



Debt Management & IVA's

Are your finances in a reckless state?

Being under a debt load that cannot be repaid has many possible causes:

- A surprise change of circumstance like a job termination or a disability.
- A personal hardship like a divorce separation or a family death.
- A sudden, large expense from things like an accident or gambling.
- The end of a mortgage incentive period resulting in an unaffordable mortgage payment.
- Ignoring a build up of credit card balances while paying off the house and car debt.

A difficult debt situation worsens with a damaged financial history and a low credit score. Some have fallen behind on a [mortgage](#) or credit card repayment, and even had assets repossessed. Others have filed for bankruptcy or have a County Court Judgment (CCJ) against them. These negative marks make it more difficult to recover from insolvency.

More than $\frac{3}{4}$ of personal debt is in mortgages or [remortgages](#). Most of the rest comes from credit cards, stores, and mail order purchases. The problem is often easy to determine, but many families are so deep in debt that it may seem like there is no way out.



But there is a way out

There is a road to financial freedom, and a professionally managed plan can help you find a way that helps you. [Loanz](#) has a family of providers who specialise in lending services. On our site we work hard to help you correct any financial errors and [solve debt problems](#). This guide highlights four possible methods for debt management:

- 1. Spending Restraint.**
- 2. Debt Consolidation Loan**
- 3. Bankruptcy**
- 4. Individual Voluntary Agreements (IVA)**

Hints & Clues

Because there is high demand for debt management services, use care when choosing a company. Beware of companies that advertise heavily or make the solution sound too good and too easy. Also, be cautious of companies that claim to clean up your credit and demand up front payments.

Reasons You Need Help

Even without the recent financial crisis, many who were loaded down with debt needed help to be put right again. Some people have trouble making the necessary changes or do not know the changes that they could make. Here are several reasons to seek help in economic hard times:

- Fewer jobs are available that could improve your circumstances.
- It is more difficult to repair a bad credit rating.
- The slowdown in the sub-prime market means that it will be harder to get new loans with a low interest incentive period. Borrowing costs are rising.



Hints & Clues

Do not be ashamed or angry over your difficulties. Take a deep breath and deal calmly with debt problems as rational adults. Communicate with your creditors. Many lenders can be flexible when they know you want to pay off your loan. Attend court hearings – you want the law on your side.

1. Spending Restraint

Borrowing money or seeking a quick discharge of debt could increase financial difficulty for some. The debtor should take at least two steps before attempting to borrow money. This could actually solve the problem for some by reducing the debt load and freeing up extra money for payments. Even if the debt remains unmanageable, the financial condition should improve for the debtor who takes these steps.

- **Cut back on extra spending.** Some suggestions: eat at home, watch TV movies at home, take walks instead of drives, shorten or skip the next holiday, and more. All who honestly examine their family spending will be surprised at how much money they could free up each month. Some choices will be hard, but it more money will be available to pay down debt. For many, it may be necessary to destroy credit cards.
- **Sell an asset to lower or pay down some of your debt.** This might an auto, a boat, or a dear high tech item like a TV. If you have payments on the asset and sell it for sufficient to pay it off, you will immediately reduce your debt.

Asset sales also lower the debt shown on your credit list. These difficult steps might require a life adjustment, but they can help you solve current or expected shortfalls without additional borrowing. Even if your debt still requires help to resolve, your debt problem will be easier to solve when you have less debt and more money to pay on it each month.



Hints & Clues

Work out a budget with debt payment as top priority. This will help you stay alert to your financial condition. Attending to a budget will help you avoid debt surprises when you are creditworthy again. Maintaining some spending restraints after you are creditworthy also helps you stay out of debt.

2. Debt Consolidation Loan

Debt consolidation is often included in a remortgage which enables you to pay off all your debts. Because the remortgage interest rate is much lower than the interest rate on your other debts like credit cards, it could significantly reduce your monthly debt payment. With a remortgage, your house secures the loan. If you are unable to get a competitive remortgage rate, seek out a lender to give you a smaller consolidation loan tailored to pay off your [credit card debt](#), [car debt](#), store debt, and other personal debts at a lower interest rate.

