

FINANCIAL WELLBEING

Debt

A guide to managing your debts

If your debts are keeping you awake at night or you're struggling to keep up with the repayments, there are steps you can take and organisations that can help you.

Signs that it's time to do something about your debts include:

- borrowing to meet the repayments on a loan or credit card
- only making the minimum payment on your credit card each month
- taking on new borrowing to pay off old debts
- falling behind with payments on loans
- using money earmarked for essentials, such as food or your annual tax bill, to pay off debts.

You can get independent, free advice over the phone and online from charities that have debt experts.

While it's tempting to pay off your largest or most expensive bills first, these are not always the most urgent ones.

Dealing with debts

If you haven't yet fallen behind on payments

If you're having difficulty paying your bills or keeping up with loan repayments, check if you have any other resources which you can use. This could be savings or money from an emergency fund. Another option could be to borrow from relatives to help tide you over. If you do this make sure you're clear about when you can repay this money to avoid a falling out. Alternatively, you may be able to ask for a loan from your employer if you're still working.

If you're unable to come up with the cash, speak to the organisation you owe money to. You may be able to come up with some arrangement with them to reduce or pause your repayments until your finances improve.

Your lender will probably want proof you are genuinely having difficulty repaying them. A good way to show this is to draw up a budget of all your monthly outgoings. You can then use this to work out how much you can afford to pay your creditors each month as well as using it to negotiate with them.

You can find budget planners and helpful information on drawing up a budget at moneyhelper.org.uk/en/everyday-money/budgeting/budget-planner

If you've started to fall behind on payments

Now is the time to get some expert help and advice. Many people put off contacting a debt advice charity because they don't think they will be able to help or they are embarrassed. But debt advice charities won't judge you – and the sooner you get help, the more options you may have. If you contact a debt advice service, you may qualify for a scheme called 'Breathing Space'. This is a period of up to 60 days and during this time, companies you owe money to can't charge interest or fees, take enforcement action against you or contact you about your debts.

You can get independent, free advice over the phone and online from charities that have debt experts. Before contacting one of these organisations pull together the following:

- all the information you have about your debts including how much you owe, any arrears (payments you haven't been able to make) and any letters, emails or texts threatening enforcement action
- details of all your income, including your wages or earnings and/or any benefits you're receiving
- details of all your spending (this includes all your bills and your household spending).

Prioritising your debts

PRIORITY DEBTS

- Rent/mortgage
- Loans secured against your home
- Council Tax
- Gas bill
- Electricity bill
- Child maintenance
- TV licence
- Income Tax
- National Insurance
- VAT bills
- Court fines

Don't forget
to pay for
school lunches
on Monday

NON-PRIORITY DEBTS

- Credit card bills
- Store card bills
- Hire purchase debts
- Loans which are not secured against your home
- Bank overdrafts
- Payday loans
- Mail order catalogue bills

Prioritising your debts

If you owe money to more than one organisation it's a good idea to work out which debts to pay off first. While it's tempting to pay off your largest or most expensive bills first, these are not always the most urgent ones.

Debts fall into two categories: priority and non-priority debts. It's important to deal with your priority debts first as the consequences of not doing so can be serious. For example, if you don't pay your rent you could become homeless and if don't pay your Council Tax you could end up in prison.

Priority debts include:

- your rent, mortgage and any loans secured against your home
- Council Tax
- gas and electricity bills
- child maintenance
- TV licence
- Income Tax, National Insurance and VAT bills
- court fines.

Once you've dealt with your priority debts you should then look at your non-priority bills. These are bills where the problems they cause are less serious. But this does not mean you should ignore them as the organisations you owe money to could eventually take you to court or send in debt collectors to collect the money from you.

Non-priority debts include:

- credit or store cards bills
- hire purchase debts
- loans which are not secured against your home
- bank overdrafts
- payday loans
- mail order catalogue bills.

If you can pay all your priority debts, and you have money left over once you've made the minimum payments and fixed instalments on your non-priority debts, you can use any spare cash to reduce your debts. The quickest way to do this is to pay off your most expensive debt first. This will be the one charging the highest interest rate. Don't forget to check there are no penalties for making overpayments. Once you've cleared this debt, then focus on paying off your next most expensive debt.

The quicker you can pay off these debts the less interest you'll end up paying.

Where to get help

There are several free debt advice charities and agencies which can help you listed below. Unlike debt management companies these organisations do not charge for their services leaving you with more money to pay off your debts.

National Debtline

0808 808 4000

nationaldebtline.org

It has useful information at

nationaldebtline.org/get-information/summaries/cost-living-dealing-your-debts-ew

Citizens Advice

citizensadvice.org.uk/

StepChange

0800 138 1111

stepchange.org

PayPlan

0800 316 1833

payplan.com

Advice NI (Northern Ireland)

0800 915 4604

adviceni.net

If you are self-employed or own a small business you can get free debt advice at:

Business Debtline

0800 197 6026

businessdebtline.org

Advice NI (Northern Ireland)

0800 915 4604

adviceni.net

Your notes



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royallondon.com

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