

## 2 - Why do I need independent debt advice?

### Read this leaflet if:

- you are not sure whether you need debt advice;
- you don't know what debt advice is out there; or
- you are considering doing something about your debts and want to check out whether you are on the right track.

You may want to read '3 – How do I get independent debt advice?' as well.

### Main messages

- ✓ If you haven't got enough money to pay everyone you owe, you need to start thinking about sorting out your debts.
- ✓ Sooner is better than later.
- ✓ Don't leave it to someone else.
- ✓ Don't think the problem will go away.



Why do I need independent debt advice?

## Are my debts a problem?

In this country, lots of people have borrowed money. But, for some people, their debts have become a problem as they can't pay them back without experiencing hardship. If you are having these kinds of problems, there are people who can help you.

### **"I'll leave it until later!"**

Why? Ignoring your problems will not make them go away. It is very likely to make them get worse.

A lot of people avoid dealing with money matters and debts, which is why they pile up the letters (sometimes without even opening them) and put them to one side for when they have more time.

If this is you, getting debt advice is the ideal way to get rid of that 'mental block'.

### **"I can manage everything except the [...]."**

If you have enough money to manage everything except for one or two debts, you don't have enough money overall. The solution is not to pick on the one or two debts that you think are a problem, but to sort out your finances as a whole.

### **"My problems are only temporary because of [...]."**

Maybe. Many people's debts start because of a change in their circumstances. You need to take the following into account.

- The sooner you act to get your finances in order, or to make sure the people you owe money to (known as 'creditors') understand your problems, the easier it is to deal with them.
- Some things that you think will be temporary turn out not to be. The sooner you make adjustments for your new circumstances, the smaller the problems you will have to deal with, whether your new circumstances become permanent or not.

### **"It's not my problem, it's for [...] to sort out."**

Debt problems can be caused partly by other people or organisations not doing their bit. They often are. But that doesn't mean it's not your problem.

- Organisations make wrong decisions. You need to do to get the wrong decisions put right.
- Some people will take it out on you as a way of applying pressure to sort things out – for example, a landlord going to court to take possession of a property to put pressure on the Housing Benefit authorities.
- If you don't act, it won't be the companies that suffer. It will be you.

### **"I leave everything about money to my partner."**

This is common. Which is why it's also common for a partner to say, "I didn't realise we were in debt!"

If you have joint finances, you should always sort out your debts together. That includes getting debt advice together, if this is appropriate.

### **"I think I've got enough money, I just don't seem to manage it very well."**

That's certainly easier than when you don't have enough money! You may benefit from budgeting or money management advice. It's also possible that you may have misjudged your finances and not have enough money.

## The benefits of independent debt advice

Over the next few pages, we explore the different things people will try to sell you as ways of getting out of debt, and some of the risks. We also explain what we mean by independent advice, and how to find it.

### Main messages

If you need debt advice, you should get independent debt advice that is in your best interests.

### Why should I get independent advice?

You may have heard the message: "If you are in difficulty, talk to your creditors early."

That is true. It is a good message. But it doesn't mean that you should necessarily take their advice. It won't be independent, and so it may not be in your best interests.

### Creditors have an interest in not telling you that their debt is not a priority.

Indeed, most creditors will focus on making arrangements for you to pay the money back to them.

### Creditors will not want to tell you about the limits of their enforcement powers.

If creditors have very few powers to make you pay back the money you have borrowed from them, they won't want you to know this.

If creditors want to use taking you to court as a threat, they won't want to tell you that the court might be able to help you.

If creditors have very strong enforcement powers, they won't want you to know the limits of those powers – for example, when bailiffs can't force their way into your property.

### Creditors will not want to help you to get your debt written off.

There are a number of procedures that an independent debt adviser can help you with that may result in you not having to pay back all or some of your debts. But this usually applies under certain conditions. Speak to an independent advisor for more information.

## Creditors will not want to tell you that you may not owe them money.

Good debt advisers will always consider whether it is possible to argue that you do not owe the debt at all.

