

Bankruptcy guide

*Free, Impartial
Debt Advice*



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Introduction

How this guide will help you

At StepChange Debt Charity, we help people with their debt problems by giving free, impartial advice.

Making yourself bankrupt is a big decision, so it's important that you read as much information about bankruptcy as possible. Whether you've already decided to go bankrupt, or just want some more information, this guide will help you.

Our guide explains:

- What bankruptcy is and who it is suitable for,
- How to make yourself bankrupt,
- How much bankruptcy costs,
- What debts are included in bankruptcy,
- How bankruptcy will affect your bank account, job, home, car, business, pension, credit rating and confidentiality,
- Other debt solutions, and
- How you can contact us.

Bankruptcy is not the best option for everyone, so we may also be able to help you with better ways to solve your debt problems. Our online Debt Remedy tool will help identify the best solution for you.



Free anonymous debt advice

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



Bankruptcy

What is bankruptcy and who is it suitable for?

Bankruptcy writes off all your unsecured debts so that you can make a fresh start. This applies in England, Wales and Northern Ireland. For Scotland please see our website.

Bankruptcy is generally more suitable for people whose financial situation is unlikely to improve in the foreseeable future.

It's a form of insolvency, so it's only suitable if you can't pay your debts in a realistic time. Your assets may be sold if you go bankrupt (e.g. your house and car). This will be dependent on what the assets are worth and if they are needed for work. If your assets are worth more than your total debt, bankruptcy is unlikely to be suitable for you.

Bankruptcy has serious consequences and can affect your job or home and it does affect your credit rating, which is why it's important to get expert, impartial advice before deciding anything.

How do I make myself bankrupt?

Bankruptcy is a legal procedure. In order to go bankrupt you have to submit a bankruptcy application.

Your finances are then investigated by a court officer called the official receiver. Although this sounds intimidating, it's usually a very straightforward process. People are usually discharged from bankruptcy after 12 months.

How much does bankruptcy cost?

In order to go bankrupt you will have to pay a fee.

The bankruptcy fee is split into two parts – an administration fee and a bankruptcy deposit.

In England and Wales:

- the administration fee is **£130** and
- the bankruptcy deposit is **£550**.

In Northern Ireland:

- the administration fee is **£127**,
- the bankruptcy deposit is **£525**, and
- there is a solicitor's fee of **£7**.

If you are on a low income or receive certain benefits, the court fee may be waived (Northern Ireland only). Whatever your circumstances, the bankruptcy deposit always has to be paid.

Once you've petitioned for bankruptcy, the official receiver will look through your finances and decide if you need to pay anything towards your debts. You may have to pay a monthly contribution towards your debts for up to three years.

The official receiver will not make you pay anything towards your bankruptcy if you cannot afford to, and will always leave you with enough money to live on each month.

If you have any valuable items, such as property, expensive items of jewellery or savings, the official receiver may arrange for them to be sold, and the money generated is used to pay back some of your debts.

Bankruptcy

What debts are included in bankruptcy?

Most unsecured debts are included in bankruptcy.

Unsecured debts include:

- Credit cards
- Store cards
- Overdrafts
- Personal loans
- Catalogues
- Mobile phone contracts
- Utility bill arrears

Some unsecured debts are not included in bankruptcy. For example; student loans, TV licence, criminal fines or debts resulting from fraud.

If you go bankrupt, your secured debts are not included, so you will still owe any amount that is outstanding and have to meet these payments.

Secured debts include:

- Mortgages and secured loans
- Hire purchase agreements
- Logbook loans

However, depending on your situation your secured debts may be affected by your bankruptcy. For example, if you have a car on hire purchase, the finance company might make you return it. Information about how bankruptcy might affect your home is provided in the next section of this guide.

Joint debts

A joint debt is one that you and another person applied for together. This means that you are both named on the credit agreement. If you have a joint debt and you go bankrupt, the other person named on the credit agreement will be responsible for paying all of the debt back to the creditor.

If you have joint debts you should consider how the other person will be affected if they have to pay the entire amount back by themselves.



