

## Debt Relief Options – Comparison Table (Updated September 2011)

Option	Positive	Negative
<b>Admin Order</b>		
<b>Legality</b>	Legal Remedy – court based and legally binding	Have to meet criteria; must have judgment
	If order is made, listed creditors cannot take further action	Creditors can raise objections to the order being made or being included in it
		Upper limit of £5k
<b>Liability for debt</b>	Continues unless paid in full or subject to composition order which can reduce liability (3 years)	Continues unless paid in full or subject to composition order
	Fresh start / relieves pressure	Anything not on AO application remains a liability
	Interest / Charges not added if the AO is completed	Interest / charges continue to accrue so debtor is still liable if the AO is not completed
	Creditors shouldn't continue to contact debtor for payment	Social Security recovery measures can continue
<b>Payment of debt</b>	Yes	Except debt(s) which are not included
	Court deals with payments / creditors	
	Can increase payments if circumstances improve or decrease with permission from court	Can be subject to review and possible revocation for non-payment
<b>Cost</b>	No initial cost	Cost is incorporated into the court order at 10% of the payment made
<b>Effort required from debtor</b>	Initial application to the court and continued single monthly payment	Initial application to the court and continued single monthly payment
<b>Longevity</b>	Can be limited to 3 years with a Composition Order	Can go on long term until debts paid
<b>Publicity</b>	Not in local paper	Will be evident on debtors Credit Reference Report
<b>Further Credit</b>	No legal restriction	Can be restricted if AO revoked
	If further credit obtained - further debts can be added (discretion of the court)	Incurring further debt could lead to revocation if apply to add new debts to the AO
<b>Bankruptcy</b>		
<b>Legality</b>	Court based and legally binding remedy	Court based application
	No minimum debt (for debtors petition) and no upper limit	Debtors circumstances are investigated by OR and could lead to prosecution if criminal / bankruptcy offences are disclosed or to a BRO if misconduct or lack of co-operation
	Can't be revoked if changes in circumstances	Debtor has legal obligation to keep OR informed
	Pensions and other specified property exempt and not classed as an asset	Assets including equity in home, vest in trustee in bankruptcy who may sell them
	IPA can be negotiated or IPOs can be challenged and reviewed if adverse change of circumstances. Maximum repayment period of 3 years	If debtor has surplus income it could lead to 3-year IPA or an IPO could be imposed

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		Antecedent transactions could be set aside and cause financial difficulties for 'innocent' friends and/or relatives
		Bankruptcy can adversely affect tenancy, employment, governance or business activity
<b>Liability for debt</b>	Discharge / 'write off' most of debt (including Taxes, Utilities, Credit debts)	Will not discharge: magistrate's fine, student loans, CSA, criminal compensation, claims for damages or personal injuries, debts obtained by fraud. Rent arrears may still have to be paid to avoid possession where proceedings have been initiated or threatened.
	Fresh start / relieves pressure	Continued payment of rent arrears may be necessary to avoid possession proceedings if these have already been initiated or threatened.
	Discharge of debt even when not included on petition	DWP debts can be recovered from benefits until discharge
	Interest, charges and recovery action stopped from petition date	Secured creditors can continue recovery action before and after discharge
	End of creditor contact / can refer creditors to OR	Goods subject to hire/hire purchase agreements at risk of repossession. Some bailiffs can continue to levy distress
<b>Payment of debt</b>	No	<ul style="list-style-type: none"> <li>• Except specified debts (above) or</li> <li>• Where assets or</li> <li>• By way of IPO / IPA if surplus income</li> </ul>
<b>Cost</b>	Cost: OR deposit is cheap compared with payment of debt	More expensive than other debt relief remedies although IVA could be more expensive in some circumstances
	Court fee can be reduced with EX160	
	No income tax to be paid during bankruptcy	This could increase available income and lead to IPA
<b>Effort required from debtor</b>	Little effort required following petition and OR investigation	Little effort required following petition and OR investigation unless BRO/prosecution
<b>Longevity</b>	Usually over in one year (if no issues)	BRO can extend period for which bankruptcy restrictions last for between 2 – 15 years
		IPA / IPO can be 3 years
<b>Publicity</b>		Appears in London Gazette and may appear in local paper
	Address details can be withheld if debtor is in fear of violence from disclosure	Registered on Insolvency Service Register / Stigma
<b>Further credit</b>		No credit over £500 without disclosure of bankrupt status
		Will be evident on debtors Credit Reference Report