## Why should I get advice that is in my best interests?

Above is a list of reasons why a creditor may not always tell you what it is in your best interests to know.

But it is not only creditors that may not tell you what is in your best interests. A lot of other organisations that are independent of the people you owe money to will still not give you advice which is in your best interests. This is usually because they have a particular product or a particular solution to sell you for getting out of debt.

## The limits of other debt advice

Solutions to getting out of debt are widely advertised on daytime television, in free newspapers, on buses and in many other places. We would recommend that you do not approach these organisations direct. The services they offer are not wrong for everybody, but if you are going to use them, we suggest getting independent advice first.

Here, we explain some of the different solutions on offer, and urge you to be careful.

### Main messages

- ✓ Be careful about commercial products offered as solutions to getting out of debt.
- ✓ If you can, get independent advice first.

## Commercial lenders

A number of commercial lending organisations advertise their services as a solution to getting out of debt. These organisations usually recommend that you 'consolidate' your debts (put them altogether into one loan), and will offer you only a secured loan. A secured loan means that if you do not keep up with the payments, you could lose your home.

Or, lenders may offer you an unsecured loan if they know you own a home. They can charge a higher rate of interest because of the 'risk', but still apply to court to secure the loan against your home later by applying for what is known as a 'charging order'. The lender knows that if you do not keep up with the payments, they can go to court later and maybe sell your home to claim back their money.

Commercial lenders are allowed to charge higher interest rates to people who they consider to be a higher risk. They also charge you when you don't keep to the agreement, and may charge you interest on charges as well. You can end up paying more.

## Organisations that offer independent debt advice rarely recommend that you consolidate your loans.

## Commercial debt advice you pay for

You may be able to pay for professional legal advice on getting out of debt. As long as you have enough money and you are given good advice, this may be a solution. But if you are already in debt, it is likely to be better to find an organisation that provides advice free of charge.

## Commercial debt advice the creditor pays for

Many organisations have their own staff to provide advice and support to their own customers when they get into debt. Others pay for outside organisations to provide similar services on their behalf. In both cases, the service is offered to put you back into a position where you can continue paying off your debts. Sometimes, these services can provide a responsible and fair approach to managing your debt. However, these organisations often make claiming back their money a priority, so this may not be in your best interests.

## Debt repayment programmes

The idea here is to reach an agreement with your creditors so that they allow you to pay back lower amounts. You will pay a fixed amount to the organisation, which keeps some for itself and distributes the rest to your creditors.

Individual voluntary arrangements (IVAs) work in this way. IVAs are expensive to manage, and so are generally appropriate only for large debts and for people who have enough money to cover it.

## Payment services

Some organisations simply ask you to pay them an amount each month to cover all of your regular outgoings, with an amount on top to cover their fee. If you have enough money but have difficulty managing your debt, this can help. If you don't have enough money, this can add to your problems.

These organisations may leave you to make your own arrangements for how much to pay back. This won't help you if you don't know what a good arrangement is.

Involving an extra organisation means your payments reach the creditor slower. Some organisations hold on to payments.

## Remember, help is available

Money and debt can seem confusing. Plus, there seems to be lots of people telling you what to do. But there are independent agencies offering debt advice that act only in your interest and will not sell you any products. They are trained to give you the advice that matches your needs and will guide you through the process of paying back your debt. An adviser can help you review your whole situation, work out what to do about it and help you take action to get your finances back on track. Their services are also **free**. For more information, see leaflets 3 and 5.

**This leaflet is part of a series of eight leaflets.**

- 1 – Making money go further
- 2 – Why do I need independent debt advice?
- 3 – How do I get independent debt advice?
- 4 – Preparing for your appointment to get debt advice
- 5 – Understanding the process for getting debt advice
- 6 – After debt advice – dealing with creditors on your own
- 7 – After debt advice – do you need more help?
- 8 – Debt advice – other sources of information

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