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Bankruptcy

How will bankruptcy affect me?

Bankruptcy can have very serious consequences for your home and may affect your job, so it is important that you get expert debt advice before you decide to go bankrupt.

Bankruptcy writes off most of your debts. Your creditors will no longer be able to contact you or ask you to repay these debts. Going bankrupt is a way of starting again financially, and for many people it can be the best way of dealing with debts that they will never be able to repay over their lifetime.

However, bankruptcy can have an adverse effect on many areas of your life and these must be considered carefully.

Your bank accounts

If you go bankrupt, you are still able to have a bank account, but it will be a basic bank account, so you will not be allowed an overdraft or a cheque book. Some banks may allow you a basic debit card.

Your current bank may not allow you to remain with them once you have gone bankrupt (especially if you owe them money) so you may have to open an account at a different bank.

Your job

Some types of employment are affected by bankruptcy. If you work in the financial services industry (for example in a bank), or if you work in a position where you handle money, bankruptcy is likely to affect your job. Bankruptcy can also affect membership of any professional bodies.

You should always check your employment contract or speak to your human resources department to make sure that bankruptcy won't affect your employment.

Your home

Bankruptcy affects your home in different ways, depending on whether you rent or own your home. If you rent your home, you may be able to continue living there after your bankruptcy, unless you have rent arrears. Do check your tenancy agreement, as some have clauses requiring you to leave the property if you declare yourself bankrupt.

If you own your home, and there is equity in it, the official receiver may decide to sell your property. The official receiver will always give you time to find somewhere else to live.

Free debt advice

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



Bankruptcy

If there's no equity in your house, you may be allowed to stay there. If you have a mortgage shortfall (negative equity) and decide to sell your home, the shortfall is usually included in the bankruptcy. This area can be complex, so please contact us for further advice.

Your car

Your car may be affected by bankruptcy whether it is owned outright by you or you are paying for it through a finance package.

If you own your car outright, the official receiver may ask you to sell it, unless it is worth only a very small amount. If the official receiver asks you to sell your car, and you can prove that it is essential you have a car, you may be given a small amount of money back from the sale in order to buy another car.

If your car is on finance, it is likely that the finance company will end the agreement and that you'll have to return your car.

Your business

If you are self employed you may be able to continue trading after you have declared yourself bankrupt. If you have a limited company you will not be allowed to continue as a director. This is a complex area, so we recommend you contact us for further advice.

Your pension

Bankruptcy is very unlikely to affect your pension fund, but it may affect you if you are at, or close to, retirement. If you are worried about this, please contact us and we can advise you in more detail.

Your credit rating

Declaring yourself bankrupt does affect your credit rating for 6 years from the date you go bankrupt. This will make it difficult for you to apply for credit. Your Personal bankruptcy is public information. The details of your bankruptcy will be recorded on the Insolvency Register, which is available to read on the Internet. However, the only people who are likely to look at the Insolvency Register are creditors.

Bankruptcy notices are not normally included in your local paper. The official receiver will only tell those who need to know about your bankruptcy.



Free debt advice

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Other debt solutions

Bankruptcy isn't suitable for everyone. There may be a more suitable debt solution for you.

If your assets are worth more than the money you owe in unsecured debts, or if you can afford to repay your debts over a reasonable time, your application may be rejected.

We can help you decide which debt solution is suitable for you and we'll support you on whichever route you take.

Visit Debt Remedy, our online tool, for an immediate assessment of your finances and to find the right debt solution for you. This section of the guide describes some of those other solutions and the situations they apply to.

Covered in this section are:

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

Debt relief order

Who's it for?

A debt relief order (DRO) is available in England, Wales and Northern Ireland and is suitable for those who have debts of less than £20,000 (£15,000 in NI) and no more than £50 left over each month after paying essential living costs.

A debt relief order is a legal procedure similar to bankruptcy. It is not suitable for anyone who owns their home or has assets worth more than £1,000 (£300 in NI), excluding one car up to the value of £1,000).