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<b>Charity Payment</b>		
<b>Payment of Debt</b>	Yes or sometimes partial payments	Only specific debts, usually emergency or priority
<b>Effort Required</b>	Small effort for debtor if adviser helping	Large effort initially for adviser or debtor if self help
	Some will pay bankruptcy deposit/fee or DRO fee	Must fit charity's criteria
<b>Longevity</b>	Usually one off payment	
	Applications can help debtors to budget more effectively	Utility charities can tie applicant in to repayment programme
<b>Consolidation Loan</b>		
<b>Legality</b>	Credit agreement	May be secured on home
<b>Payment of debt</b>	Yes	New debt to pay
	One monthly payment rather than many	Should get financial advice initially
	Can be used for full and final offers	
	Should be lower monthly payment	May be over longer period of time and so may actually pay more
<b>Cost</b>	Reduced cost because no arrears charges on debts	May be broker and/or arrangement fees included in loan. Cost also depends on interest. Interest rates can rise
<b>Effort</b>	Less effort than servicing many debts	Must keep up payments to avoid further problems
<b>Longevity</b>		May be longer period of repayment
<b>Publicity</b>	None	Except recorded on credit reference report
<b>Further Credit</b>	Should improve credit reference	If further credit taken then could be back to problem debt
<b>DMP / Pro-rata</b>		
<b>Legality</b>	Recognised by many courts and widely accepted by creditors. More formality with DMP company	Not legally binding
	Can be done by DMP, advice agency or self (Cashflow, NDL – self help material for example My Money Steps)	Creditors might not accept
	Can ask for interest / charges to be frozen / usually happens	Interest and charges might not be frozen / creditors discretion
	Once set up should stop further recovery action	Might not stop recovery action by all creditors
<b>Liability of debt</b>	Acknowledged liability	Liability continues / not reduced
<b>Payment of debt</b>	Yes – over time	Could involve payments being maintained over a long period of time
	Fair and transparent distribution to creditors	There is usually a minimum payment required via DMP
	Debtor can increase or decrease payment arrangements if circumstances change	Subject to regular reviews and would need to re-negotiate if circumstances change
	Debtor is in control of making payments (unless using DMP Co.)	If DMP company then debtor is not in control of payments

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	If DMP company debtor makes one monthly payment	Otherwise debtor has to make regular monthly payments for each debt
<b>Cost</b>	No set up cost to debtor if Fair Share or self help	Debtor often pays set up cost if using fee-charging DMP company
	No on-going administration charges to debtor if Fair Share (costs are paid by creditors)	On-going administration charges if DMP Co.
	No on-going administration charges to debtor if self help	Cost of making payments if debtor doing it themselves
<b>Effort required of debtor</b>	Helps to stop letters and calls requesting payments	If debtor is self help then continued effort to make regular payments to all creditors and deal with some correspondence
	If DMP Company or Fair Share then less effort required by debtor	
<b>Longevity</b>	Around 2 months to implement	
	Can be a short, medium or long term option depending on level of debt	Can be a short, medium or long term option depending on level of debt
<b>Publicity</b>	None	Likely that debts will already be registered on credit rating as overdue
<b>Further credit</b>	Possible / no legal restriction	Unlikely considering credit rating unless from expensive non-status lenders
<b>DRO</b>		
<b>Legality</b>	Legal Remedy – legally binding	Have to meet specific criteria including limits on available income (£50pm), assets (£300 + £1k motor vehicle) and total debts (£15k)
	Ideal for people with low income and no assets. As of April 6 <sup>th</sup> 2011 Approved Pensions are no longer classed as an asset.	Assets must be worth less than £300 to qualify therefore homeowners are not eligible
	Debtor subject to DRO/DRO revoked can still apply for bankruptcy.	Debtor subject to bankruptcy proceedings can only apply for DRO in some circumstances
	Debtor subject to AO can apply for DRO.	Any current AO is revoked once DRO is made
		Debtor subject to IVA cannot apply for DRO
		Once DRO is made, no further DRO within 6 years
	No vesting of assets in the OR, IPO/IPAs or setting aside of antecedent transactions	If antecedent transactions, DRO could be declined or revoked
		Could be revoked if debtor's circumstances change or if criteria not (or no longer) met
		Debtor has legal obligation to keep Insolvency Service informed
		Debtor can incur DRRO – if misconduct, or lack of co-operation
	OR has no duty to investigate debtor's financial dealings or affairs	OR has power to take criminal action for DRO offences