Hints & Clues

Only cover the debt amount. You are not wise to run up additional debt, say to trade in the old car for a new one. If debt consolidation frees up money each month, think about a rainy day savings account or paying off the mortgage early as it can result in substantial interest savings.

3. Bankruptcy

Bankruptcy is a way to be free from heavy debts, which are discharged within a year for a first time bankruptcy. After the bankruptcy order, the creditors can no longer seek payment from the debtor. This can give a debtor some peace of mind, but there is a stigma attached to it and it goes into the credit history for 6 to 15 years.

When you go bankrupt, a trustee controls your assets and shares them among your creditors. Bankruptcy allows you to start fresh, but it comes with restrictions, such strict limits on obtaining credit. Additionally, there are limits on your participation in



business and in holding public office.

The debtor can choose bankruptcy, or the creditor owed at least £750 can force a debtor into bankruptcy. Those bound by an IVA can also be made bankrupt, if they fail to keep the agreement.

Hints & Clue

All other choices should be pursued before deciding to go bankrupt. Recovering from all the personal and credit damages takes many years and requires many formal requests for the debtor's credit record to be clear.

4. Individual Voluntary Agreements (IVA)

An IVA is an effective financial tool that allows borrowers to reach an agreement with creditors and avoid bankruptcy, while regaining control and maintaining financial integrity. It is a legally binding agreement administered by a professional Insolvency Practitioner (IP) who acts as a trustee and liaison between the borrower and creditors.

The minimum requirements in order to [apply for an IVA](#) are:

- A debtor in England and Wales must owe at least three creditors a total of £15,000 or more. In Scotland, it is termed a Trust Deed and the minimum owed 3 creditors is £10,000.
- The debtor must have regular income
- The debtor must be able to pay at least £200 in to the IVA each month.

In order to set up the IVA, the IP assesses the financial situation of the debtor. The IP and the debtor decide which assets to include in the IVA and agree upon an affordable monthly payment. The IP assesses the financial situation of the debtor each year and can adjust the monthly payment.



If the debtor pays the agreed amount each month for 5 years (or 3 years in Scotland), the remainder of all the debts will be written off and the creditors cannot pursue the debtor for any further repayment.

The IVA requires the approval of 75% of the creditors. Creditors will approve the IVA if they believe they will receive more during the term of the IVA than they would if the debtor goes bankrupt. The fees for IVAs are lower than the costs associated with bankruptcy.

Among the many benefits of an IVA for the debtor are:

- An IVA is a private agreement and does not carry the social stigma of bankruptcy.
- An IVA protects the debtor from action by the creditor and the courts.
- An IVA can help repair the debtor's credit history.
- There are not the restrictions on participation in business as with bankruptcy.
- The debtor maintains control of all assets.
- The debtor can keep chosen assets out of the IVA.
- After the IVA is completed, the debtor is debt free.

There are also possible negative considerations with an IVA:

- The debtor in an IVA will be legally bound to pay the monthly amount for up to five years.
- If the debtor fails to comply with the terms of the IVA, all assets are at risk and bankruptcy is likely.
- If the debtor fails to include all creditors, a remaining creditor could put all assets at risk.



- Some IPs are expensive.
- The debtor in an IVA cannot get an unsecured loan.
- Compared with an IVA, the debtor pays back far less in a bankruptcy and debts are discharged in one year.

IVAs can be a great debt management tool that should be pursued by those who qualify for an IVA before bankruptcy.

It is hoped that debt management not require a drastic action. Do not put off assessing your debt situation and getting advice. Quickly take positive steps to reduce debt or communicate with creditors.

The professionals at [Loanz](http://www.loanz.co.uk) will help you see your choices and actions you can take to [solve debt problems](#).

“**repair your finances
today with our
specialist debt help**”

