

Consultation Response



Response by StepChange Debt Charity to the Insolvency Service consultation paper: Insolvency Proceedings: Debt Relief Orders and the bankruptcy petition limit

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Introduction

StepChange Debt Charity is the largest specialist provider of free, independent debt advice operating across the UK. In 2013 over 500,000 people contacted our free helpline or online debt remedy tool for advice, support and solutions to serious debt problems. The Charity is a competent authority for Debt Relief Orders (DROs), we employ 31 intermediaries and in the financial year 2013/14 processed 4,962 DRO applications (18 percent of the total). As one of the largest competent authorities, responsible for almost one-fifth of applications, our response is based on the expertise of our approved intermediaries and the experience of the thousands of clients we have help apply for a DRO.

In this consultation response we argue for:

- The maximum debt limit to increase to £20,000
- The asset limit to increase (we suggest a range of figures that the Insolvency Service could consider as a new amount)
- The surplus income level of £50 to remain the same

We argue against the Insolvency Service increasing the application fee. However, we also point out that the current £10 payment to competent authorities for each DRO is nowhere close to the actual cost of advising on and processing a DRO application. This funding situation is not sustainable in the long term and we strongly urge the Insolvency Service to pursue options to increase to funding for competent authorities.

Although the Charity is not suggesting alternatives to the competent authority model, we believe that the Insolvency Service could improve it significantly to reduce costs. In particular, the guidance must be better-quality, the application form improved, and greater flexibility for competent authorities allowed.

We raise specific problems with the method of paying the fee, the revocation system, and the six year restriction that the Insolvency Service must address. It is crucial that the revocation system and six year restriction does not unnecessarily punish those who have their DRO revoked for issues beyond their control.

Q1. When responding can you please indicate the size of your organisation (not applicable to individuals). This will be useful for any impact assessment.

Large (250+)

Q2. What level do you think the maximum debt amount should be set to and why?

The maximum debt limit in Debt Relief Orders (DROs) should be raised to £20,000.

The policy rationale for the DRO scheme, as explained in the 2005 *An Alternative to Bankruptcy* consultation, was that the high bankruptcy fee was not affordable for those on a low income, and that the bankruptcy process was disproportionate when minimal income and assets are involved, because any amount recovered by trustees was unlikely to cover the cost of their involvement.

This reasoning remains sound. There remains a significant number of individuals for whom the bankruptcy fee is unaffordable, and who have insufficient income or assets to justify the full administrative costs of bankruptcy proceeding. However, it does not appear as if all these individuals are able to access DROs, therefore the scheme does not help all those it was intended to help.

There are individuals with no assets and very low income who cannot access the scheme. The Insolvency Service's own figures show if the maximum limit was raised to £20,000 an additional nine percent of bankruptcies would qualify for a DRO. StepChange Debt Charity data shows that if the debt limit was to be increased to £20,000 (with all other limits remaining stable) an additional two percent of our clients would be eligible for a DRO. This would mean an additional c. 5,500 individuals eligible for a DRO per annum. This is a significant number, but it is not a large enough increase to threaten the viability of the DRO system.

The indications are that the original limit may have been too low and this has been exacerbated by the limit not increasing since 2005.

1. The original impact assessment estimated DRO numbers would plateau at between 34,000 and 36,000 a year after two years, but would then increase (or decrease) in line with the number of bankruptcies. However, by 2013 the number of DROs approved annually was under 28,000. This indicates that the government wanted to have the DRO scheme open to a wider section of the population than has been the case but the limits, including the maximum debt limit, were set wrong.
2. Since 2005 the Insolvency Service has not increased the original £15,000 maximum debt amount and the data in the current consultation shows that limit remains too low. According to the consultation, 37 percent of DRO scheme entrants have debts between £10,000 and £15,000. That such a high proportion of entrants are closer to the limit implies that it may be exclusionary, with a significant number of individuals not able to access DROs due to being slightly over the £15,000 maximum. In addition, the consultation data shows that an increasing number of employed people are accessing DROs, with the number of employed individuals approved for a DROs increasing from 19 percent in 2009/10 to 28 percent in 2013/14. If the maximum limit remains low, it seems likely that a significant number of employed individuals who otherwise meet DRO assessment criteria will be excluded from much needed debt relief.

