

# Managing your money

Steps to take when dealing with debt





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Many people suffer difficulties with money at some time in their lives. Financial problems can be caused by a variety of things, such as losing your job, suffering an illness, getting less money than before or a relationship breakdown.

Keeping up with your rent payment is very important but we understand that struggling with money can be a very worrying and lonely experience. People don't talk openly about money or debt very often, which means it's very easy to feel like you're the only one having problems.

Please don't ignore your financial problems - they won't go away and the longer you leave them, the worse they'll get.

**This booklet gives advice on how you can deal with your debts and shows you:**

- How to work out your personal budget and how to explain your money problems to the people you owe money to (your creditors);
- How to decide which debts to deal with first (your priority debts);
- How to make repayment offers you can afford; and
- What action creditors can take.

We've included an example of a personal budget and one you can tear out to fill in your own details. We've also given you examples of letters you can write to creditors.

This pack isn't detailed enough to help with every problem, so you may need more specialist advice. There's a list of useful contacts at the back.

If anyone takes court action against you, you'll need to get legal advice immediately.

You can get free independent advice from your local Citizens Advice.

# Steps to take when dealing with debt



1. Get in touch with your creditors
2. Prepare a personal budget
3. Work out your income
4. Work out your spending
5. Work out what money you have left over for creditors
6. Separate your priority debts from your other credit debts
7. Divide money left over for other credit debts (non-priority)
8. Write to your creditors

## 1. Get in touch with your creditors

Get in touch with your creditors straight away and explain your difficulties. Get a contact name of someone who you can go and see, phone or write to. If the first person you speak to is unhelpful, ask to speak to someone more senior who may be able to agree to what you want.

Ask for account details, such as the type of agreement, outstanding balance, terms of repayment, arrears and any insurance protector policy attached to the agreement.

Make sure you tackle your priority debts first - these are the debts that can result in you losing your home, having gas or electric cut off, or going to prison. Don't make offers on your other debts until you have sorted out paying these debts.

Fill in reply forms to court papers and let the court have all the facts. You should send them a copy of your personal budget. Go to court hearings and take a copy of your personal budget with you. Most court hearings take place in private.

Always answer letters or phone calls from your creditors. Don't give up trying to reach an agreement, even if they are being difficult.

The law gives different creditors different ways of getting their money back. So, some debts are more important than others. Here is a list of debts and the action that may be taken against you if you can't reach an agreement.

Debt	Action against you
Rent and Mortgage arrears	Possession of your home
Service-charge arrears	Possession of your home (if rented)
Service-charge arrears	Ending your lease (if leasehold)
Council Tax	Bailiffs or imprisonment
Water Rates	Court action
Gas or Electricity	Supply cut off
Magistrates' court fines	Imprisonment
Maintenance or Child Support	Imprisonment
Tax	Bailiffs or imprisonment
Phone	Disconnection

## 2. Prepare a personal budget

When you're working out your personal budget, you should:

- set aside some time when you know you won't be disturbed;
- collect details of your debts and other bills
- collect details of your living expenses; and
- get a calculator and some blank paper.

When completing your personal budget, make sure all your income and expenses are converted into amounts for each calendar month. You can do this by making the following calculations:

- Weekly to calendar monthly: Multiply the weekly amount by 52 and divide by 12.
- Four weekly to calendar monthly: Multiply the four weekly amount by 13 and divide by 12.

## 3. Work out your income

When working out your income, you need to work out the 'net' amount you're paid. This is the amount you're paid after tax, National Insurance and pension contributions have been taken out. Don't include overtime (unless it's regular), commission or bonuses, unless they're guaranteed.

If you have an attachment of earnings (ordered by the court) for things like maintenance payments or Council Tax, you'll need to add these amounts to your net income.

If you receive Attendance Allowance, don't include this as income. For the purpose of your personal budget, Disability Living Allowance or Personal Independence Payments should be included in your income but taken out of your expenses as well.

You should check if you can increase your income. Here are a few suggestions:

- check you're not paying too much tax
- check whether you're entitled to claim any benefits
- ask others living with you to increase how much they pay towards household bills if they're working
- take on a part time job – however, this may affect your benefit entitlement.

Do you know of any changes to your income that might happen in the near future? Does anyone owe you any money? If so, what are the chances of getting it back?

