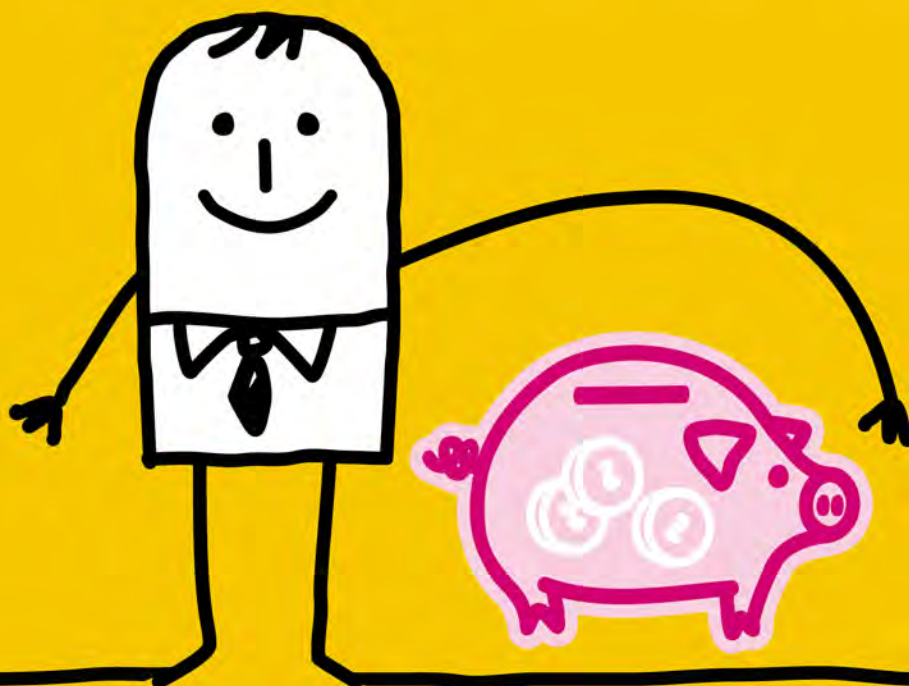


Welfare
Reform



Managing your money

A guide to dealing with debt and doing a budget



This booklet has been produced to help people manage their money regardless of whether they are currently experiencing financial difficulties or not. It is provided to customers free of charge. And all information is accurate at the time of publication.

Merlin
www.merlinhs.co.uk

Contents

How to use this booklet.....	3
Know what you owe!	4
A little bit about debt.....	4
Making a record of your debts.....	4
Working out what you need to live on	6
Recording what comes in and what goes out.....	6
What if there isn't enough money?	8
Making the most of your income	8
Dealing with priority debt	9
If you owe.....	9
What can I afford to pay?	10
Dealing with your secondary debt	12
Making an arrangement to pay	12
Working out fair offers of repayment.....	13
If the worst comes to the worst	14
Writing to creditors - example letters.....	15
Asking for account information	16
Asking for payments to be reduced (secondary creditors).....	17
No offer of payment (secondary creditors)	18
Useful contacts	18

How to use this booklet

This booklet explains how to deal with personal debt and what you can do to stop things getting worse. It contains information about different types of debt and some activities you can do that will help you find out why arrears or debt might be building up, and what to do about it.

It also helps you work out a household budget so that you can stay on top of your finances and don't live beyond your means.

Taking a step-by-step approach

When it comes to managing your finances its best to deal with things one step at a time. You can't make a payment on your debts until you know what you can afford to pay. You won't know what you can afford to pay until you have worked out what you need to live on.

Step 1. Know what you owe

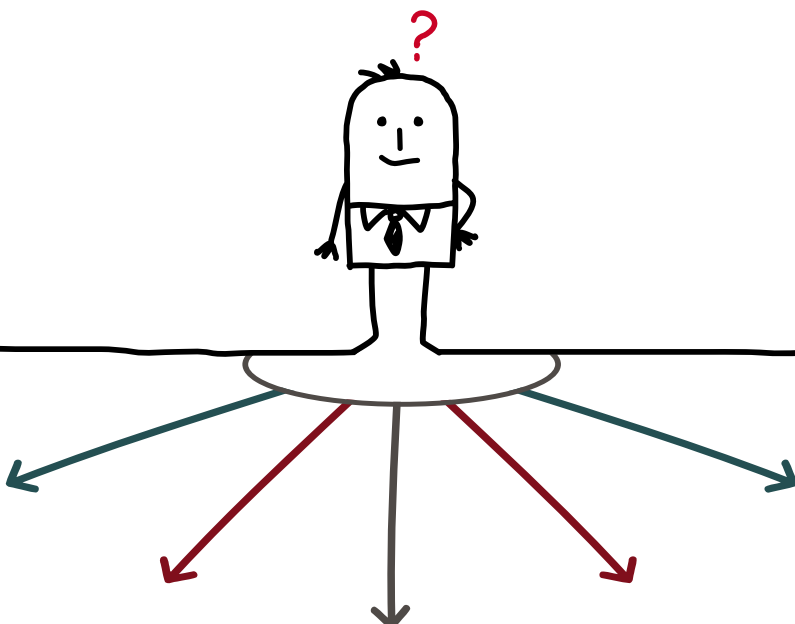
Step 2. Work out what you need to live on

