will go into repayment of the income contingent loan in the April of the year after you finish or leave your course. Your earnings must be in excess of £15,000 (if you started prior to 2012) or £21,000 (if you started after 2012) to go into repayment. Student loans are quite unique in this respect as the repayments are based on your future earnings rather than the amount borrowed. The Inland Revenue deducts the repayments from your wages. If you are self-employed, you will have to send the Inland Revenue a tax return each year under the self-assessment system. Your student loan repayments will be collected through self-assessment along with your income tax.

## Priority Debts

It is difficult to give a comprehensive list of priority debts as this will vary from one person to another and depend on individual circumstances. However, the law gives different creditors different ways of getting their money back. In certain circumstances some creditors may have the following options available to them:

* Take away your home (**repossession**)
* Cut off your gas or electricity (**disconnection**)
* Send bailiffs to take furniture form your home (**distraint**)
* Ask the Magistrates’ Court to send you to prison (**imprisonment**)

**Debts where these actions are possible are:**

**Debt**  **Action against you**

Mortgage arrears/loans that are Repossession

secured against a home

TV Licence Fine in Magistrates Court/Distraint/Imprisonment

Rent arrears Eviction from your home

Council Tax Distraint/ deduction from wages or Income Support/Jobseekers Allowance/Imprisonment

Gas or Electricity Supply cut-off

Magistrates’ Court fines Distraint/deduction from wages or Income Support/Jobseekers Allowance/ Imprisonment

Maintenance Distraint/deduction from wages or Income Support/Jobseekers Allowance/Imprisonment

Income Tax, National Insurance Distraint/Bankruptcy

Hire Purchase Repossession of the Goods

These debts should be treated as priority debts. Creditors can take action on some priority debts without going to court first. For example, your gas and electricity can be disconnected without a court order but you cannot be evicted from your home without a court order. However, you will always be given advance notice of any potential action being taken against you. It is very important therefore not to ignore these letters and to seek help and advice immediately.

Even though you owe money, you still have rights and creditors are not allowed to harass you. You would normally have to be two months behind with your rent for your landlord to start proceedings against you. If your landlord threatens to throw you out without going to court or harasses you to make you leave, s/he may be acting illegally. If this is happening to you, contact your local council and ask for the person who deals with harassment of tenants.

You should try to reach an agreement with your landlord before it reaches this stage. If you cannot pay the full monthly rent, pay what you can afford. You should try to reach an agreement to start paying the full monthly rent and the arrears as quickly as possible.

As a student in Higher Education, your tuition fees should also be treated as a priority debt. If you do not pay your tuition fees, your access to UWIC facilities may be temporarily suspended, you may not be allowed to enrol on subsequent years of your course or your final degree may be withheld. You should seek advice from the Student Financial Advisor if you are having difficulties paying tuition fees. Students should also note that failure to pay any debts to UWIC such as accommodation fees, studio charges, field trips can also result in access to UWIC’s facilities being withdrawn.

## Credit Rating

If you do not pay your debts or keep up to date with your repayments, you may find it difficult to apply for credit in the future. When you apply for credit, most companies will consult a credit reference agency. These agencies keep records of all County Court Judgements, Bankruptcy Orders and details about credit accounts. This information is kept on your file for six years. It will show whether or not you are keeping up with your repayments and if you fall into debt, your credit reference file will show this.

The information on the file will usually relate to yourself and your immediate family living at the same address. This means that people who lived there previously or who are not related to you should not affect your credit rating. You can ask the credit reference agency for a ‘disassociation’ to be put on your file so that other people’s details do not show up.

If you are refused credit you have the right to ask why. If the finance company has used a credit reference agency they should give you the name of the one they have used. The Company should give you a good reason for refusing you credit and this includes informing you if they have used a credit scoring system.