## 4. Work out your spending

Work out how much money you have to pay out on basic living expenses each month.

If you're on certain income replacement benefits, you may be able to get help with school uniforms and meals - contact your local education authority.

If you're self-employed, you might need to include other things like Income Tax and National Insurance contributions, insurance and other costs.

Is there any way you can cut down on your spending? Do you know of any changes to your spending that might happen in the near future? Don't include any debts or credit payments. Use the checklist below to help you.

Debt	Action
Rent or service charges	Check whether you're entitled to any help with housing costs.
Council Tax	Check whether you're entitled to Council Tax Benefit or a discount (or both). Ask if you can pay every week or over 12 months rather than 10.
Water charges	Ask if you can pay each week or month, rather than every six months.
Gas and electricity	Work out the cost of your bills over a year and divide the total by 12. Think about different payment options (budget schemes, pre-payment meter, monthly bill). See whether you can switch to a cheaper supplier. Check if there's any home improvements you can make to improve energy efficiency.
Housekeeping	Many of the expenses in this list are not set amounts and you may have to work out an average figure to put in. It's important not to underestimate what you need to spend. You should explain this on any letter to creditors. You may find that some of your creditors ask you to justify costs of cigarettes or leisure items. See if you can cut down but be realistic.

Debt (cont)	Action (cont)
Childcare	You should put here the amount you pay for childcare, including child-minders, nursery fees and after-school clubs. You should also include any extra costs – for example if you’ve got a child with disabilities who needs special equipment, clothing or bedding.
TV and video rental	If you’re paying for satellite or cable TV, include the cost of subscriptions. Be aware that some of your creditors may ask you to cancel them.
TV licence	There are different payment options available. You can pay it off in one payment and in different installments. Consider what suits you best.
Clothing	Look at your expenses over a year. Remember to include school uniform and any other clothing you need to buy for dependants.

## 5. Work out what money you have left over for creditors

To find out how much money you can offer your creditors, take away your total spending from your total income. See if you can cut down on any of your expenses, but don’t cut down from basics like food, gas and electricity. You need to make sure your income is equal to your spending, otherwise your debts will continue to grow.

If you spend less than your income, you’ll have money left over to start paying off your debts.

## 6. Separate your priority debts from your other credit debts

Some debts are more important than others.

Make sure you tackle your priority debts first – these are the debts that can result in you losing your home, having gas, water or electric cut off, or going to prison. Don't make offers on your other debts until you have sorted out paying these debts.

Talk to each of your priority creditors about how much you can reasonably pay each month. Then, if you have any other money left, work out what you should pay your other creditors.

### **Rent and service charge arrears**

Offer to pay your landlord or your lender a reasonable amount each month from your available income to pay off your debts. Use your personal budget sheets to support your offer.

If you're on a very low income, don't be afraid to offer a small amount if that's all you can afford.

### **Water charges**

Your water company will normally expect you to pay your bill before they send you the next one. If you don't pay, the company will send you a county court notice for the money you owe. If you get Income Support or Universal Credit and still owe at least half the year's bill, you can ask the Benefits Agency to deduct your current charge plus a standard charge towards your debt and pay it direct to the water company.

### **Gas and electricity**

You'll usually have to agree a payment plan to stop your supply being cut off. You may be offered a key or card meter, but be aware that this can be more expensive than paying in another way. Ask about a budget payment card, which allows you to pay at the Post Office. If you get Income Support, you can ask the Benefits Agency to deduct your current charge plus a standard charge towards your debt and pay it direct to the supplier.

## 7. Divide money left over for other debts (non-priority)

If you have money left after making arrangements to pay your priority debts, contact all your other creditors to find out how much you owe. Work out the monthly amount you can offer to repay them using the calculation on the next page.

If you don't have anything left after paying priority debts, tell your other creditors. Send them a copy of your personal budget and ask them to delay taking action until your circumstances improve, or offer them a token payment of at least £1 a month.

Your creditors would rather you pay a small amount regularly than make promises you can't keep.

However, do bear in mind that your debt will continue to grow if your repayment offer is less than the interest being added, so ask the creditor if they can stop charging you interest.