Step 3. Deal with priority debt

Step 4. Make arrangements on other debt

Working through this booklet step-by-step will help you get an accurate idea of what your finances look like, how much debt you have and what type it is. It will enable you to see how much money comes into your household each month, how much you need to pay out on living expenses, and what is left over to pay debts.

If you have difficulty working through the activities or you find that you need some help with managing your debt, don't panic! There are organisations that can help and which are free of charge, their details are at the back of this booklet.



Know what you owe!

A little bit about debt

Debt is the money you owe people or companies who have provided you with goods and services, and with whom you have an agreement with to pay. As the person who owes the money you are the debtor. The people you owe the money to are your creditors. When thinking about what money you owe it is useful to split them into two groups: priority debt and secondary debt.

Priority debt is the money that is owed because you are behind with payment of bills for some essential services, and payments ordered by the court. These debts may include rent debt, mortgage accounts, gas, electricity, water bills and council tax bills. These should be dealt with as a priority because they carry the most severe consequences if you do not pay.

Secondary debt is the money that is owed because it was borrowed as a loan such as a pay-day loan, as a bank overdraft, purchases with a credit card or from catalogues. Although important, these debts have less severe consequences for non-payment so should be dealt with after priority debt.

Six things to remember when dealing with debt

- Keep in contact with the people you owe money
- Don't ignore letters or phone calls
- Don't be pressured into making offers of payment that you can't afford
- Don't borrow more money without thinking about it very carefully – you may be adding to your debts
- Don't wait for court action, the costs will be added to the amount that you owe
- Remember there is free debt advice available - **You do not have to pay for Debt Advice.**

Making a record of your debts

It's important you know how much you owe, both priority and secondary. Often, even people who can manage to pay all their monthly bills don't know what they owe in total. When taking a loan or credit card the decision is often more about what the money is for, rather than how much it will cost to repay or how fair the charges are.

You should be able to answer two questions with some accuracy:

1. How much do I owe in total?
2. Who do I owe it to?

When you complete the schedule of debt below it will be important to use real figures and up-to-date information. Take the amounts from your most recent statements or letters so that you get an accurate sum rather than just a general idea, you may be surprised by the difference!

Schedule of debts

Priority Debt			
I pay money to...	For my...	This is the monthly amount	I'm in arrears by this much...
	Rent		
	Council Tax		
	Court Orders		
	Gas		
	Electricity		
	Child Support Agency		
	Water / sewage		
Total		£	£

Secondary Debt			
Name of lender	Type of debt (credit card, store card, loan, hire purchase agreement)	I owe this much	I'm in arrears by this much...
Total		£	£

Use an additional sheet of paper if necessary.

Now that you know the total amount of your debt you will need to find out how much money you have available (if any) to make payments toward them. To do this you will first need to work out how much money you need to live on.

Work out what you need to live on

Recording what comes in and what goes out

To find out how much you need to live on, use the income and expenditure sheet to write down details of all the money that comes into your household in wages, benefits or other money that you receive; for example housekeeping money from any other people who live with you.

When you fill in the expenditure part remember to include all bills and outgoings including items such as cigarettes and alcohol. Be realistic about your bills, for example, when you look at your gas or electricity bills, try to average a whole year so that you cover low use (summer) and high use (winter) months. Try to use real figures taken from actual bills rather than estimates.

Because bills become due for payment at different periods you'll need to work out the cost of each per month. The box below shows you how to find the monthly amounts of bills charged at different intervals. You may need a calculator for this.