To find out what information an agency holds on you, write to them enclosing the required fee and ask for a copy of your file. If the information is incorrect, you have the right to ask them to change it. The three main credit reference agencies are Experian, Equifax and Callcredit Ltd. The information held by these agencies can be different so it may be worth checking with them all. The addresses are shown below:

### Experian Ltd

Landmark House

Experian Way

NG2 Business Park

Nottingham

NG80 1ZZ

[www.experian.co.uk](http://www.experian.co.uk)

### Equifax Plc

PO Box 1140

Bradford

BD1 5US

[www.equifax.co.uk](http://www.equifax.co.uk)

### Callcredit Ltd

One Park Lane

Leeds

West Yorkshire

LS3 1EP

[www.callcredit.co.uk](http://www.callcredit.co.uk)

You can ask the credit reference agency to put a notice of up to 200 words on your file, explaining why you got into debt or why you think information on your file is misleading. You may want to explain your financial circumstances at the time and why your situation is now different. This notice will then be seen by anyone checking your credit file.

Every time you make an application for credit a ‘search’ will show up on your file. It can work against you if lots of ‘searches’ show up on your file especially in a short space of time.

If you are not sure whether you have any County Court Judgements (CCJs) against you or whether a Judgement has been registered, you can make a search against your name and address. There is a fee for a postal search of the register held by the Registry of County Court Judgements. The address is:

Registry Trust Ltd

173 – 175 Cleveland Street

London

W1T 6QR

Tel: 020 7380 0133

If the County Court Judgement has been paid in full, you can ask the County Court to provide you with a ‘Certificate of Satisfaction’. There will be a charge for this and it is up to you to provide evidence to show that the full debt including costs has been paid. The court will send a copy of the Certificate of Satisfaction to the Registry Trust and your entry on the register will be marked as satisfied. The Judgement will stay on the register for six years from the date it was made.

## Credit Debts

If you find that you are not keeping up with the minimum payment on your credit card or store card you must act quickly. If you can’t pay the minimum amount requested, pay what you can afford. The worst course of action is to do nothing and pay nothing. If you have a temporary cashflow problem, write to the creditor and explain your circumstances. Ask them to accept a reduced payment for a period and also ask them to freeze the interest. If you do not meet the minimum payment you will not cover the interest being charged on the debt. This means that the debt will be increasing all the time.

If you have more than one creditor, it is important to write to them all at the same time with an offer of payment. You should enclose a copy of a personal budget sheet, showing all your income and essential expenditure. The balance that is left should be shared proportionally between your various creditors. This means making the highest payment to the creditor who is owed the most. If you allow one creditor to persuade you to pay more than is shown on your personal budget, you will not have enough for your outgoings and other creditors.

On the following pages you will find a sample of a budget sheet that can be sent to your creditors. You will also find sample letters that can be sent with a copy of the budget sheet. It is unlikely that a creditor will accept a reduced payment without seeing a carefully prepared and accurate budget sheet.

**Budget sheet**

Name:

Address:

Number of people in my household:

Income (weekly/ monthly)

|  |  |
| --- | --- |
| Maintenance Loan | £ |
| Grants | £ |
| Bursary | £ |
| Benefits | £ |
| Wages | £ |
| Income from other sources | £ |
|  |  |
| Total income | £ |

Outgoings

|  |  |
| --- | --- |
| Mortgage/ Rent | £ |
| Second mortgage/ secured loan | £ |
| Buildings/ contents insurance | £ |
| Life insurance/ endowment | £ |
| Council Tax | £ |
| Gas | £ |
| Electricity | £ |
| Water | £ |
| Food/ housekeeping | £ |
| Travel | £ |
| Course related expenditure | £ |
| Telephone | £ |
| TV licence | £ |
| Clothing | £ |
| Emergency fund | £ |
| Other | £ |
|  |  |
| Total outgoings | £ |

My total income is £

My total outgoings are £

This leaves me an available income of £……………..for my creditors.

**Priority Debts**

|  |  |  |
| --- | --- | --- |
| Type of Debt | Money Owed | Payments negotiated to pay off debts (weekly/ monthly) |
| Rent arrears |  |  |
| Mortgage/ secured loan arrears |  |  |
| Council Tax arrears |  |  |
| Gas arrears |  |  |
| Electricity arrears |  |  |
| Debt to University |  |  |
| Fines |  |  |
| Other |  |  |
|  |  |  |
| Total |  |  |

Total payments to priority creditors is £…………………… per month

When I have made payments to my priority creditors, I have £…………………. for my non-priority creditors

**Non-Priority Debts**

|  |  |  |
| --- | --- | --- |
| Debt (fill in name of creditor) | Money Owed | Offer (weekly/ monthly) |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |

This is a true record of my financial situation on …………………………… (date)

Signed……………………………………………………………..

