

DRO guide



*Free, Impartial
Debt Advice*

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Introduction

How this guide will help you

StepChange Debt Charity is the leading UK debt charity. Every year we help hundreds of thousands of people beat problem debt. We give free, realistic debt advice and provide a range of debt solutions.

If you're struggling with debt repayments an option to consider may be a debt relief order (DRO). A DRO is a form of insolvency. There are strict qualifying criteria that you need to meet before you can apply.

This guide will give you all the information you need about DROs. It'll help you to decide whether a DRO is the best solution for you.

The guide explains:

- What a DRO is
- Who a DRO is suitable for
- What to expect when you apply for a DRO
- How we can help

Why us?

We have a specialist team who can help and support you through the whole application process. We don't take fees for our advice or support at any point.

To see if you meet the DRO criteria use our online StepChange Debt Remedy tool. Or, call our freephone Helpline on 0800 138 1111 to speak to one of our qualified debt advisors.



Free anonymous debt advice

Free debt help online from StepChange Debt Charity at www.stepchange.org



DROs

What is a debt relief order?

A DRO is a form of insolvency costing £90. It was introduced by the Government in 2009 for people on lower incomes who are unable to pay their debts back.

DROs are suitable for people whose financial situation is unlikely to improve in the foreseeable future. DROs are granted by an official receiver. If your application is successful you will become debt free and able to make a fresh start.

As soon as your DRO application has been submitted your creditors are no longer allowed to contact you. This means no more letters or contact from them.

Your debts will then be written off after 12 months unless your circumstances improve. You do not have to make any payments to creditors included in the DRO once the official receiver has approved your application.

Free, impartial debt relief order advice

A DRO is a legal procedure with implications and restrictions you must abide by. We strongly recommend that you get professional, impartial advice before applying.

Our debt advisors and online StepChange Debt Remedy tool can give you the free, realistic debt advice you need to find out which solution is best for you.

If it is a debt relief order our specialist DRO team can help you through the process.



Free debt advice

Free debt help from StepChange Debt Charity
call **0800 138 1111**



DROs

Debt relief order criteria

Debt relief orders are designed for the most financially vulnerable so the qualifying criteria is strict. Your application must be true and accurate and The Insolvency Service will not return the fee paid if declined.

Eligibility

The information you submit must be true and accurate as it is an offence to mislead the Official Receiver about your situation.

Not everyone will qualify for a DRO. To be eligible for a DRO you need to meet the following criteria:

- Your current debt balances must not total more than £20,000
- You cannot own assets worth more than £1000
- You must have no more than £50 left over each month after paying your household bills
- You cannot own a domestic vehicle that is worth more than £1,000
- You must not currently involved in other insolvency proceedings or had a previous DRO within the last six years
- You must have lived, had a property or carried out business in England, Wales or Northern Ireland in the last three years.

The Official Receiver can perform an investigation as part of the application process and can reject the order if:

- You have given away property or other assets, or sold it for less than its true value in the last two years.
- If you have shown preferential treatment in the payments to some of your creditors over others in the last two years.

How do I apply for a debt relief order?

Debt relief orders are administered by an Official Receiver at The Insolvency Service. You can only apply for a debt relief order through an approved third party who are deemed to be a Competent Authority in debt advice.

DRO Competent Authorities

We are one of the few organisations that can submit a debt relief order application. A full list of the Competent Authorities is available from The Insolvency Service.

Free anonymous debt advice

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DROs

Debt relief order fee

A DRO costs only £90 which makes it a low cost form of insolvency for people unable to afford bankruptcy. The fee should be paid straight to the Insolvency Service in cash at any Payzone outlet either in full or in instalments over a period of six months.

However the fee does need to be paid in full before the Official Receiver will consider your debt relief order application.

Benefits of DRO application process with us

We have a dedicated DRO team that will help you through every stage of making an application.

As the £90 fee is non-refundable and you can only make a DRO application every six years it is crucial that you meet the qualifying requirements and your information is true and accurate.

We can check your application to ensure it is accurate and fits the qualifying criteria to greatly increase the likelihood an application is accepted by The Insolvency Service. If the fee is paid and you fit all the qualifying criteria your order will begin.

What debts are included in a debt relief order?

Only certain types of debts, called qualifying debts, can be included in a debt relief order and these must not exceed £20,000.

The Insolvency Service can investigate your financial situation as part of the debt relief order application process. It is an offence to mislead the Official Receiver or omit information about your level of debt.

Debt relief order debts

The following types of qualifying debts, including arrears, can be included in your debt relief order application:

- Credit card debt, overdrafts, loans
- Rent, utilities, telephone, council tax
- Social loans or benefit overpayments
- Conditional sale or hire purchase (HP) agreements
- Items bought on finance.

You must list all of your debt accurately including any accumulating interest up until the point you submit your application. The Insolvency Service may reject an application if the accrued interest takes the level of debt over the £20,000 limit.

Hire Purchase (HP)

You do not own conditional sale or HP items until they are paid off and you cannot continue paying them when on a DRO. The items would usually have to be returned or transferred over to another person along with the responsibility of the monthly payments. You may be allowed to keep the items if they're essential and you have no arrears.