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	Creditors can only object on specified grounds and within 28 days	Creditors can raise objections to the order
	Not a court based remedy	DRO could adversely affect tenancy agreement, future employment, governance or business activity
<b>Liability for debt</b>	Discharge / 'write off' most of debt types (including Taxes, Utilities, NPs) after 12-month moratorium	Will not discharge Magistrate's fine, student loans, CSA liabilities, criminal compensation, claims for damages for personal injuries and debts obtained by fraud. Rent arrears may still have to be paid to avoid possession where proceedings have been initiated or threatened.
	Fresh start after one year / relieves pressure	It may be necessary for debtor to continue to pay of rent arrears (out of surplus income) to avoid possession proceedings if these have already been initiated or threatened.
	Creditors included in DRO cannot take further recovery action	Anything not included on DRO application remains a liability and creditor can take recovery action
	Interest, charges and creditor action frozen during moratorium	Secured creditors (including bailiffs with walking possession agreement) can continue recovery action during and after moratorium
		Creditors can continue to contact debtor during moratorium to serve notices required by CCA
	No payments to creditors included in DRO during moratorium	Essential goods subject to hire or hire purchase agreements are at risk if the debt is included in DRO. It may be necessary for debtor to continue to pay of rent arrears (out of surplus income) to avoid possession proceedings if these have already been initiated or threatened.
<b>Payment of debt</b>	No	Except for excluded debts or as above
<b>Cost</b>	Cost: £90 cheaper than Bankruptcy, AO or IVA	No remission of or exemption from fee
	Can pay in stages in advance of application	If revoked or declined the fee is lost
<b>Effort required from debtor</b>	Little effort after initial information	Must get correct details of debts, assets and income expenditure initially
<b>Longevity</b>	Usually over in one year (if no issues)	If revoked creditors can continue or start recovery action
<b>Publicity</b>	Not in local paper or London Gazette	Will be evident on debtors Credit Reference Report
	Address details can be withheld if debtor is in institution or in fear of violence following disclosure	Registered on Insolvency Service Register / Stigma

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<b>Further credit</b>		No credit over £500 during moratorium
		Probably difficult to get credit afterwards
<b>Full and final settlements</b>		
<b>Legality</b>	Can be a legal remedy and stop further creditor recovery action	If not carried out correctly may not be legally binding
	FOS does not regard it as 'fair and reasonable' for a creditor to accept a full and final offer and subsequently go back on it	If not set up correctly may not stop further recovery, including court action
<b>Liability of debt</b>	If set up correctly will discharge debt	If not liability may continue for outstanding balance of debt
<b>Payment of debt</b>	Reduced payment in satisfaction of debt	Access to lump sum needed
<b>Cost</b>	No additional cost other than offer necessary	
<b>Effort required of debtor</b>	None after initial arrangements	Initial effort to gather information, some negotiation is usually required and prepare payment
<b>Longevity</b>	Quick solution	Debt will continue if not set up properly
<b>Publicity</b>	None	Debts may have already be registered on credit rating as overdue
<b>Further credit</b>	Possible / no legal restriction	Might be affected by credit rating
<b>IVA</b>		
<b>Legality</b>	Yes legal remedy	No legal minimum amount of debt although impractical for low levels of debt due to relatively high cost
	Can exclude assets if creditors agree	Can involve 4 <sup>th</sup> year equity release clause or extended repayment period
	Insolvency option without implications for some careers and businesses can still trade	Student loans cannot be included even with creditor agreement
	Non court based and not bound by bankruptcy restrictions	Need to follow statutory procedure or creditors can object to the court
	Will stop creditor recovery / court action	Requires 75% majority creditor agreement, creditors can object and secured creditors must expressly agree
	All creditors bound by IVA even if they voted against	
	Creditor who did not receive notice is bound by arrangement and entitled to be paid the same percentage as other creditors	Such a creditor can apply to the court on ground that IVA unfairly prejudices them
	Some IPs are governed by IVA Protocol / Guidelines	Not all are
<b>Liability of debt</b>	Debtor acknowledges liability of debt	Liability continues until contract finished
<b>Payment of debt</b>	Can be flexible to suit the 'individual'	If IVA fails creditors can petition for bankruptcy
	Reduced monthly payment for	Access to considerable surplus income or