Therefore we conclude it is necessary to raise the maximum debt limit, to ensure that the DRO scheme stays consistent with the original policy rationale and continues to serve the appropriate demographic. Although we have argued that the original

£15,000 limit may have been too low, it still ensured a significant number of people could access a DRO. Therefore we can use the £15,000 limit as a reasonable basis to calculate to what the new limit should be raised.

If we raised the £15,000 limit by inflation, using 2005 as our starting point, then the new limit would be c. £20,000¹. This would seem to be a reasonable new limit for the Insolvency Service to use. It would make DROs available to individuals who the Insolvency Service intended to be able to access the solution but are currently excluded. However, it would be unlikely to allow into the DRO scheme people whom the Insolvency Service would want to investigate.

When increasing the limit the Insolvency Service may want to consider the additional pressure this will put on competent authorities, and how the government could increase funding to mitigate this.

Case study

Client sent in all the relevant paperwork to support her DRO application. Her debts were £13,950 and she had no surplus, as she was living on benefits with no chance of her situation improving due to health problems.

However, on examining her paperwork we identified a further debt on her credit report for £5,256 – a credit card that she had not heard from for some time. As a result her debts now totalled £19,206. Her only option was to consider bankruptcy as she has nothing to offer creditors to repay her debts.

Q3 Do you think there should be a minimum limit of debts?

A minimum debt limit could exclude individuals from needed debt relief, therefore we do not recommend one.

However, effectively there already exists a de facto minimum debt limit. Analysis of StepChange Debt Charity clients recommended a DRO has found that only 11 percent of those with debts below £5,000 had completed the DRO application process four months after their advice session, compared to 21 percent of those earning between £10,000-£15,000.

This raises two issues. First, it indicates that the DRO might not be the most effective solution for individuals with relatively low level debts. Our data indicates that many are keen to attempt to improve their situation to clear their debts without insolvency. A previous StepChange Debt Charity client survey (in 2012) found 29 percent of respondents did not proceed with a DRO because, 'I am waiting to see if my situation improves'. Second, it shows that for a proportion of DRO applicants competent authorities are incurring costs but individuals are not receiving needed debt relief.

Therefore while we can conclude there should not be a minimum debt limit (as it is exclusionary) an alternative debt solution option should be available to those with

¹ Based on the Bank of England CPI inflation calculator up-to the close of 2013.

low levels of debt but who might not want to access a DRO due to changing circumstance. This would benefit the individual and potentially reduce costs to the competent authorities.

StepChange Debt Charity is recommending the introduction of a 'breathing space' scheme to help some indebted consumers. This would introduce a period where people would be expected to pay what they can (if anything) but with no minimum payment requirements. This 'breathing space' period would last for up to two years, with periodic reviews and would restrict creditors from pursuing enforcement activity. If financial circumstances have not recovered sufficiently after two years then another debt solution is likely to be more appropriate. Where people can make debt repayments that would clear debts in a reasonable period the statutory protection should continue. This could last more than two years.

This is likely to be an effective and popular solution, especially for those currently eligible for a DRO and the Insolvency Service should consider supporting the introduction of a breathing space scheme. We are happy to discuss this point in more detail with the Insolvency Service.

Q4. What level do you think the maximum asset amount should be set at and why?

According to the 2005 *An Alternative to Bankruptcy* consultation, the current £300 asset limit was chosen as the Insolvency Service felt that below this level it was likely there were no assets that could be sold in order to defray the debt.

As the £300 limit was based on the cost of realisable items in 2005, like the maximum debt limit it is now too low. The Insolvency Service's Technical Manual *General and Unusual Assets* chapter (February 2013) explains the Insolvency Service's approach to realisable assets. Section D (household and personally owned items) shows items that are potentially realisable in a DRO case are household goods for basic domestic needs and indicates that the Insolvency Service is unlikely to realise such goods (except for jewellery).