How does it work?

An intermediary submits your DRO application to the official receiver. You have to pay a fee of £90, which you won't get back if your application is unsuccessful. If your application is successful, your debts are written off after 12 months, if you keep to the terms and conditions of the order.

During the 12-month period, your creditors are not allowed to chase you for payments or add interest and charges to the debt. Your DRO will appear on public registers and your credit rating is affected.

How can we help?

StepChange Debt Charity is among the few approved organisations able to submit your debt relief order application, and we have a team of intermediaries who can help you every step of the way.



Other debt solutions

Individual voluntary arrangement

Who's it for?

An individual voluntary arrangement (IVA) is a legal process to deal with unsecured debts only.

How does it work?

An IVA is arranged by an insolvency practitioner who will help and advise you throughout the process. The insolvency practitioner assesses your finances and draw up a proposal for your creditors. Your available income is used to make affordable monthly payments towards your debt over an agreed period – usually 5 or 6 years.

An IVA is only available in England, Wales and Northern Ireland (Protected trust deed in Scotland, please see our website). There will be a restriction of expenditure and there is a risk of bankruptcy if the IVA fails. An IVA will appear on public registers and will affect your credit file. You can also pay a lump sum towards your debts. At the end of the agreed period, your remaining debt is written off. Your IVA can only go ahead if over 75% of your creditors who vote accept your IVA proposal. By agreeing to the IVA, your creditors consent to take no further legal action to recover the debt, providing you keep to the terms of the proposal.

There is a fee involved in organising the IVA, but this will be included in the payments you make. Your insolvency practitioner will contact you once a year to review your finances. You and your creditors will receive an annual progress report and told when the IVA is complete.

How can we help?

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

Debt management plan

Who's it for?

A debt management plan (DMP) helps people who have some money left over at the end of the month, but not enough to pay all their debts.

How does it work?

A debt management plan is normally arranged by a third party – for example, a charity like StepChange Debt Charity or a debt management company. The organisation arranging your DMP usually sends a proposal to your creditors, asking them to accept reduced payments and to put a stop on interest and charges.

With a DMP you pay only one monthly payment, which the debt management organisation divides between your creditors.

How can we help?

Our services are completely free and we won't charge you for arranging and managing your plan.

That means everything you pay goes 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 are able to.

Our priority in arranging a DMP is to make sure you have a reasonable amount of money to live on, meaning you can keep up to date with all your household bills, while clearing your debts as quickly as possible.

Paying your debt through a DMP takes longer because you're making smaller payments that you can afford. Creditors may add interest or charges, increasing the total you owe and your credit rating is affected.

Our debt help

If you have debt problems, we know how stressful it can be.

You're bound to be worried and maybe feel like there's no way out, but here's the good news – we can help you.

It doesn't matter who you are or where you live within the UK – we help people from all walks of life. We can give you the information and support you need to tackle your financial troubles and win your battle with debt.

Don't make it worse

Although we can help you at any stage of your debt problem, it's important you get in touch with us as soon as possible, not least to save you any more sleepless nights. It's also important that you don't borrow any more money before talking to us. So:

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

You're not alone

There are millions of people in the UK having problems with their debts. There's no need to feel ashamed or embarrassed. Don't punish yourself or worry any longer – do something practical instead. Get free, professional debt advice from us today.

How we can help

If you are thinking about bankruptcy, or you're struggling to pay your debts, we can help.

At StepChange Debt Charity, we are dedicated to providing free and impartial debt advice. As the UK's leading debt advice charity you can be confident that we have the knowledge to help you with your debt problems.

By using our online Debt Remedy tool, you can get an immediate assessment of your financial situation and we can provide emergency debt help if you need it.

We'll conduct a full review of your debts, income and spending, and recommend the best debt solution for your circumstances. Whatever your situation is, we will be able to give you some debt help so you can resolve your problems.

Contact us

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

If you prefer to speak to someone confidentially, call our Helpline on 0800 138 1111 to arrange a telephone appointment.

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