If they refuse to accept your offer or to stop charging interest, explain your situation in more detail. If other creditors have accepted a similar offer, tell them. Point out that if they take action in the county court, interest is likely to stop from the time of the court judgement.

Money left multiplied by the individual debt and then divided by the total amount you owe

=

offer to creditor

## 8. Write to your creditors

Write to your creditors explaining your situation and send them a copy of your personal budget. Here's an example of how to work out a personal budget. We've also included at the back of this booklet some example letters you can use when you write to your creditors and a personal budget template you can fill in.

### 1 Monthly income

Enter all the income for you and your household. If you receive a wage or salary, you should enter your net income (the amount you take home after tax) and any benefits you receive.

If you have any attachment of earnings (for example, a court order to pay Council Tax), you must add these amounts to your net income. Enter figures in monthly amounts on your budget sheet.

### 2 Monthly spending

Enter all your basic essential outgoings. To work out the monthly cost of future bills, divide the amount you paid last year by 12 (for a monthly average).

## An example of a personal budget

**Your name:** A N Other

**Your address:** Anywhere Street, Anytown

**Number of people in your household**

### 1 Monthly income

Wages or salary	£840.00
Wages or salary	£461.00
Universal Credit	
Jobseeker's Allowance	
Income Support	
Tax credits	
Pension	
Child Benefit	£112.02
Incapacity Benefit	
Maintenance and Child Support	
Non-dependants' contributions	
Other (please give details)	
<b>Total</b>	<b>£1413.02</b>

### 2 Monthly spending

Rent, and service charges	£182.00
Council Tax	£56.00
Water charges	£25.00
Gas	£35.00
Electricity	£40.00
Magistrates' court fines	
Maintenance payments	
Contents insurance	
Life insurance and pension	£15.00
Housekeeping (2 adults, 2 children)	£325.00
TV rental and licence	£29.10
Phone	£35.00
Travel expenses	£158.00
School meals	£60.00
Clothing	£65.00
Laundry	
Childminding	£40.00
Prescriptions	
Other (please give details)	
<b>Total</b>	<b>£1195.10</b>

Adults: 2

Children under 18: 2

### 3 Priority debts

Debt	Amount owed	Monthly payment
Rent	£500.00	£40.00
Council Tax	£250.00	£15.00
Gas	£100.00	£10.00
Electricity	£150.00	£10.00
Court fines	£350.00	£20.00
<b>Total</b>		<b>£95.00</b>

### 3 Priority debts

These are the most important debts you have and may not always be the largest of your debts

Total monthly income	£1413.02
Less total monthly spendi	£1195.10
<b>Equals money left over</b>	<b>£217.92</b>
Less priority debt	£95.00
<b>Equals money left for other credit debts (non-priority)</b>	<b>£122.92</b>

### 4 Other credit debts

Enter the names of all your creditors (the person or company you owe money to). This includes creditors such as:

- catalogues
- store cards
- overdrafts

### 4 Other credit debts (non-priority)

Debt	Amount owed	Monthly payment
Visa	£596.00	£32.62
Store card	£850.00	£46.52
Overdraft	£800.00	£43.78
<b>Total owed</b>	<b>£2246.00</b>	
<b>Total monthly payment</b>		<b>£122.92</b>

### 5 To work out payment offers for other credit debts

Divide each debt by the total of all your debts added together. Then multiply by the money you have left for other credit debts (non-priority). For example:

Visa card	£596.00	÷
Total debt	£2246.00	x
Money left	£122.92	=
Offer	£32.62	

**This is an accurate record of my financial position.**

Signature:

Date:

## What next?

After six months, your creditors will normally ask for an update of your situation. You must respond even if there is no change in your financial circumstances.

If your circumstances do change, for better or worse, contact your creditors immediately. Explain the situation and draw up a new personal budget with an up to date offer.

If things get worse, always get advice immediately. You can contact your local Citizens Advice for debt advice.

### Remember:

- Don't borrow more money – it'll only make things worse.
- Don't arrange to make payments that you cannot afford.

## More information

### Harassment

Creditors should not:

- threaten violence
- mislead you about the action they can take
- phone you at unreasonable times
- ring you repeatedly at work
- contact your friends, neighbours or employers; or
- give anyone else your personal information without your permission.

If you feel you're being harassed, contact your local Citizens Advice. However, creditors do have the right to send you reminder letters saying how much you owe them.