It appears logical that the Insolvency Service allow the value of these goods to be appraised using current average prices, rather than the prices in 2005. Therefore, as a minimum we recommend increasing the £300 asset limit in line with inflation. Using the Bank of England CPI calculator the new limit would rise to c. £400.

However, the Insolvency Service may want the limit even higher than this, if it believes the original £300 limit was too low. Considering the Official Receiver's administration fee is currently set at £1,715 it may be that it is not worth the time of the Insolvency Service to pursue assets below this.

Any significant increase of this type in the maximum asset limit is unlikely to put unnecessary pressure on competent authorities – StepChange Debt Charity figures show that if the asset limit is raised to £800 (with the maximum debt limit remaining at £15,000) this would still mean only an additional 0.2 percent of clients becoming eligible for a DRO.

Case Study

Client works at local supermarket, has debts of £7,300 and surplus of £16 per month. Whilst we were preparing the draft for client she advised us that she is a member of the company share scheme. We asked her to find out how much the shares were worth and when she could draw on them.

Client called us back to tell us they are worth £600 but she cannot draw on them for another 21 months. As they were more than £300 asset limit, our client was not eligible for DRO and therefore we had to look at other options of dealing with her debts

Q5. What level do you think the surplus income amount should be set at and why?

We believe the surplus income figure should remain at £50.

For Q2-Q5 about the limits in addition to your views any case study evidence would be very useful.

Q6. Do you think additional costs of the competent authorities should be covered by the application fee? If so, how much and why?

StepChange Debt Charity would be strongly opposed to any increase in the DRO application fee. To increase the application fee defeats a central purpose of the DRO policy, which to provide an alternative route to debt relief to those unable to afford the high bankruptcy fee.

Case Study

Client came to us with debts of £3,350. His only source of income was Employment and Support Allowance and Disability Living Allowance due to ill health. After listing all essential household costs he only had £82 spare to cover all housekeeping, clothing, and all other costs, therefore there was no surplus at all. This meant he could not save anything towards the fee.

After some discussion client told us he served in the armed forces for a six month period over 20 years ago but was invalided out. This meant we were able to support his application to SSAFA and the Royal British Legion who helped by paying the DRO fee for him.

Analysis by StepChange Debt Charity shows that even the current £90 can prove a challenging amount for clients to afford. The average monthly budget surplus of StepChange Debt Charity clients recommended a DRO in 2013 was £6. As this was post-budgeting advice it provides a good proxy for the rate at which people can save

towards the DRO fee. This implies a 15 month wait for our clients on average before they can access the debt solution they need. Discussions with our DRO intermediaries confirms a common reason cited for clients dropping out of the DRO process is that they are unable to raise the fee.

However, it is still the case that the amount competent authorities receive from the Insolvency Service for each DRO processed in no way covers the costs incurred by the competent authorities in processing DROs. We believe this is exacerbated by the fact that a significant number of people entering the DRO process with debts below a certain level do not continue to completion. Although we have not argued for a minimum debt level above (Q3) the Insolvency Service must bear this in mind when considering funding.

We estimate that StepChange Debt Charity experiences a funding gap of c. £890,000 per annum in providing DROs. It is imperative that the Insolvency Service:

1. ensures a greater amount of government funding reaches the competent authorities; and
2. does more to reduce the costs to competent authorities of administering DROs.

In terms of ensuring a greater amount of government funding reaches the competent authorities, there are two options.

First, a higher proportion of the existing fee could be paid to the competent authorities (currently we receive £10 of the fee per DRO completed). It is our understanding from conversations with the Insolvency Service that the current fee split is in place as the Insolvency Service operates according to a “full cost recovery” principle. However, this is not a legislative necessity, it is a policy compunction and the Insolvency Service may want to reconsider its adherence to “full cost recovery” as not doing so may result in competent authorities not being able to meet demand for DROs.

Second, if this is not possible, the government should commit additional money to support the costs incurred by competent authorities.

The following illustrates was provided by our DRO centre and shows the work involved with a DRO case for StepChange Debt Charity.

