

Debt consolidation guide



*Free, Impartial
Debt Advice*

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Introduction

How this guide will help you

At StepChange Debt Charity, we help people with problem debt by giving free, impartial debt help.

Although debt consolidation companies often promote their services as the best way to manage debts, there are many different ways to get out of financial difficulty, and debt consolidation is not always the best solution for everyone.

This guide explains:

- What debt consolidation is
- If consolidation is right for you
- What other solutions are available
- How we can help with your debt problem
- how you can contact us

As this guide will explain, you must always think carefully before taking out a debt consolidation loan, as it could make your situation worse rather than better.

For more advice about your debt problem, contact us, or use our online StepChange DebtRemedy tool.



Free anonymous debt advice

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



Debt consolidation loans

What is debt consolidation?

Debt consolidation is the name for a loan that you use to pay off all your other unsecured debts.

A debt consolidation loan can be taken out to pay debts such as credit cards and store cards, catalogues and personal loans.

Taking out a debt consolidation loan means that you will only have to make one monthly payment rather than several monthly payments to cover your debts. This can make it easier for you to manage your finances and, in theory, makes keeping up with your payments simpler.

Debt consolidation is not the best solution for everyone. Taking out a debt consolidation loan could leave you in a worse financial situation than you are currently in. Please think carefully before taking out a debt consolidation loan.

Is debt consolidation right for you?

Although debt consolidation can help some people, for others, it can create even bigger debt problems.

For many people, payments to a debt consolidation loan can work out more expensive.

Higher interest rates

It is important to remember that if you have debt, or if you have missed payments on your debts, this will have affected your credit rating. You will usually find that the only way you can borrow more money is at a higher interest rate. If you have to borrow money at a higher interest rate you will pay more money back over the lifetime (or term) of the loan.

Bigger monthly payments and longer loans

You may have to make a large payment to your debt consolidation loan each month, or you could find that you are paying the money back for a long period.

If you're applying for any kind of loan you should always check how much the payments are each month, and how many payments you will need to make over the lifetime of the loan.

Debt consolidation fees

Some debt consolidation loan companies charge arrangement fees and these will be added to the money you are borrowing, therefore increasing the amount and possibly the term of your loan.

If you are thinking about taking out a debt consolidation loan it is very important that you consider all of these things, and carefully check the terms and conditions.

The Government and the Money Advice Service have more information about debt consolidation loans on their websites. Visit www.gov.uk or www.moneyadviceservice.org.uk



Debt consolidation loans

Secured and unsecured debt consolidation

There are two types of debt consolidation loans – secured and unsecured.

Secured and unsecured loans have different consequences for your finances and it is very important that you understand the differences between the two.

Secured loans

A secured loan is when a debt is secured against your property. Taking out a secured loan is like taking out another mortgage. If you cannot pay the loan back, the loan company can sell your property. We would never recommend that you take out a secured loan to pay back your unsecured debts.

A secured loan is usually cheaper than an unsecured loan, because lenders know that they can sell your assets if you do not pay the money back. As there is less risk to lenders, they are usually able to offer lower interest rates for secured loans.

But a secured loan is much more risky for you. You never know how your circumstances might change in the future and you could be putting your home at risk with a secured loan.

Unsecured loans

An unsecured loan is also known as a personal loan. If you're struggling with your finances and you don't keep up with your repayments, your credit rating will be affected, but the loan company will not be able to repossess your home.

In these circumstances, you may be able to reach an agreement with the lender for them to accept lower payments or refinance your loan over a longer period. For more advice about consolidation loans and

information on other ways of dealing with your debt problems, please contact us, or use our online StepChange Debt Remedy tool.

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Debt consolidation loans

Can you afford a debt consolidation loan?

Taking out a debt consolidation loan is not the best solution for everyone.

If you do decide to take out a debt consolidation loan, you will only have one company to pay back each month. However, you may be making large payments to that company every month and over a long period of time.

If you're struggling to pay the debts you have at the moment, you may not be able to afford the payments to a debt consolidation loan. Look at your income and expenditure to see what money you have available and make sure that you can comfortably afford the repayments.

If you can't afford the payments, you will end up struggling even more in the future. To find out what other options are available to you, get in touch with us today.



After a debt consolidation loan

If you do decide on a debt consolidation loan, make sure that you use it to pay off all your debt for good.

You are most likely considering a debt consolidation loan because you cannot afford to pay the monthly repayments on the debts you have at the moment.

If you decide to take out a debt consolidation loan, always pay your existing debts off in full. Cut up all your credit cards and cancel the agreement in writing, otherwise you might be tempted to borrow more money.

Be aware that if you do borrow more money after consolidating everything into one debt, you will have an even bigger debt problem than you started with.

Free debt advice

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



Other debt solutions

If you are having difficulty paying back your debts, there may be a better solution for you than getting a debt consolidation loan.

Everyone's circumstances are different, and what works for some people, won't necessarily work best for you. We can help you to identify your best way forward. Our online StepChange Debt Remedy tool, will assess your finances and recommend the right debt solution for you.

This section of the guide will take you through some of these solutions. It will look at:

- Debt management plans
- Individual voluntary arrangements
- Debt relief orders
- Bankruptcy

Debt management plan

Who is it for?

A debt management plan, or DMP, is for those who have some money left over at the end of each month, but not enough to pay all their debts.

How does it work?