Print name……………………………………………………….

**Use this example letter if you are making pro-rata offers to your creditors**

Creditors name and address Your address

 Date

Dear Sir/Madam,

Account NO \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Since making the above agreement with you, my circumstances have changed. I cannot now afford the agreed monthly payments because (e.g. I am a full-time student and I have been unable to secure employment). I enclose a Personal Budget sheet that shows my total income from all sources, and my total outgoings. As you can see I have only £\_\_\_\_\_\_\_\_ per month left for my creditors.

The offers I have made to my creditors have been worked out on a pro-rata basis, and I have written to all my creditors asking them to accept reduced payments.

In view of my circumstances, please accept a reduced offer of £\_\_\_\_\_per month. If interest or other charges are being added to the account I would be grateful if you would freeze these so that all payments made will reduce what I owe you.

Should my circumstances improve I will contact you again.

I would be grateful if you would send a (paying in book) (standing order form) to make it easier to pay you. *(choose)*

Thank you for your assistance. I look forward to hearing from you as soon as possible.

Yours faithfully,

*Under signature – your name in printed capitals.*

**Use this example letter if you are making no offer of payment or**

**token payments**

Creditor’s name and address Your address

 Date

Dear Sir/Madam,

Account No. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Since making the above agreement with you, my circumstances have changed.

I cannot now afford the agreed monthly payments because (e.g. I am a full-time student and I have been unable to secure part-time employment).

I enclose a Personal Budget sheet that shows my total income from all sources, and the total expenditure of my household. As you can see I have no money left to make offers of payment to my creditors.

In view of my circumstances, would you please accept (no payments at present) (a token offer of £1.00 per month) to be reviewed in six months. If interest or other charges are being added to the account I would be grateful if you would freeze these so my debt does not increase.

Should my circumstances improve I will contact you again.

I would be grateful if you would send a (paying-in book) (standing order form) to make it easier to pay you. *(only include this if offering a token payment)*

Thank you for your assistance. I look forward to hearing from you as soon as possible.

Yours faithfully,

###### Under signature – your name in printed capitals

Once the creditor has accepted your offer of a reduced payment you must make sure that the payments are made promptly. Keep copies of all correspondence and receipts for payments made. Even if the company refuses your offer, start sending the amount that you can afford as a gesture of goodwill. Write to your creditor again and ask them to reconsider. Tell them that your offer is reasonable and it is all you can afford at the moment.

Your creditors will often write to you after you have made an agreement, to see if you can increase your payments. If your circumstances have not changed and you are paying as much as you can afford, write and explain that you are still unable to meet the normal repayments.

##### Dealing with Callers

If your creditor does not accept your proposal for a reduced payment, they have other courses of action open to them. Do not be intimidated or bullied into agreeing to pay more than you can reasonably afford. Some companies will make phonecalls, which can be quite distressing. Stick to your guns and inform them that you will only deal with them in writing. If they send a representative around from the company, you do not have to speak to them and they do not have a right of entry into your home. If they persist, you can pursue an action against them for Harassment under the Administration of Justice Act. If you have asked them to leave and they won’t, they are trespassing and you can call the police.

##### Dealing with a Summons

If the creditor serves you with a summons – don’t panic. You must not ignore it and you may be asked to go to a hearing. You should take this opportunity to put your side across to the Judge. You should present to the court, your offer letter and a copy of your personal budget sheet. If your offer was reasonable and all you could afford, it is likely that the Judge will make an order for payment in line with your offer. The Judge could also order a payment lower than your offer.

If you have offered a reasonable repayment plan it is unlikely that your creditor will resort to this.