Illustration

Client contacts us and a full debt advice session takes place to assess clients options

1. DRO is appropriate and is discussed with the client.
2. The client is sent an advice booklet giving all the information discussed on his recommended debt solution and details steps of required information should he continue and apply.
3. Client sends in the paperwork we requested.

4. An administrator for the approved intermediaries checks the information provided and establishes that the client has failed to send in proof of his income and six creditor account numbers.
5. We contact the client to request all missing information.
6. We receive requested information and a check is done to ensure all relevant information has been supplied.
7. The application is drafted and a further conversation takes place with an approved intermediary to confirm the client fully understands what a DRO is and their responsibilities. Information for the application form which was not obtained as part of the advice process is gathered. We also send him the 'what to do next' factsheet that shows the steps he needs to follow to complete his application.
8. Client calls in to ask us to explain again why we added his water bill to the application but not the council tax bill, when he is up to date on both. He is anxious we are not including his council tax because it has been made clear to him that all debts must be included. We explain the reasoning for this, as per guidance from the Insolvency Service – it is a long conversation as client struggles to make sense of this.
9. Client calls in again to add a debt he though was paid off. We send an updated copy of the application – the client must see this before submission, because a debt cannot be added once the application is submitted on-line. Internal policy, as recommended by the DRO team at the Insolvency Service, is for the client to sight the final version before submission to confirm all debts.
10. Client calls asking for us to clarify why he has been told not to pay anything to his creditors yet he can still pay his rent arrears at £5 per week. We explain he can pay the rent arrears from his surplus income to avoid potential eviction proceedings.
11. Client calls again – fee now paid. Did not get final balances as requested on our factsheet. If the full balance is not included client is liable for the difference.
12. Client has now called around all his creditors and gives up to date balances and the application is submitted

Q7. Do existing payment systems provide sufficient coverage to enable debtors to pay the fee? If not, what other payment systems should be added?

The existing payment system is not fit for purpose. The Post Office / PayZone format is unnecessarily complex. It involves individuals having to wait for a bar-coded letter and then having to travel to a Post Office or approved PayZone provider. This can involve time and potentially cost and is particularly difficult for those living in rural areas. It could also be argued that the current system, which can necessitate lengthy

travel, may not be suited to disabled individuals, and therefore could contravene the provisions of the Equalities Act 2010.

As a result, we would ask the Insolvency Service to introduce a system for people to pay their fee via an online system. This would be in addition to the existing system, not a replacement system, as internet access is still not universal.

In addition, there is currently a problem with the instalment system. While it is welcome individuals can make payment by instalments, currently individuals paying via instalment have no protection from creditors. This can cause great harm to individuals, both physical and mental, but it can also result in sufficient interest and charges being added to their debt that they are no longer suitable for a DRO. We recommend that the Insolvency Service changes the payment system so that individuals can pay the £90 over the one year DRO discharge period. This would allow them protection from lender enforcement action over the period. A survey of 1,032 StepChange Debt Charity clients in July 2014 found that 61 percent of individuals facing enforcement action had taken out further credit to pay bills.

From a competent authority point of view, we also feel intermediaries must have the ability the view how much of the fee an individual has paid at any point, when it is being paid by instalments. We have had numerous problems with clients informing us they have paid the full fee, but discovering they have not when their application is returned to us.

Q8. Do you consider the six year restriction is appropriate? If not, please provide reasoning for an alternative.

StepChange Debt Charity believes that where an unexpected change in circumstances makes people ineligible for a DRO during the discharge period then the six year restriction is not appropriate or fair. Individuals can be approved for a DRO, enter the discharge year, and then have their DRO revoked for reasons beyond their control. For example, they may have forgotten a debt, which takes them over the £15,000 debt limit, or they may have acquired a new asset taking them marginally over the £300 asset limit. Insolvency Service figures show there were 154 revocations in 2013/14 on the grounds the asset limit was exceeded.

We would suggest that a more sensible alternative is that those who have been in a DRO discharge period, but have had to be ejected through no fault of their own, are not automatically subject to the six year restriction from re-application. The original competent authority that took though their DRO application could be the ones to decide whether re-application is appropriate. This re-application, with the competent authority's support, could then be considered by the Official Receiver.