A third party will normally arrange a debt management plan for you – this could be a charity like us, or a debt management company. The organisation arranging your DMP will draw up a proposal for your creditors, which asks them to accept reduced payments. They will also ask for interest and any charges to be stopped.

How can we help?

Unlike fee-charging debt management companies, our services are completely free and we don't charge you for arranging and managing your debt management plan. That means everything you pay will go towards reducing your debts.

The key to the success of any debt management plan is that you only pay what you can afford and, as your situation improves, you pay the debt off as soon as you can.

If we arrange a DMP for you we will make sure you have a reasonable amount of money to live on, so that you can keep up with all your household bills, while clearing your debts as quickly as possible.

Please note that a DMP will take longer to repay debts and charges may increase the total debt. The DMP will also impact on your credit file.



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Other debt solutions

Individual voluntary arrangement

Who is it for?

An individual voluntary arrangement, or IVA, is a legal process for those with unsecured debts in England, Wales or Northern Ireland. If you live in Scotland you can apply for a PTD, please see our website for details.

How does it work?

An IVA is arranged by an insolvency practitioner. Your insolvency practitioner will help and advise you throughout the process. They will assess your finances and draw up a proposal for your creditors. With an IVA, your available income is used to make affordable monthly payments towards your debt over an agreed period of time – usually 5 years.

You may also pay a lump sum towards your debts. At the end of the agreed period, your remaining debts are written off. There is a fee involved in organising the IVA, but this will be included in the payments you make. Creditors representing at least 75% of your total debt must vote in favour of the IVA for it to be able to go ahead. When your creditors agree to the IVA they are also agreeing to take no further legal action against you to recover the debt, providing you keep to the terms of the arrangement.

Your insolvency practitioner will contact you once a year to review your finances. You and your creditors will receive annual progress reports and you will be notified when your IVA is complete.

Please note an IVA appears on the public register and will impact on your credit file, there is also a risk of bankruptcy if it fails. You will need to live on a restricted budget during the IVA.

How can we help?

StepChange Debt Remedy, our online tool, will be able to tell you if an IVA is the best solution for you. Should you decide to go ahead, StepChange Voluntary Arrangements, our IVA service, will support you throughout. You may also contact your own IVA provider if you wish.

Debt relief order

Who is it for?

A debt relief order, or DRO, is a legal procedure. To qualify for a debt relief order you must have debts of less than £20,000 (from 2014/15) in total and no more than £50 left over each month after paying essential living costs.

A debt relief order is not suitable for anyone who owns a home or has assets of more than £1,000 (from 2014/15). This limit excludes one car up to the value of £1,000. Only available in England, Wales and Northern Ireland. If you live in Scotland, please see our website.

How does it work?

An intermediary must submit your DRO application to the official receiver. You will have to pay a fee of £90, which you will not get back if your application is unsuccessful.

If your DRO application is successful, your debts will be written off after a year, providing you keep to the terms and conditions of the order. During this 12-month period, your creditors cannot chase you for payments. Please note your DRO will appear on the public register and impact your credit file.

How can we help?

We are one of the few approved organisations able to submit your debt relief order application. We have a team of intermediaries who can help you with your DRO application.

Debt solutions

Bankruptcy

Who is it for?

Bankruptcy is a legal procedure for people who cannot pay their debts within a reasonable time. It's a form of insolvency so to be eligible, your unsecured debts must outweigh your assets, including property and vehicles.

How does it work?

If you make yourself bankrupt, creditors write off your unsecured debts, meaning you have a fresh start. However, you will be subject to certain restrictions during the term of the bankruptcy, which is usually 12 months.

In order to file for bankruptcy, you have to pay a deposit of £525 plus court fees. If the bankruptcy is approved, creditors must stop charging interest and are prevented from contacting you or taking legal action to recover the debt.

In some cases, you are asked to make monthly payments towards your debts from your available income. This is known as an Income Payment Arrangement, and can last for three years.

Bankruptcy should not be taken lightly as it is a big step and you may have to give up your assets. You should always get expert advice before making the decision to go ahead with it.

Bankruptcy may impact your job and seriously affect your credit rating.

How can we help?

Free anonymous debt advice

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



We can provide you with free, confidential debt advice and find the best debt solution for your situation. We can advise you more on bankruptcy if you use our online tool, Debt Remedy, which will advise if bankruptcy is the best option for you.



Our debt help

We know debt and understand that debt problems can be very stressful.

However big or small your debt problem is, we can help you. We will give you all the information and support that you need to tackle it and take the first step towards getting debt free.

First steps

The sooner you start to deal with your problem, the better. It is important that you get in touch with us straight away. Also, put a stop to any more borrowing:

- Don't take out any more loans
- Don't increase your overdraft
- Stop using your credit cards and cut them up
- Don't consolidate your debts into one loan
- Don't secure any loans against your home

How we can help

If you are worried about your debts, make sure you get expert debt help straight away.

We provide free, impartial and confidential debt advice that will help you through your financial difficulties. We help thousands of people each year and we will be able to give you the debt help you need.

Our online StepChange Debt Remedy tool will recommend a solution for you based on your unique situation. StepChange Debt Remedy will also build you a personal action plan, so you can see exactly where your money is going each month, and begin to take control of your spending again.

Contact us

Our StepChange Debt Remedy tool is free and confidential, giving you online debt help, advice and support when you need it most.

If you would prefer to talk to someone in confidence, call our free Helpline on 0800 138 1111 to arrange a telephone appointment.

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