Working out monthly amounts

To change weekly amounts to monthly, multiply (x) by 52 then divide (÷) the answer by 12

To change a three monthly (quarterly) bill to a monthly amount divide (÷) it by 3

To change a half yearly bill (like car tax) divide (÷) by 6

Annual bills should be divided (÷) by 12 to find the monthly amount

Schedule of Income and Expenditure

Income	Amount	Monthly
Wages / salary		
Partners wages		
Job Seekers Allowance		
Pension		
Child Benefit		
Child / Working Tax Credit		
Other State Benefits		
Maintenance		
Non-dependents'		
Other income		
Total income:	£	

Expenditure	Amount	Monthly
Rent		
Council Tax		
Gas / electricity / oil / coal		
Water and sewage		
Child care / school meals		
Insurance (eg life, house contents)		
Court fines		
Loan repayments		
Maintenance payments		
Telephone (landline)		
Telephone (mobile)		
Internet charge		
Groceries - food / toiletries		
Medical / dental		
Pet food / pet insurance / vet		
Bus / train fares		
Car tax and insurance		
Petrol / diesel		
Car repairs		
TV / video rental		
TV licence		
Clothing		
Social (going out, cigarettes and alcohol)		
Other		
Total Expenditure:	£	
Income - expenditure = available income	£	

You should now know what money you have to spend (your income), how much you need to live on (your expenditure), and what is left to pay toward your debts (your available income).

What if there isn't enough money?

It is not unusual to have no money left particularly if you are on a low income or receiving benefits. However, if you find you have no money left after essential expenditure, and you owe money to a creditor, there may be a problem.

If your debts are secondary debts, like credit cards and loans, you can ask them to accept a reduced payment or no payment. However, if you owe money on your rent or other priority debts you will need to look at increasing your income and/or cutting back on what you spend.

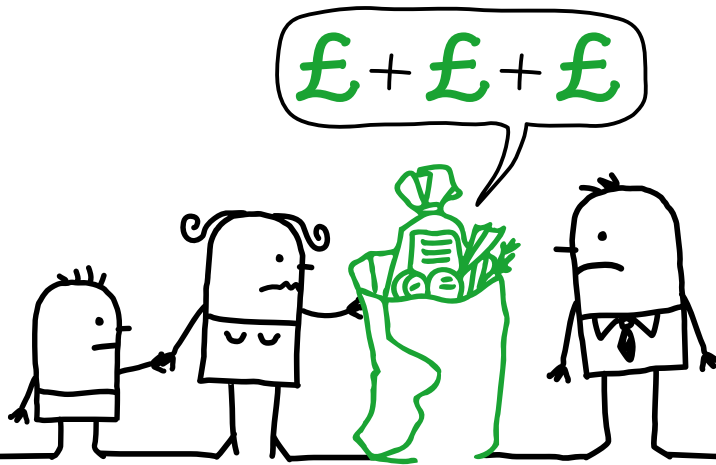
Making the most of your income

- Check you are getting all the benefits you are entitled to and at the correct rate
- Check your Income Tax code, particularly if your circumstances have changed
- Take advantage of benefit disregards (details can be obtained from the Department of Works and Pensions)
- Seek additional earned income from new employment* or overtime
- Are grown-up children or non-dependents contributing enough towards the household expenses?
- Reduce your expenditure by setting a weekly budget for grocery shopping, and stick to it
- Reducing transport costs by walking short journeys where possible or car share
- If you smoke, think about whether you might be able to cut down or stop
- if you drink alcohol, think about whether you can cut down or stop
- Think about installing a water meter
- Change your gas/electric tariff and/or provider
- Reduce the cost of your mobile phone contract
- End or reduce your satellite TV package
- If you rent a garage consider ending the rental
- Change to another bank account if you are being penalized with high charges

If you can not reduce what you spend or increase your income then there may be more serious consequences and you should seek further advice. Agencies that may be able to help are listed in the back of this booklet.

*If you are receiving benefits and you take on new paid work you must tell the benefits agency and your local council as this may affect the amount of benefit you receive.





Dealing with priority debt

Some bills can have more serious consequences if you do not pay them. This is why they are a priority, and why they are dealt with differently to secondary debt.

Priority Debts	Action they can take for non-payment
Rent Arrears	Your can be evicted from your home and made homeless
Gas / Electricity / Oil	Your services can be disconnected
Council Tax	Imprisonment, or take money from your wages or benefit and/or take your possessions
Secured Loan	Loss of property on which loan is secured
Child Support	Take money from wages or benefits, take your driving licence, or put you in prison
Magistrates Court Fines	Imprison you (for criminal offences)

If you owe...