A system where a reasonable new application within six years could be considered by the competent authority would be in line with the provisions in the *Insolvency (Amendment) Rules 2009*, and increase the discretion the Official Receiver has when deciding on revocation in the initial instance:

“5A.15.(3): Before deciding whether to revoke or amend the debt relief order, the official receiver shall consider any comments made by the debtor, provided they are made within 21 days after the particulars were sent to the debtor.”

Our dedicated DRO centre in Birmingham has provided us with two scenarios, based on the experiences of our clients, which illustrate both the potential effects of this problem but also how a more sensible system may benefit consumers. The former scenario illustrates the problem with the current system, the latter how it could be improved.

Scenario 1: Client A obtains DRO, but a creditor objects because a further debt is owed to them. The extra debt takes the client over the debt limit by £100 so the DRO is revoked. This means that the client cannot apply for a DRO for six years. The client is insolvent and their only option is to apply for bankruptcy, but they are unable to raise the fee.

Scenario 2: Client B applies for a DRO but it is rejected as the credit file shows an extra debt which takes the client over the debt limit by £100. Friends and family raise the £100 and pay this so the client’s debts become under the debt limit and the client is free to apply again and their DRO is approved.

Q9. Do you consider the competent authority/intermediary model is working well? How could it be improved? Would another model be better?

Although we do not want to suggest an alternate model, there are significant problems with the current competent authority model. We believe the following improvements would greatly improve the efficiency with which competent authorities could complete DRO applications and therefore would reduce costs.

1. The currently published DRO guidance needs to be significantly improved. The current guidance is a hybrid between a user guide for a web application and a basic list of “do’s and don’ts.” A much more comprehensive reference document in plain English would help the competent authorities follow correct procedure with more ease.
2. Not being able to change or add information once an application has been submitted if an error or omission has been made creates unnecessary risk exposure for the client. The Insolvency Service must improve its computer system to remedy this oversight.
3. We recommend the removal of questions that are non-mandatory and not required for DRO purposes. They increase the length of information gathering process for intermediaries, meaning higher costs for competent authorities and more stress for applicants.

4. Conversely, we would like the Insolvency Service to update the DRO application form, so that it captures all the mandatory information required, as currently supporting emails have to accompany some applications.
5. The Insolvency Service should allow flexibility in how the model is delivered. For example, currently the whole process must be completed by the same intermediary, which creates inefficiencies and increases costs for the competent authority. The process should be allowed to be completed by different intermediaries.

Q10. Are debtors who are suitable for DROs aware of their existence? and, Q11. Do debtors know to contact a competent authority to pursue a DRO application?

Publicly available figures indicate awareness of DROs may not be high. For example, the Money Advice Service's *Indebted Lives* report found only 17 percent of those in financial difficulty are currently seeking debt advice, and if visibility of DROs was higher you would expect this number to be greater.

Q12. Is there any issue with the geographical coverage of the competent authority networks?

We have no relevant information on this question.

Q13. Is there any issue with the speed of DROs applications? If yes how can it be improved?

In general we find the DRO application process overly labour intensive, particularly from the perspective of the applicant.

The Insolvency Service guidance states: *Supporting Paperwork - The debtor should be able to produce documents confirming the information recorded on the application, in particular relating to assets, liabilities, income and expenditure. As part of their duty to ensure the accuracy of the application, intermediaries may wish to check this documentation carefully before submission.*

This results in the applicant constantly having to go back and forth to collected information, meaning the average time between a client being recommend a DRO and the Charity receiving all the paperwork to proceed is 50 days. This is too long. A survey of 117 non-proceeding StepChange Debt Charity DRO clients in 2013 found 29 percent did not proceed due to difficulty in finding the paperwork for each of their debts.

The changes to the process we suggested above should help improve the speed with which DRO applications proceed. In particular, our recommendations on the application form and allowing the process to be completed by different

intermediaries. The key issue is that the Insolvency Service must allow flexibility in the system to allow competent authorities to act appropriately.