### Hire purchase

If you have a hire purchase or conditional sale agreement (paying for something in instalments, for example your car), you don't own the goods until you've made the final payment. If you get behind with payments and have paid less than a third of the total price of the goods, the company can take it back. If you've paid more than a third, the company must get a court order before they can do this.

Don't assume that all goods you buy on credit are on hire purchase as there are many different types of agreement. With most agreements, you own the goods and the only action the creditor can take is to start court action to recover their money.

Only the person who signs an agreement is responsible for the debt, e.g. a husband and wife aren't responsible for each other's debts unless they both sign the agreement.

### Bank accounts

When dealing with debts, it's important to have control over your income.

If your bank account is overdrawn, one option you could consider is protecting your income with a 'first right of appropriation'. This means you can tell the bank how you want money paid into your account to be used – see

page 17 for an example letter you can use to ask for this.

If you don't get first right of appropriation, your bank will use any money coming into your account to reduce your overdraft - this could mean your income may not cover your essential living expenses, like rent and utility bills.

Another option, especially if you're seriously overdrawn and paying high bank charges, is to consider having wages or benefits paid elsewhere. Try a basic account with a different

bank or building society. These accounts help people who don't have a bank account or who're frozen out of existing accounts because of previous money problems. Take a look at the Money Advice Service website for details.

You won't be able to have a cheque book or go overdrawn, but most accounts offer standing order and Direct Debit facilities. By doing this, you'll be able to deal with the bank in the same way as your other non-priority creditors.



## Remember:

Cancel direct debits and standing orders on your previous account, as the bank will continue to make charges for the unpaid amounts and your overdraft will increase.

## Letters and forms for you to use

This is an example of a repayment offer letter you could send to your creditors.

Your name  
Your address  
Date

Account number:

Dear Sir or Madam

I am currently experiencing financial difficulties because.....

Please find enclosed my personal budget that lists my creditors and explains my current financial situation.

I cannot meet my contractual monthly payment so please consider the amount I have offered on the budget list.

I hope you will consider this offer and that you will stop charging interest on the account so that my debt does not increase. I will tell you about any changes in my circumstances, and will write to you in six months with a new personal budget.

If you accept my offer of payment, please send me a payment book.

Thank you for your help in this matter.

Yours faithfully

This is an example of a letter you could send to your creditors to tell them you can't make them an offer.

Your name  
Your address  
Date

Account number:

Dear Sir or Madam

I am currently experiencing financial difficulties because.....

Please find enclosed my personal budget that lists my creditors and explains my current financial situation.

As you can see from my personal budget, I cannot make any offer of payment at the moment.

Under the circumstances, would you be prepared to accept no payments on the account and to stop charging interest for a period of six months, after which time I will write to you with a new personal budget?

If my circumstances change significantly before this time, I will write to you immediately with new payment proposals.

Thank you for your help in this matter.

Yours faithfully

This is an example of a letter you could send to your creditors after six months, changing your offer.

Your name  
Your address  
Date

Account number:

Dear Sir or Madam

Following our agreement for reduced payments on the account mentioned above, I am writing to you as promised with details of my current financial situation.

Please find enclosed an updated personal budget and list of creditors showing my revised offer of payment to you.

I hope that this revised offer is acceptable and that you will continue not to charge interest on the account.

I will tell you about any major changes in my circumstances and will contact you in six months with an update.

Thank you for your help in this matter.

Yours faithfully

This is an example of a letter you could send to your creditors after six months telling them that your situation hasn't changed.

Your name  
Your address  
Date

Account number:

Dear Sir or Madam

Following our agreement relating to this account, I am writing to you as promised with details of my current financial circumstances.

As you can see from the enclosed personal budget, there has been no change in my circumstances so I would be grateful if you could extend our previous arrangement for a further six months.

I will tell you about any major changes in my circumstances, and will contact you in six months with an update of my financial situation.

Thank you for your help in this matter.

Yours faithfully

This is an example of a letter you could send to your bank to exercise your first right of appropriation.

Your name  
Your address  
Date

Account number:

Re: Right of appropriation

Funds are due to be paid into the above account, they are: (please list all income payments due into your account and the date they are due.)