##### Dealing with Bailiffs or Sheriff’s Officers

A visit from the Bailiff or the Sheriff’s Officer (High Court equivalent of the County Court Bailiff) can be quite alarming. These enforcement officers do not have a right to force entry into your home (unless you owe money for a fine or Council Tax). Do not invite them into your property and don’t sign anything. They may ask you to sign a ‘walking possession order’ which gives them the right to return at a later date when they will have a right to force entry. The best way to deal with the situation is to be polite but firm. Tell them that you will make an offer of payment to them and, if they won’t accept, that they will have to leave. Generally, they will be happy to come to an arrangement with you but if you can’t make an offer, they will have to report this fact back to the creditor who will consider further enforcement action. In this situation always try to make an offer of payment even if it is only a few pounds a month. Do not be tempted to make promises that you cannot keep, as you will find yourself in exactly the same situation in a few months time.

#### Bank Overdrafts

It can be very tempting as a student to open more than one student bank account but, remember, your overdraft is a debt to the bank and can be called in at anytime. Regular instalments of your student loan keep your account activated as a student account. If you have more than one account, the bank that is not receiving your student loan instalments, will come to the conclusion that you are either no longer a student or that you have another student account. They will then usually call in the debt. Some banks will encourage you to take out a loan to pay off the amount owed but this can cause hardship to a student on a limited income. Banks also have an advantage over other creditors because you may still have money being paid into the account. If you consistently go over your overdraft limit they can close the account just after you have had a student loan instalment paid into it. You could then find yourself with no money for 3 months. You should treat the bank like any other creditor and keep them up to date with any problems you may be facing. Most major banks will have Student Advisors who have experience in dealing with student accounts. Speak to them before the situation gets out of control.

**Bankruptcy**

Bankruptcy should always be treated as the very last resort although it can seem very tempting to have all your debts wiped out in one fell swoop. Although there is not the same stigma attached to bankruptcy these days, there are still long term implications. Bankrupts are not able to enter certain professions, or work in certain industries and most employers will view discharged bankrupts unfavourably.

Bankruptcy rules changed in April 2004. Under the new rules, all bankrupts will be discharged 12 months after the date of bankruptcy (it could be less than this in some circumstances). If you decide to apply for voluntary bankruptcy you need to be able to pay a fee. Please seek advice from a qualified debt adviser. You have to prepare all the paperwork and present it to the County Court. You will be asked to go to the District Judge’s Chambers and you may be asked a few questions. If he/she is satisfied with the evidence presented you will be made officially bankrupt. You then have to meet with the Official Receiver to provide accurate details of all your debts and all your assets. You must declare all relevant information as you could be found guilty of perjury if you deliberately omit or forget anything.

If you have no assets, you will be discharged from the bankruptcy 12 months from the date you were made bankrupt. If you have assets, they will be shared amongst your creditors.

Student loan debts are no longer part of the bankruptcy proceedings. This loophole was closed by Government legislation recently.

Always explore all options before going down the bankruptcy route. If you think it is the only solution, seek specialist advice.

**Debt Relief Orders**

Debt Relief Orders are granted by the Insolvency Service and are a cheaper option than going bankrupt. They are administered by the Official Receiver. In order to qualify, you must have debts of less than £15,000 and a low income. You should also have no significant assets. You should have less than £300 in savings and if you have a car, the value should be less than £1,000. The Debt Relief Order (DRO) writes off your debts and you will not have to pay anything towards it.

To apply for a DRO, you will need to contact an authorised advisor who checks whether you meet the conditions and will then apply for the order on your behalf. The order will cost you £90 but you can pay this in instalments over six months. Only certain types of debts can be included in a DRO. These include: credit cards, overdrafts, loans, rent, utility bills, benefit overpayments and hire purchase agreements. Debts that cannot be included are court fines and confiscation orders, child support and maintenance, and student loans.

You must work out your income from all sources and then deduct a reasonable amount for your everyday needs. If the figure that you have remaining is less than £50 per month, you can apply for a debt relief order.

There are certain instances where you will not be granted a DRO. For example, if you’re currently bankrupt or you have had a DRO in the last 6 years.

A decision to apply for a DRO should not be taken lightly. It will appear on your credit file and you will be on the Individual Insolvency Register at [www.insolvency.gov.uk](http://www.insolvency.gov.uk). This register is available to the public and your name and address will remain on the register for 15 months.

Useful Links

[www.nationaldebtadvice.org](http://www.nationaldebtadvice.org)

[www.citizensadvice.org.uk](http://www.citizensadvice.org.uk)

**Student Finance & Welfare Advisory Service July 2011**