Q14. Is there any issue with the number of intermediaries? If yes, is this a funding issue?

There is a crucial problem with funding of the competent authorities. For StepChange Debt Charity the cost of completing a DRO application is c. £190, for which we are reimbursed £10 by the Insolvency Service. Other competent authorities operating on the telephone no doubt incur similar costs, while face-to-face providers are likely even more out of pocket.

We have discussed in answer to Q6 our position on the funding issue, and we would like to re-iterate here that the Insolvency Service must increase the levels of payments to competent authorities, otherwise the viability of the DRO solution may be under threat.

Q15. Do you think that the revocation system is working effectively? If not, what changes should be made?

We have already raised our central concern about the revocation system, which is that people are having their DROs revoked due to circumstances beyond their control, and then are unable to re-apply for another six years. There is an addendum that we wish to raise at this point.

When a DRO is revoked, creditors can then recommence enforcement action and include any interest and charges that have built up since the individual applied for the DRO. This is particularly unfair when the revocation is due to an event beyond an individual's control. We would suggest therefore a pair of changes to the revocation system.

First, competent authorities should be able to provide the Official Receiver with more support when making its revocation decisions. When the Official Receiver is considering revocation the original competent authority should first have the opportunity to re-interview the DRO client either in person or over the telephone to see why their circumstances have changed. This would greatly strengthen provision 5A.19 of the *Insolvency (Amendment) Rules 2009*². Allowing a trained debt adviser to be part of the process would give more support to individuals challenging revocations, and mean that eventual recourse to Court procedures would be much less likely. One of the reasons DROs were introduced in the first place was to avoid

² 5A.19. Where an application is made to the court under section 251M— (a) by a person who is dissatisfied by any act, omission or decision of the official receiver in connection with a debt relief order or an application for a debt relief order, if the person making the application— (i) is the debtor, notice of the application to the court must be sent to the official receiver and to any creditor specified in the debt relief order or in the application for a debt relief order; or (ii) is a person other than the debtor, notice of the application to the court must be sent to the official receiver and to the debtor

the need for the Courts to be involved. This would also help the Insolvency Service reduce costs.

Second, if a DRO is revoked due to non-fraudulent reasons, creditors should not be able to add on to the debts interest and charges that would have occurred over the discharge period.

Q16. Is the current treatment of increases in income and windfalls appropriate?

In general we have answered this question in questions 8 and 15 above. However, we would say here that the Insolvency Service may want to consider a better approach to income increases in DROs. It may be desirable to allow any increases in income above the £50 surplus limit (while in the discharge period) to, instead of leading potentially to revocation, be paid to creditors. This would help reduce the number of DRO revocations, reducing costs for individuals and organisations.

Q17. Do you consider that the DRO restriction system is working well to deter reckless behaviour? What changes should be made, if any?

We have no relevant information on this question.

Q18. Do you consider that the DRO regime has encouraged debtors to seek debt relief at an earlier stage? If yes, please explain how this has been a benefit including any case study evidence?

Our data indicates that people have not been seeking debt advice at an early stage since the introduction of DROs. However, this is a more general problem. Since 2011 the Charity has tracked the average length of time between individuals realising they were in financial difficulty and contacting any debt advice provider. In 2011 the proportion who waited 'more than year' to do so was 45 percent, and although this fell to 40 percent in 2012, by 2013 it was 50 percent³.

Q19. What is an appropriate length of time for discharge?

The current one year discharge period appears to be excessive. First, the rigorous upfront checking carried out by competent authorities in arranging DROs invalidates the need for a lengthy investigation of client assets. Second, being under the threat of revocation for so long a period can place great mental stress on an individual.

³ StepChange Debt Charity, *Statistics Yearbook 2013*

When legislating for a 'Minimum Asset Process' as part of the Bankruptcy and Debt Advice Bill 2013 the Scottish government concluded that six months was a sufficient period of discharge for this DRO equivalent. Based on the reasoning in the previous paragraph we would argue six months is a sufficient discharge period for DROs as well.

Q20. Do you think the length of discharge and the length of DRO restrictions should be the same or different? Please provide reasoning for your response and indicate what an appropriate time for both is?