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	specified period in satisfaction of debt or full and final	lump sum needed
<b>Cost</b>	Cost usually incorporated into monthly payments	High cost but often invisible
	No up-front cost with some companies	Some companies charge upfront fee
<b>Effort required of debtor</b>	Set monthly payment after initial arrangements are made	Initial effort to gather information and monthly payments
<b>Longevity</b>	Set period usually 5 years (can be more or less)	Can fail due to changes in circumstances
	Can be combined with lump sum payment to reduce time period	
<b>Publicity</b>	No publicity / less stigma than Bankruptcy – as debts are settled	
	Address details can be withheld if debtor is in fear of violence from disclosure	IVA is recorded on Insolvency Service Register
<b>Further credit</b>	Possible / no legal restriction	Will be recorded on your credit rating report.
		Further credit could risk failure of contract
<b>Moratorium</b>		
<b>Legality</b>	Temporary concession	Not legally binding
	Once agreed should stop recovery / court action	Might not stop recovery / court action by all creditors
	Can ask for interest / charges to be frozen	Interest and charges might not be frozen / creditors discretion
<b>Liability of debt</b>		Liability continues / not reduced
<b>Payment of debt</b>	No payment (temporarily)	
<b>Cost</b>	No cost	
<b>Effort required of debtor</b>	Little effort required from debtor	Effort required from adviser to make out suitable case, to communicate, explain circumstances and future forecast
<b>Longevity</b>	Ok for short term option	Depends on creditors unlikely to be accepted as long term option
		Creditor will review and will be expecting debtors circumstances to improve
<b>Publicity</b>	None	Possible that debts will already be registered on credit rating as overdue
<b>Further credit</b>	Possible / no legal restriction	Taking out further credit would not be appropriate and unlikely considering credit rating
<b>Token offers</b>		
<b>Legality</b>	Concession (usually temporary)	Informal not legally binding
	Can ask for interest / charges to be frozen	Interest and charges might not be frozen / discretion of creditor
	Might stop court action	Might not stop recovery / court action
<b>Liability of debt</b>	Acknowledgement of debt	Liability continues / not reduced

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<b>Payment of debt</b>	Will be some payment of debts	Debts unlikely to be paid off so does not resolve debt problem
	Debtor is in control of payments	Debtor has to make regular monthly payments to each creditor (unless with a DMP company)
<b>Cost</b>	No set up cost	Cost of making payments
<b>Effort required of debtor</b>	Effort required to make out suitable case but helps to reduce letters and calls requesting payments	Continued effort to make regular payments to all creditors and deal with correspondence
		Creditors will ask for regular reviews
	Quick to implement	Will take a long time to pay off debt
<b>Longevity</b>	Variable	Is really only a short term remedy
<b>Publicity</b>	None	Likely that debts will already be registered on credit rating as overdue
<b>Further credit</b>	Possible / no legal restriction	Unlikely considering credit rating
<b>Write off</b>		
<b>Legality</b>	If formally agreed can be legally binding	Not usually formally agreed not legally binding
		Unlikely to be agreed if debtor has assets
	If formally agreed should stop further recovery / court action	Might not stop further recover / court action. Creditor might not respond then later decide to pursue payment of the debt
<b>Liability of debt</b>	If formally agreed should stop liability	Might not stop liability
<b>Payment of debt</b>	No payment	Debt remains unpaid and interest and charges can accrue
<b>Cost</b>	If formally agreed interest / charges should stop	Interest / charges might not stop / discretion of creditor
	No cost to make request	
<b>Effort required of debtor</b>	If agreed effort only required initially to gather proof of circumstances	Evidence is usually required showing that circumstances will not improve, use of MHEF or proof of health issues etc
		Usually this option is only possible in exceptional circumstances. High effort for adviser and creditors rarely agree.
<b>Longevity</b>	Can be a quick solution	Depends on creditors sometimes do not respond or make position clear. Might be reluctant to formalise in the hope that debtor's circumstances will improve
<b>Publicity</b>	None	Possible that debts will already be registered on credit rating as overdue
<b>Further credit</b>	Possible / no legal restriction	Not appropriate and unlikely considering credit rating

This table is intended to be used as an adviser support tool to help you to identify advantages, disadvantages and implications associated with the various debt relief options. It is by no means an exhaustive list and it should be noted that the terms 'advantages' and 'disadvantages' are subjective concepts and will depend on the client's circumstances and priorities.