

Key Features of Alternative Debt Solutions



	Bankruptcy	Individual Voluntary Arrangement (IVA)	Debt Relief Order (DRO)	Debt Management Plan (DMP)	Informally Negotiated Agreement with creditors	Credit Reorganisation / Consolidation Loan	County Court Admin Order (CCAO)
Automatic debt release?	Yes, when you are discharged, subject to certain exceptions.	Yes, when you have completed the terms of the IVA	Yes, provided your circumstances do not improve over 12 months	No	No	No	No, unless the court makes an order to that effect
Automatically binding on all unsecured creditors?	Yes	Yes, if accepted by creditors owed more than 75% of your unsecured debts who vote on your proposal	Yes	Only on creditors paid in full	No	Only on creditors paid in full	Yes
Automatic protection from unsecured creditor action?	Yes	Yes	Yes	No	No	Only from creditors paid in full	Yes
Protection from secured creditors action?	No	No	No	No	No	No	No
Length of time?	Usually 1 year but you may be required to make payments from your income for 3 years	Usually up to 5 years	1 Year	No fixed time	No fixed time	No fixed time	Until last payment made
Effect on employment?	Possibly	Possibly	Possibly	Probably none	Probably none	Probably none	Probably none
Home at risk?	May be avoided if it is possible for your share of the net worth of your home to be bought by your spouse/partner or a relative	Can be avoided if you are able to raise an amount equal to your share of the net worth of your home, for example by re-mortgage or loan from a relative	n/a You can't do a DRO if you own a home or your total gross assets exceed £300 or your disposable income is greater than £50pm	No, but you need to keep up mortgage/rent payments	No, but you need to keep up mortgage/rent payments	No, unless a secured loan is taken out	No, but need to keep up mortgage/rent payments
Minimum or maximum amount owed?	No minimum if your own petition (£750 if the petition is by a creditor)	None, but it is unlikely that an IVA would be practical if your debts are less than £20,000	Maximum of £15,000	None, but it is unlikely that a DMP would be practical if your debts are less than £5,000	No	No	Anything up to £5,000
Type of unsecured debt allowed?	Any with certain exceptions e.g. fines, student loans and maintenance payments	Any, but in practice debts excluded in bankruptcy are usually excluded from IVAs	As in bankruptcy	Any	Any	Any	Any
Credit rating affected?	Yes	Yes	Yes	Yes	Yes	Possibly	Yes

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The most important points to consider are:

- Does the procedure release you (excuse you) from all or part of your debts so that your creditors will have no further claim against you?
- Is it binding on all your creditors?
- Are you protected from further recovery action and/or additional charges by your creditors during the procedure?
- How long will it last?
- Will it affect your employment?
- Will your home be at risk?
- Some of these procedures involve the payment of a fee. Where a fee is payable, it may either come out of payments you make to your creditors or it can be payable separately before or after the procedure is put in place.
- Some of these procedures may involve prioritising certain types of unsecured debt, for example utilities, rent, court fines, council tax, maintenance payments, income tax etc: it will be more difficult, if possible at all, to negotiate reduced payments or write-offs with these kinds of priority debt.
- Are you confident that you can keep up with the payments you will have to make to your creditors, for the period of time required under the alternative you are considering?

The most appropriate alternative in each case will depend on your own and your family's present circumstances and future prospects, and on your own preferences. In all cases the key factors are the amounts you owe and how much you are able to repay from your income or your assets, after meeting your own and your family's essential needs. You should be ready to give full details about all your debts and your finances to whomever you seek advice from, and to your creditors. It is essential you give them the complete picture. In making any offer to your creditors you should be realistic about your income and reasonable about your expenditure – we are able to provide you with guidance about levels of essential household and personal expenditure which can be used to put your case to creditors.

Features common to all the alternatives

It is important to understand that:

- None of these alternatives can affect the rights of secured creditors, for example a bank or building society that has a mortgage or legal charge over your home. They continue to have the right to take possession of your home if you do not keep up your payments.
- Most debts involving credit and loans, for example credit and store cards and bank overdrafts, are unsecured - that is to say failure to pay this type of debt does not automatically entitle the creditor to take something of yours, such as your home. However in some circumstances they may go to court if you fall behind with your payments and obtain a court judgment; and they may then be able to ask the court to secure the debt on your home through a charging order.
- All of these alternatives may affect your credit rating and will show up on your credit record.
- Entering into a procedure to help with your debt may, in a few cases, affect employment and may, under the terms of your employment, have to be disclosed to your employer.

Information contained within this website is not a definitive explanation of the law. Nor is it a substitute for taking independent advice on which of the alternatives is appropriate for you and your circumstances from an insolvency practitioner or recognised advice organisation. You should seek advice early: the worst thing you can do when you are in financial difficulty is to do nothing and hope the problem will go away.