We have no relevant information on this question.

Q21. Do you think DROs impose any barriers on employment or self-employment? If yes, how could this be mitigated?

There is the possibility that the existing revocation system stops people improving their employment status. According to Insolvency Service in 2013/14 there were 29 revocations on the ground that the disposable income had been exceeded, although it is unclear if this is due to employment changes.

Q23. What impact have DROs had on the wellbeing of debtors – please provide evidence?

DROs have helped improved the wellbeing of thousands of debtors. The importance of debt relief for many cannot be overstated. The below are the words of StepChange Debt Charity clients who we have helped access DROs.

"I had a letter today off the Insolvency Service, saying that my DRO has been approved. I would like to thank you and your StepChange team, from the bottom of my heart, for all the help and advice you have given us, through this very traumatic time.

When I opened the letter this morning, my wife thought I was going to burst into tears, she feared the worst, thinking it was another letter off the bailiffs, when I explained to her and she read it, she could not understand my reaction, nor could I to be honest, but if I had of cried they would of been tears of relief...now I can plan a future I am 60 in June and my birthday will be that much sweeter. I no longer have to jump when I get a knock on the door or scared to open a letter or if I see a van, thinking it's the bailiffs."

Client has had her DRO submitted today. Client said that she cannot thank us enough the last year has been awful she has been going out of her mind with worry and battling depression due to her debt problems. She now feels like she can breathe and plan for the future.

Client said she had a good job earning £40k. She lost the job, then lost her partner in a car accident and now she has to look after herself and her 2 year old daughter. She feels she can make a fresh start.

Client wanted to say how much of a relief it was to have her DRO submitted today. She said that calling StepChange Debt Charity was the best thing that she's ever done. The staff have been understanding and reassuring and she is looking forward to being able to put the heating on as she has been unable to do this while maintaining her creditors' contractual payments.

Q24. What would you consider an appropriate creditor petition level? Please provide evidence for this view, including any case study examples.

The current £750 level is far too low.

First, the current level is far below the cost of creditor and court fees and is therefore in no way a proportional creditor action. As the Kempson review noted, £750 only represents two or three hours of an Insolvency Practitioner's time.

Second, as the current petition level has not been reviewed since 1986, creditors can now enforce on very low level debts. We have seen numerous cases where bankruptcy has been used as a tool of harassment. Our data shows that only 44 percent of debts we see are below £750, therefore it does not represent anywhere near the 'high' level of debt necessitating onerous bankruptcy proceedings.

When creditors petition on a low level of debt this creates huge stress for debtors, and by encouraging them to prioritise one debt over another, it can lead to them missing payment on household bills or taking out further credit, exacerbating their financial difficulty. It can also lead to very high costs for debtors. Consumers need better protection against unnecessary petitions. It is concerning that Insolvency Service figures show that 10 percent of creditor petitions are for debts below £3,000.

So therefore we argue that consumers in financial difficulty need better protection against unreasonable use of bankruptcy by creditors. We have analysed the proportion of debts we see at different sizes (below) to give an indication of where the Insolvency Service may want to set the new limit.

It is important that bankruptcy remains a debt solution only applying to the minority, and the Insolvency Service should set a new petition level reflecting this. For example, if the limit was set at £5,000 creditors could only petition for 14 percent of debts.

	Proportion of debts	Cumulative
£0-£750	43.8%	
£751-£1,000	9.4%	53.2%
£1,001-£1,250	4.8%	58.0%
£1,251-£1,500	4.7%	62.7%
£1,501-£1,750	2.6%	65.3%
£1,751-£2,000	4.4%	69.7%
£2,001-£3,000	8.0%	77.7%
£3,001-£5,000	8.7%	86.4%
£5,001-£1,0000	8.7%	95.0%
£10,001-£20,000	4.0%	99.0%
£20,001-£40,000	0.8%	99.8%
£40,000+	0.2%	100.0%

Q25. Is there any other aspect of DROs or the creditor petition limit you would like to comment on? Please do so here.

We have no further comments.