

How To Get Out of Debt

Do you find it hard to make ends meet? Do you feel overwhelmed by debt? Do think that you need to take action now to sort it out but are unsure what to do?

Being in debt can be stressful and many people bury their heads in the sand. This is a shame, as there is always something that you can do about your debts, no matter how big they are.

Do our quick test to diagnose the extent of your problems and find out which strategy is right for you.

Diagnostic Test

Which of the following statements apply to you?

- 1) You are regularly failing to make ongoing minimum payments on credit cards or personal loans
- 2) You are behind with you rent, mortgage, council tax, utilities, CSA payments or court fines.
- 3) You use credit cards to pay for the basic necessities of life like food, utility bills or mortgage payments and then attempt to pay them off by paying the minimum payments.
- 4) You find that you are constantly worrying about the amount you owe and how you are going to make ends meet.
- 5) You avoid opening your post.

If you can honestly answer no to all of the above, you don't need to read this fact sheet!

If you answered yes to 1, 2 or 3 you have serious debt problems and need to take immediate action. It can be hard to face up to this but don't panic; there is always something that can be done to improve the situation. It is time to take control.

Work through the strategies below starting with **maximising income**.

If you answered no to questions 1, 2 and 3 but yes to questions 4 or 5, you are not under any immediate threat from your debts, but you soon could be, unless you take action. Work through the sections on **maximising income** and **reducing out-goings**. If you stick to the advice in these sections you may avoid ever needing to follow the third section of our advice, **Tackling Creditors**.

Maximising income:

Step 1: Are you entitled to benefits?

You may be entitled to benefits. Please do not dismiss this idea without checking. Over eight millions pounds worth of tax credits and benefits go unclaimed every year. It only takes five minutes to find out if you are missing out, so do the test at <http://entitledto.co.uk/> and then return to the Thompsons website for your next step.

Step 2: Are you paying too much tax?

It is estimated that 44% of PAYE taxpayers have paid too much tax in the last 6 years. Many **trade unions** have tax advice services for members which make sure that members are put into the correct tax band and claim a refund where tax has been overpaid. If you are a member of a union, check your union's website to see if this is available to you.

Not in a union? Have a look at the [government's website on tax](#).

Step 3: Are you owed any money?

Before you say no, think about whether any of the following apply to you:

Could you be struggling to make payments because your earnings are down or your bills are higher. If you have had an accident in the last three years which was someone else's fault which have affected your earnings or increased your bills (e.g. medical expenses), you may have a claim? If so [make a claim online](#).

Could you have been missold an endowment policy, been overcharged for ending a mortgage early or been sold insurance for a credit card or loan that you did not need? You may be entitled to compensation.

For more information, follow the link to <http://www.moneysavingexpert.com/reclaim/> and then return to the Thompsons website for more information about how to get out of debt.

Step 4: Reducing Outgoings

You may be able to make ends meet if you reduce your outgoings. Why not take advantage of the best deal for insurance, utilities, mortgages, credit cards etc?

If you are a member of a trade union, you may be surprised to know that some union members are able to take advantage of special rates and discounts on all sorts of things including insurance, spectacles, road rescue organisation membership and even food shopping at supermarkets.

If you are a member of a union, check your union's website to see if this is available to you.

Union members and non members alike should then check the following links to see if there are further savings they could make and then return to the Thompsons website for more information about how to get out of debt.

<http://www.moneysavingexpert.com/shopping/>
<http://www.moneysavingexpert.com/utilities/>

Tackling Creditors

If you have followed all of the above but still find that you are still saying yes to the first three questions of our **diagnostic test**, you need to take action to tackle your creditors.

Do not be tempted by television adverts which suggest that you can solve your problems by consolidating your loans in to one debt or by profit making companies offering IVA's. These options may end up costing you money that you can ill afford. There is plenty of free help around.

You can get free help with all of the steps outlined below from the following organisations:

[The Consumer Credit Counselling Service](#)
[The National Debt Line](#)
[The CAB](#)
[Community Legal Advice](#)

Step 1: Do you actually owe the money?

If you are involved in a contractual dispute with the company who lent you the money, you may not be liable to pay it back. For example, if you took out an in store finance agreement to pay for a kitchen which is faulty, you may be entitled to **withhold some of the repayments**. If you think that you might be able to challenge any of your debts on this basis, you should take advice. If you are a **member of a trade union**, you may be entitled to initial free legal advice from your union.

Community Legal Advice provides government funded legal advice for people on low incomes.

Consumer Advice is a government sponsored free consumer advice service.

Step 2: Understand what debts you have and consequences of your debts.

Not all debts have the same consequences. Creditors who have the least chance of getting the money out of you are often the ones who will be the most active in chasing you.

You need to understand the difference between priority and non priority debts. Normally, money can be diverted from the non-priority creditors to pay the priority creditors.

Priority Debts

These debts must be paid to avoid serious consequences.

Debt	The worst that could happen
Mortgage/rent	Repossession
Secured loans	Repossession
Council Tax	Prison
Income Tax or VAT	Prison/ bankruptcy
Child support	Prison
Utility Bills	Disconnection

Non Priority Debts

These include catalogues, store cards, credit cards, debts to family and friends and unsecured bank loans.

Step 3: The Budget

Make a list of your creditors and divide them into non-priority and priority creditors.

You need to work out what you have coming in every month, what you have going out, excluding non priority creditors, and what you have left at the end of the month to offer creditors.

Please follow this link for a [budgeting sheet](#) which explains how to do this.

How much should I offer non-priority creditors?

You should divide the amount you have left at the end of the month between the creditors on a pro-rata basis:

Example

Ms. A owes Creditor X £800
Ms. A owes Creditor Y £1000
Ms. A owes Creditor Z £250

Total amount owing £2050

She has £12 excess income figure for non priority debts each month.

Creditor X debt £800 divided by total debt £2050 multiply available income £12 = £4.70 per month

Creditor Y debt £1000 divided by total debt £2050 multiply available income £12 = £5.85 per month

Creditor Z debt £250 divided by total debt £2050 multiply available income £12 = £1.45 per month

Total payment to creditors each month = £12.00

Your budget is now complete.

Step 4: Let the creditors know about your situation

Write to all the creditors, enclosing a copy of your financial statement. Make them a pro-rata offer.

Why would creditors accept an offer which may be much lower than the current payments?

If they took you to court for defaulting on the debt, the court would use the same method to decide how much you should pay per month.

If the amount available to your creditors is exceptionally low, e.g. 50p per month, you can ask them if they would consider writing the debt off. This is done at their discretion.

All too much to cope with? [Get some free help.](#)

If you have attempted to use the method above and find that it will be impossible to pay the debts back, you could consider a more formal solution such as a Debt Relief Order (from April 2009) an Individual Voluntary Arrangement or Bankruptcy. You should [seek individual advice](#) if you are considering one of these options from a non-profit making organisation.

THIS FACT SHEET IS INTENDED AS A GENERAL STATEMENT OF THE PROCEDURE AND DOES NOT PURPORT TO RENDER SPECIFIC

ADVICE, LEGAL OR OTHERWISE. SPECIFIC ADVICE ON A PARTICULAR PROBLEM SHOULD ALWAYS BE SOUGHT.

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