Are any debts excluded from a debt relief order?

There are certain types of debt that you are unable to include. You would still be liable to pay the following:

- Student loans
- Child support and maintenance
- Criminal fines
- Secured loans or mortgage payments
- TV licence arrears

DROs

What assets are included in a debt relief order?

A debt relief order is an insolvency option for people with low asset wealth. If your assets total more than £1000 in value, you will not be able to apply for a DRO.

What are assets?

Assets are items of value that you own that could be sold or converted into money. These can include:

- Vehicles
- Property
- Antiques
- Shares
- Savings

It's worth noting that your assets are valued by the amount you would receive if they were re-sold in their current condition and not the amount you purchased them for.

Debt relief order and your vehicle

To qualify for a debt relief order the total value of your assets must not be more than £1000 in value. If you own a car then this cannot be worth more than £1,000.

How is a car valued?

The intermediary who submits your DRO application will work out the value of your car based on typical sale prices. If your car is worth more or less than average, you can provide your own independent valuation from two garages.

Can I apply for debt relief order if I own my home?

If you own a property, even if it is in negative equity or you own it outright, it is still an asset. So your debt relief order application will not be accepted.

What assets are excluded from a debt relief order?

There are a few everyday items that the Official Receiver will not consider when totalling up your asset wealth. This includes the following:

- Household items like bedding, clothing and furniture.
- Anything used for your employment including tools or books
- A vehicle worth less than £1,000
- A vehicle that has been adapted to help with a physical disability.

Pensions

A pension fund could be considered an asset. However it is not counted towards the £1,000 asset limit, even if you have not yet retired. If your pension fund is not approved by HMRC, your pension savings may be treated as an asset.

Free advice

If your asset wealth is too large for a DRO but still less than your total debt bankruptcy could be a more appropriate insolvency option. But this is a complex issue and it's important you get expert help before making any moves towards bankruptcy.

DROs

What happens when I am on a debt relief order?

If the Insolvency Service accepts your debt relief order application it generally lasts for 12 months. When you are on a debt relief order you are subject to certain protections and limitations.

Moratorium period

Once your DRO is approved a 'moratorium' period is placed on the debts listed in the order. This means your creditors cannot take any action to recover their debt. If they do, you should inform them you are subject to a debt relief order.

When the moratorium period ends, if your financial situation has not improved, the debts that were included in the original application are written off. But you would need to continue paying your current household bills and expenses including rent, council tax, gas, electricity and water rates as well as any additional debts taken out since the DRO was granted.

Can I get credit while on a debt relief order?

The DRO will appear on your credit file and on a public register. It will affect your credit rating so you may struggle to obtain further credit. Also, you must inform the bank you are on a DRO if you are applying for an overdraft over £500.

If you're struggling to open a current account, nearly every bank offers a basic bank account. Most basic accounts allow direct debits and standing orders as well as a cash card, with some providing debit cards. But none will have an overdraft facility.

What can't I do if I am on a debt relief order?

For the length of your DRO there are certain things you cannot do. These are called restrictions and include:

- Getting credit over £500 without informing the lender you're on a DRO
- Carrying on a business under a different name without revealing your previous business was subject to a DRO
- Setting up a Limited company or acting as a company director without permission from a court.

Debt Relief Restriction Order

If the Insolvency Service believes you have been intentionally dishonest they can apply for a Debt Relief Restriction Order to extend the restrictions for up to 15 years. The DRO would still end after a year and the debts written off but failure to abide by the restriction extension is a criminal offence punishable by a fine or imprisonment.



DROs

What happens if I am on a DRO and my situation changes?

If your situation changes you should tell the Official Receiver who'll consider terminating the order. Reasons for this can be:

- Taking out new debt that is over £500
- Any improvement in your income
- Receiving lump sums of money or assets

The Official Receiver can also terminate the DRO if they uncover any intentional inaccuracies in your original application

It's your responsibility to inform the Official Receiver of changes in your situation. It's an offense to give away or hide assets and you must co-operate with The Insolvency Service if asked to.

What happens when my DRO has finished?

If you have followed the restrictions, co-operated with the Official Receiver and acted honestly during the moratorium period a DRO should leave you debt free and able to make a fresh financial start within a year.

Creditor action after a DRO

When your debt relief order finishes all of the qualifying debts named in the order will be written off along with any liability to pay them back.

The DRO does not protect you from creditor action for any debt you may have taken out that was not listed in the original application.

You can only apply for a debt relief order once every six years.

Can I get credit after a debt relief order?

A debt relief order is a form of insolvency so it will remain on your credit file for six years. Creditors will be able to see this when you apply for new credit so you may find it difficult to take out credit during this time.

If you struggle to open a bank account, there is the option of a basic bank account. Every bank offers a basic account.



Free anonymous debt advice

Free debt help online from StepChange Debt Charity at www.stepchange.org



Other debt solutions

The qualifying criteria for a debt relief order is very strict and dependent on your situation remaining the same for 12 months.