Rent and Rent Arrears

Your rent must be your first priority and payment should be both regular and on time.

You should also check to see if you are eligible for Housing Benefit (see advice at the end of this pack). You should contact us immediately to make an offer of payment.

We will usually be looking to receive a regular payment that covers your rent plus an amount toward reducing the arrears. It's important that you sign an agreement with us for any arrangement you make.

Non-payment of your rent carries the most serious consequences as you may lose your home. If you do not pay your rent or any arrears we will take action against you.

This will include Notice of Seeking Possession/County Court action which may result in the loss of your home and court costs. If you lose your home because you have not paid your rent the Local Authority may have no obligation to re-house you.

Gas / Electricity / Oil

If you owe money for gas or electricity then they can cut off your supply if you don't make an arrangement. Contact your supplier to find out the best option for you. Always ask for a written record of any agreement you have made.

Council Tax

Contact your local council to make an arrangement to pay. They will usually be looking for a payment that covers the amount that becomes due each month plus a payment toward the arrears. If you do not pay your Council Tax after reminders the council will take court action. They will apply to the court for a liability order that gives them powers to take money from your wages or benefit, or send bailiffs to your home to take your possessions. You will be liable for payment of court fees and charges made by the bailiff.

What can I afford to pay?

Your priority creditors, your landlord (rent), local authority (Council Tax), the electricity, gas and oil companies will expect you to make a regular payment that cover the on-going cost of the service you are receiving plus an amount toward the arrears.

You will need to negotiate with each creditor individually to find out the minimum they are prepared to accept. This will depend on the amount of the bills that continue to be charged (rent, Council Tax, gas and electricity) and the amount of the arrears.

Most organisations have plans for working out how much you need to pay in order to clear the arrears over a given period of time.

Your creditors will be able to provide more help if they know about your situation. It is important that you do not ignore letters or phone calls. If you need to phone them you can ask them to call you back to save your phone charges. If the person you speak to is unhelpful you can ask to speak to someone else or someone more senior.

The decisions creditors make about collecting the money you owe will be influenced by the information you provide. Be honest with them. By law they must keep what you tell them confidential and secure. They will be dealing with lots of people in all sorts of different circumstances so don't be embarrassed or think that your situation is unusual or unique. Each creditor will have their own process for collecting their money and if you do not get in touch they will take action against you anyway.

Creditors will expect to see a copy of your schedule of debts (see page 5) if you ask them to change the terms of your agreement or reduce your payments. You can photocopy your form from this booklet, or download a new copy from our website. They will want to see that you are dealing with all of your creditors fairly and, where possible, making offers of payment that take into account the size of the debt you owe and the money that is available. These are sometimes called equitable or pro-rata offers.

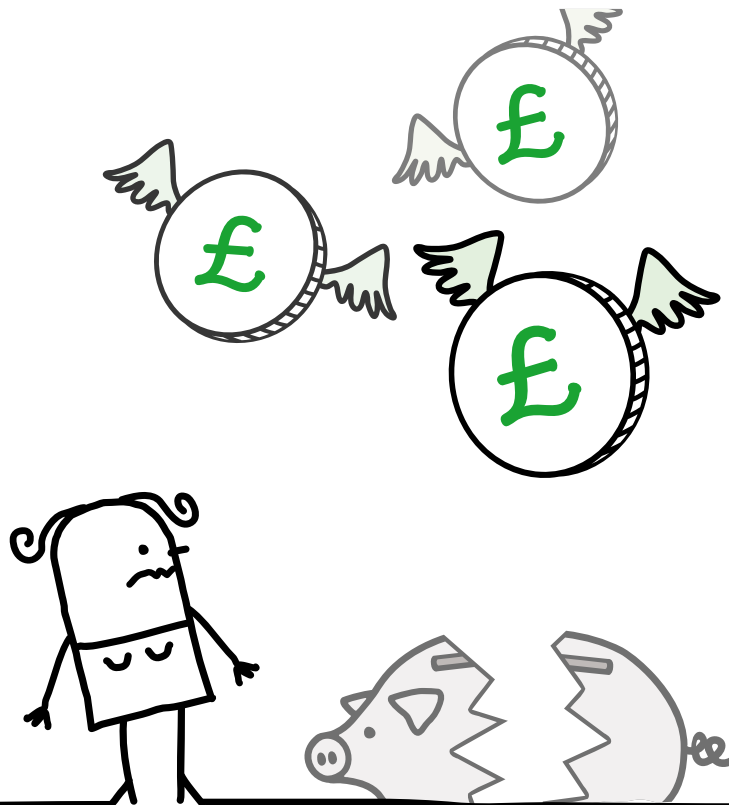
They will also expect to see that you have completed a schedule of income and expenditure. They may also ask you to explain items if they think they are not essential or too high. Always keep a copy of any forms that you send so that you can answer any questions about it.