Amount	Source	Date
--------	--------	------

I write to exercise my first right of appropriation over these funds and all future payments from these sources into my account. These instructions are to be effected every month until further notice.

I instruct you to pay the following priority items from them:

(Please list all standing orders, direct debits or cheques that need to be paid for essential living expenses, such as rent, utility bills, child care and contents insurance, what they are for and the date they are due.)

I also instruct you to allow me to withdraw cash from these funds for food and other essential living expenses:

Cash withdrawal of £..... per week.

I would be grateful if you could confirm receipt of this request in writing to me at the above address.

Yours faithfully

# Personal budget sheet

Your name:

Your address:

Number of people in your household

Adults:

Children under 18):

## 1 Monthly income

Wages or salary	
Wages or salary	
Universal Credit	
Jobseeker's Allowance	
Income Support	
Tax credits	
Pension	
Child Benefit	
Incapacity Benefit	
Maintenance and Child Support	
Non-dependants' contributions	
Other (please give details)	
<b>Total</b>	

## 2 Monthly spending

Rent, service charges and Council Tax	
Water charges	
Gas	
Electricity	
Magistrates' court fines	
Maintenance payments	
Contents insurance	
Life insurance and pension	
Housekeeping (2 adults, 2 children)	
TV rental and licence	
Phone	
Hire purchase	
Travel expenses	
School meals	
Clothing	
Laundry	
Childminding	
Prescriptions	
Other (please give details)	
<b>Total</b>	

## 3 Priority debts

Debt	Amount owed	Monthly payment
Rent		
Council Tax		
Gas		
Electricity		
Court fines		
<b>Total</b>		

Total monthly income	
Less total monthly spending	
<b>Equals money left over</b>	
Less priority debt	
<b>Equals money left for other credit debts (non-priority)</b>	

## 4 Other credit debts (non-priority)

Debt	Amount owed	Monthly payment
Visa		
Store card		
Overdraft		
<b>Total owed</b>		
<b>Total monthly payment</b>		

**This is an accurate record of my financial position.**

Signature:

Date:



## Contact list

These agencies can you give advice.

### **Sovereign Housing Association**

Contact us if you're behind with payments on your rent or service charges.

### **Local authority**

They manage Housing Benefit and Council Tax Benefit. Some also provide advice about welfare benefits and debt.

### **Job Centre Plus**

They manage benefit claims. They also provide free advice on what benefits you might be entitled to.  
www.gov.uk/contact-jobcentre-plus

### **Department of Work and Pensions**

The DWP is responsible for welfare, pensions and child maintenance policy. You can get information on benefit changes and announcements at  
www.gov.uk/government/organisations/department-for-work-pensions

### **Money Advice Service**

Helps people manage their money. Find resources at  
www.moneyadvice.service.org.uk  
or call 0300 500 5000

### **Directgov**

The official UK government website.  
www.direct.gov.uk

### **Inland Revenue**

Your local tax enquiry office can give advice on tax issues.  
www.gov.uk/government/organisations/hm-revenue-customs

### **Samaritans**

A listening ear for everyone.  
www.samaritans.org

### **Relate**

Provide advice and counselling on relationship difficulties. www.relate.org.uk

### **Stepchange**

For free advice on problem debt call 0800 138 1111 or visit  
www.stepchange.org

### **Money Advice Plus**

Money advice plus provides money and debt advice by phone nationwide.  
01323 635999

### **PayPlan**

Free Debt Management Plans, IVAs and Free Debt Advice. 0800 280 2816  
www.payplan.com

### **National debt line**

Free money advice helpline.  
www.nationaldebtline.co.uk

### **Citizens Advice**

Free advice and help on a wide range of issues including money advice, benefits, employment and consumer rights. They may also provide financial literacy in your area for all levels.  
www.adviceguide.org.uk

### **Shelter**

Your local Housing Aid Centre can offer specialist housing advice.  
www.shelter.org.uk

### **Age UK**

Help and advice for older people.  
www.ageuk.org.uk

You will find the relevant phone numbers in the Phone Book, Thomson's directory, Yellow Pages or you can search on the internet.



## Head office

### **Sovereign Housing Association Limited**

Woodlands  
90 Bartholomew Street  
Newbury RG14 5EE  
sovereign.org.uk

If you have any questions, please  
contact us.



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