If you do not qualify for a DRO or you are on an order and your situation changes, there will be other debt solutions for you to consider.

We recommend you get impartial, professional debt help to ensure you get the best solution for you. Our online StepChange Debt Remedy tool can help you with this.

In the meantime, this part of the guide will summarise some other debt solutions which may be better for you:

- Debt management plan (DMP)
- Token Payment
- Bankruptcy.

Debt management plan (DMP)

A debt management plan (DMP) is suitable for people who have some money left over each month, but not enough to cover all their debt repayments. If you have more than £50 spare money left over each month a DMP could allow you to make a single, affordable monthly payment towards your debts.

How does a DMP work?

A debt management plan is normally arranged through a third party. The third party will work out how much you can realistically afford to pay each month. They will then contact your creditors to ask them to accept a reduced monthly payment.

They will also manage the distribution of the money between all your creditors, so that you don't have to deal with them.

- A DMP will take longer to repay your debts
- Interest and charges will increase the total balance you pay
- A DMP will affect your credit rating

How much does a DMP cost?

Many commercial debt management companies will set up a DMP for you, but will charge fees for their services.

There is no need to pay for a DMP. Charities like ourselves can set up your DMP free of charge; with no fees attached.

All the money you pay into your plan will go towards clearing your debts. We will also make sure that you only pay what you can afford, so you can keep up with your day-to-day living costs as well.

Free debt advice

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call **0800 138 1111**



Other debt solutions

Bankruptcy

Bankruptcy is suitable for people who are unable to pay off their debts within a reasonable time. Like the debt relief order it is a form of insolvency but without the restriction on debt level or your monthly disposable income.

How does bankruptcy work?

Bankruptcy writes off most unsecured debts, allowing you to make a fresh financial start. But, you will be subject to a number of restrictions during bankruptcy, which is usually 12 months.

To file for bankruptcy, you must apply to the court and pay a fee. You may be exempt from paying part of the fee if you receive certain welfare benefits.

You may also have to make monthly payments towards your debts as part of an Income Payment Arrangement for up to 3 years.

How could bankruptcy affect me?

Bankruptcy could have significant consequences for your personal and professional life. You may have to sell your home and there could also be an impact on your job, business, car and bank account.

Bankruptcy will also seriously affect your credit rating for six years from the date you are made bankrupt and your bankruptcy will appear on a public register.

Free bankruptcy advice

Bankruptcy is a big step to take with serious implications. If you're thinking about making yourself bankrupt, talk to us first and we will give you the debt help you need.



Free anonymous debt advice

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Other debt solutions

Temporary payment arrangement

Temporary token payments are a suitable arrangement for someone with little or no money to pay their credit debts once living costs have been covered. They are to show willingness to pay towards a credit debt but they are not a long term solution to your debts.

How does it work?

If your circumstances change and you're unable to make your normal credit re-payments it's important you pay something. A token payment, even a very small amount, should be paid until you can afford to make your normal payments.

When working out how much to offer, essential costs such as mortgage or rent, food and utilities should be budgeted in full, and then the spare money is shared with the creditors.

Your creditors may not accept your offer, but in many cases they are prepared to be flexible especially as you are making an effort to try and solve your problems.

If they do accept, you should keep to the arrangement and use the breathing space you've been given to solve your financial difficulties for good, which means resisting the temptation to add to the debt by borrowing more money as a short-term fix.



Free debt advice

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Our debt help

How we can help

Millions of people in the UK are worried about their debt problems so it's important to remember that you are not alone. Each year we help hundreds of thousands of those people with all sorts of debt problems, both big and small.

Act now

No debt problem is unsolvable but the longer you wait to take action, the worse it is likely to get and the harder it will be to tackle. By acting now you can begin your journey towards becoming debt free. Beginning to solve your debt problem will lift the stress and worry you feel about your debts.

What you can do

We can help you whatever stage your debts are at but there are some things you can do to stop your debt problem getting any worse:

- Don't extend your overdraft or take payday loans
- Stop using your credit cards
- Don't consolidate your debts into a debt consolidation loan without getting advice from us first
- Never secure any of your debts against your home and seek free, professional debt advice as soon as you can

We can help

If you have problem debt it can be difficult to know where to turn. Many companies offer different solutions and knowing where to start can be daunting.

We'll take an impartial view of your situation in detail and advise you on your options. You can be confident that the solution we recommend is best for you.

Contact us

As the UK's leading debt help charity, you can be sure that all our advice is free, confidential and impartial.

Our online debt advice

Our online StepChange Debt Remedy tool is available 24 hours a day to give you free, anonymous, tailored debt advice.

Our telephone advice

If you would prefer to talk to someone, please call our freephone Helpline number: 0800 138 1111* to arrange a telephone appointment. Our lines are open from 8am to 8pm, Monday to Friday and Saturday 8am to 4pm.

If you have hearing difficulties, our free textphone number is 0800 294 0090.

*Calls may be recorded and monitored for quality and training purposes. Calls from mobiles are free.

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