If you are asking creditors to reschedule payments you will normally be asking for a long term arrangement, particularly on secondary debt. When you complete your income and expenditure schedule you will need to be realistic about any long term commitment and allow a small sum toward special occasions such as celebrations and birthdays.

Top tips:

- Do not offer all of your available income to one creditor
- Start your negotiations with the creditor who is nearest to its final action
- Don't be pressured to pay more than you can afford. It is important that you can keep to the agreed payments
- Ensure any verbal agreements are confirmed in writing and that you get a receipt for each payment made
- Do not sign an agreement without first completing an income / expenditure form
- Even if creditors don't agree to your first offer start paying anyway. It will reduce your debt and demonstrate that your intention is good.
- Cut up your credit cards

It is very important that you make the payments you offer, in full, on time and without fail. Make sure you are still within budget. Add up the total amount you will be paying out and make sure they will be within your available income.



Dealing with your secondary debt

Although still important, secondary debts carry less serious consequences for non-payment, such as a County Court Judgment. Secondary debts include money you owe on credit or store cards, bank or pay-day loans, catalogue and bank overdrafts.

If you can not afford to make the full payment on your loans each month you can ask the creditor to accept a reduced payment. This could be either on a temporary basis or until the loan has been paid off.

Secondary Debt	Action they can take for non-payment
Credit or store cards	County Court Judgement
Personal loan (unsecured)	County Court Judgement
Bank loan or overdraft	County Court Judgement
Hire purchase	Loss of goods (recovery)
Pay-day loan	County Court Judgement
Catalogue	County Court Judgement
Loan shark	Not legally enforceable unless licensed
Loan from family or friends	County Court Judgement

The money you have left after your living expenses and after making payments to your priority debts should be shared amongst secondary creditors. This may mean that the payments offered are small compared to what you should be paying.

Making an arrangement to pay

Sometimes called a special arrangement this describes any repayment plan where your creditor accepts payments that are less than those you agreed to make when you borrowed the money or signed the agreement. It is always their decision whether to accept an offer and they may ask you for other information before they do so.

At the back of this booklet you will find sample letters that you can copy, and send to your creditors to make an arrangement.

It is important that secondary creditors are treated equally and that offers of repayment are made in relation to the balance that you owe and not the monthly repayment or the amount of the arrears. If interest is charged each month you should ask for interest charges to be suspended immediately.

You shouldn't be paying fees to set up an arrangement. If charges are mentioned, be sure you are not opening a new account with new terms.

The most important thing about agreements is that you keep to them. If you have a bank account you could set up a Standing Order or Direct Debit to do this, but you must ensure that the money is available in the bank to avoid bank charges.

The box below gives an example of how to work this out.

This is an example showing how equitable or fair payments have been worked out when £36.50 is available to share between four creditors with a total debt of £3275.00.

Schedule of Debts

Visa Credit Card	£1,100.00
Mastercard	£550.00
Store card	£375.00
Loan	£1250.00
TOTAL DEBT	= £3275.00

Calculation

The sum of the individual debt is divided (\div) by the total debt and the answer multiplied (\times) by the money available.

<u>Individual Debt</u>	X money left = equitable amount for repayment			
<u>Total Debt</u>				
Visa Credit Card	$\frac{£1,100.00}{£3275.00}$	X	£36.50	= £12.26
Mastercard	$\frac{£550.00}{£3275.00}$	X	£36.50	= £6.13
Store card	$\frac{£375.00}{£3275.00}$	X	£36.50	= £4.17
Loan	$\frac{£1250.00}{£3275.00}$	X	£36.50	= £13.93

Total payments = £36.49

When you write to each creditor with your offer you should enclose a copy of your income and expenditure form, your schedule of debt and how you have worked out what you can afford to pay. These documents will help your creditors understand your financial position and will support your request for payments to be reduced. **Remember to keep a copy of all letters and documents that you send.**

A few **do's** and **don'ts** to remember

- **Do** be realistic when completing the activities in this booklet
- **Do** prioritise important debt
- **Do** keep in contact with your creditors
- **Do** remember creditors prefer small regular payments
- **Do** keep copies of letters, offers, receipts, statements etc.
- **Don't** ignore the problem
- **Don't** be afraid to seek help
- **Don't** give up trying to reach an agreement with your creditors – even if they are being difficult and refuse your initial offer
- **Don't** be threatened or bullied into making offers you can't afford to keep
- **Don't** borrow more money to pay your debts, especially credit or store cards

If the worst comes to the worst...

