



The Debt Negotiation process:

The Advice Centre follows a nationally recognised debt negotiation process used by other advice agencies such as the Citizens Advice Bureau. You could initially try to arrange reduced payments by telephone, but please be careful only to agree to payments that you can afford.

Steps One: Show what income you received on a weekly or monthly basis. Decide how often you would like to make payments (monthly is usually easier) and divide yearly figures (such as your Student Loan) by 12 or 52 to give a realistic picture of your total income.

Step Two: Show what your expenditure is on a weekly or monthly basis. Please be realistic about your expenditure (for example, £30.00 per week per person for household goods/food is usually seen as the minimum that someone can live on), but also remember that if you do want your creditors to agree to reducing your payments then you have to show you are in hardship – they are not going to accept that you have to spend £50.00 per week on food without a good reason!

Step Three: Take away your total expenditure from your total income. The amount you have left is the amount of money that you can reasonably offer to your creditors on a regular basis. If you don't have any money left for your creditors, don't panic! They may accept token or suspended payments.

Step Four: If you do have money available and you have 'Priority Debts', for example gas or rent arrears, it is important to contact these creditors first and arrange payment agreements. Priority debts are ones where the powers the creditor has if you don't pay are greater, for example, they could evict you. We may be able to help negotiate lower payments if you are unable to do so.

Step Five: If, after you have agreed payments on any 'Priority Debts', you still have money available, then you can offer payment on your 'Non-Priority Debts' or 'Credit Debts'. These may include credit cards, non-secured bank loans, defaulted bank accounts and catalogue debts. These creditors have lesser powers when it comes to pursuing you for the debts. The easiest way to divide any money available amongst your creditors when making offers is to do it on a *pro-rata basis*. This means you offer the most to the creditor whom you owe the most to. You can work this out for each debt exactly using the following calculation:

$$\frac{\text{Total Money Available For Credit Debts} \times \text{Money Owed For Individual Credit Debt}}{\text{Total Amount Owed For Credit Debts}}$$

This calculation gives you your weekly/monthly repayment figure. Creditors like this method, as it shows that they are being treated fairly! However, please bear in mind that pro-rata payments are not always the best option. For example, if creditors do not agree to suspend interest charges whilst you make your reduced payments, and the interest rates on one debt are higher than the others, then you may lose out financially by not concentrating on paying off that debt first.

Once you have completed your Personal Budget Sheet you should send a copy of it, with a letter, to each of your creditors. There are two sample letters you could adapt to your own circumstances at the end of this leaflet.

Example letters:

Remember: Always keep a copy of your personal budget and any letters you send. Use this example letter (below) if you are making pro-rata offers to your creditors.

Dear Sir/Madam

Account No. _____

Since making the above agreement with you, my/our circumstances have changed.

I/We cannot now afford the agreed monthly payments because _____

I/We enclose a Personal Budget sheet which shows my/out total income from all sources and my/our total outgoings. As you can see I/we have only £_____ per month left for my creditors.

The offers I/we have made to my/our creditors have been worked out on a pro rata basis and I/we have written to all my/our creditors asking them to accept reduced payments.

In view of my/our circumstances, please would you agree to accept a reduced offer of £_____ per month. If interest or other charges are being added to the account I/we would be grateful if you would freeze these so that all payments made will reduce what I/we owe you.

Should my/our circumstances improve I/we will contact you again.

I/we would be grateful if you would send a (paying-in book) (standing order form) to make it easier to pay you.

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

Yours faithfully

Explain what the problems are, for example if you have lost your job, separated from your partner or had an unexpected increase in outgoings or a drop in income.

Use this example letter (below) if you are making no offer of payment of token payments.

Dear Sir/Madam

Account No. _____

Since making the above agreement with you, my/our circumstances have changed.

I/We cannot now afford the agreed monthly payments because _____

I/We enclose a Personal Budget sheet, which shows my/our total income from all sources and the total outgoings of my/our household. As you can see, I/we have no money left to make offers of payment to my/our creditors.

In view of my/our circumstances, would you please accept (no payments at present) (a token offer of £1.00 per month) to be reviewed in six months. If interest or other charges are being added to the account, I/we would be grateful if you would freeze these so my/our debt does not increase.

Should my/our circumstances improve I/we will contact you again.

I/we would be grateful if you would send a (paying-in book) (standing order form) to make it easier to pay you.

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

Yours faithfully

Explain what the problems are, for example if you have lost your job, separated from your partner or had an unexpected increase in outgoings or drop in income.

If your financial difficulties are only temporary, you may wish to ask them to accept an offer for only a short period, for example three or six months.

If a creditor doesn't accept your offer, or this leaflet doesn't cover the difficulties you are experiencing, or if you would just like some further information or assistance, don't worry. The Advice Centre can provide a wealth of help, from advising on budget sheets to long-term representation and negotiation.