Bankruptcy and Debt Relief Order

If you have thought about making yourself bankrupt you should seek independent legal or financial advice about your particular situation. Find out about the other options available to you. You should consult a solicitor, a qualified accountant, an authorised insolvency practitioner or a reputable financial advisor. Fees are charged to file for bankruptcy or a debt relief order and are payable to the court when an application is made.

Individual Voluntary Arrangements

This is a formal version of the informal arrangement described in this booklet. Applications are made to the court with the help of an authorised insolvency practitioner. He or she would supervise the arrangement and pay your creditors in line with the accepted proposals. Fees apply.

We can't give advice on bankruptcy, debt relief order or Individual Voluntary Arrangements. For further advice you can contact the Insolvency Service on 0845 602 9848.

Writing to creditors

In this section you'll find the following template letters:

Letter A – Use to request account information

Letter B – Use if you need to reduce payments

Letter C – Use if you can't afford to make payments at this time

You can write or type the letter(s) you need, or contact us if you'd like electronic copies.

Be sure to enclose the additional items where identified.

The red text shows where you need to add your own information.

Letter A – Asking for account information

Use this letter if you need to ask creditors for account information to prepare a schedule of debt.

Your name
Your address

Creditors name
Creditors address

Date

Dear Sirs,

Account Number – [insert account number]

I am currently experiencing financial difficulties due to ... (briefly explain your situation).... and I can no longer afford to make the agreed payments on my account. I am trying to resolve the situation and will send you a financial statement as soon as possible with the best payment I can offer. Please can you confirm the following:

The type of agreement

Balance and arrears due

Interest rate

Any payment insurance policy attached to the agreement

I will write to you again as soon as I have received replies from all my creditors.

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

Yours faithfully,

Your signature

Letter B - Asking for payments to be reduced (secondary creditors)

Use this letter if you need to ask secondary creditors to consider reducing your monthly payments.

Enclose

- a copy of your schedule of income and expenditure
- a copy of your schedule of debts.

Your name
Your address

Creditors name
Creditors address

Date

Dear Sirs,

Account Number – [insert account number]

I am experiencing financial difficulties and I can no longer afford to make the agreed payments on the above account. I am finding it difficult because

Explain why you can not make the payments due

I enclose details of my income and expenditure and as you can see I only have £..... each month left with which to pay my creditors. In the circumstances please would you accept a reduced payment of £..... each month toward the account.

I would also appreciate it if further interest charges could be suspended so that the whole of the payment I make will reduce the debt that I owe.

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

Yours faithfully,

Your signature

Letter C – No offer of payment (secondary creditors)

Use this type of letter with details of your personal circumstances and send a copy to each of your creditors.

Enclose

- a copy of your schedule of income and expenditure
- a copy of you schedule of debts if you are asking for payments to be suspended

Your name
Your address

Creditors name
Creditors address

Date

Dear Sirs,

Account Number – [insert account number]

I am experiencing financial difficulties and I can no longer afford to make the agreed payments on the above account. I am finding it difficult because

Explain why you can not make an offer of payment

I enclose details of my income and expenditure and as you can see, once I have met my essential expenditure, I have no money left with which to make offers.

In the circumstances I am writing to all my creditors to ask them to suspend payment on the account until my circumstances change. It would also be appreciated if further interest charges could be suspended to prevent my debt increasing.

As soon as my circumstances improve I will contact you again. Your assistance in this matter would be appreciated.

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

Yours faithfully,

Your signature

Useful contacts

There are a number of organisations that provide advice if you have money worries. We've also left some space for you to fill in details of any organisations you find that can help.

Citizens Advice Bureau

Tel: 08444 111 444

www.adviceguide.org.uk

Benefits

You can also find out about the different types of benefits available and whether you are claiming all the benefits you are entitled to.

Department of Work and Pensions

www.gov.uk

The information in this leaflet is also available in other languages, in larger print, Braille or on audiotape or CD. Please contact the customer service team at your area housing office if you need any of these services.



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