

## **Debt**

For most students some level of debt is inevitable. This leaflet aims to help manage this by giving you a clearer understanding of debt and how to plan your budgeting. It shows:

- which debts to deal with first (your priority debts)
- how you can make reasonable offers to repay your creditors (people/ organisations you owe money to)
- how to deal with non-priority debts.

Appointments can be made with a Money Adviser at the Advice Centre.

### **WHAT TO DO FIRST?**

Before you can resolve your financial problems you need to gather all the relevant information about your financial circumstances (i.e. amounts owed to all creditors).

This can be scary at times, but having all the information is essential before you can start to deal with all your debts in a proper way.

Once you know the full picture about your circumstances, you can start to deal with your situation starting by assessing what debts are priorities and what are non-priorities.

### **WHAT ARE MY PRIORITY DEBTS?**

Some debts are more important to pay because the creditor can take action against you, which have serious consequences e.g. cutting off your gas supply. The main Priority Debts are:

#### **Rent and Mortgage arrears**

Ultimately you could be evicted or have your house repossessed if you don't sort out these payments. To evict/repossess a landlord/mortgagor will often require a court order.

#### **Gas and Electricity arrears**

Your gas and electricity can be disconnected if payments are not kept up for your current property.

#### **Council Tax arrears**

You can be taken to court, bailiffs may try to take your goods/property and ultimately you can be imprisoned if you fail to meet these payments.

### **Unpaid Magistrates Court fines**

You could be imprisoned if you have a court fine, which you fail to pay.

### **Debts to the University for Tuition Fees**

This is a priority debt because the University can prevent you from graduating or enrolling the following year.

Other debts to the University such as accommodation charges, nursery debts, and student emergency loans, may be a priority as you will not be allowed to access the related service until the debt is paid.

### **Loans Secured on property**

You could have your property repossessed.

### **Essential rented or Hire Purchase items**

You may find it hard to live without items such as a washing machine.

## **WHAT ARE MY NON PRIORITY DEBTS?**

Non priority debts are those debts where there is only a limited action that the creditors could take to recover the debt. Most creditors will only threaten court action but if you have defaulted on a debt, then they can choose to pursue the debt through the County Court for a County Court judgement (CCJ).

If this happens the courts will look at your ability to pay and make an order for you to pay a set amount which they consider to be affordable based on your circumstances. If you do not pay the full amount owed within one month you will have a County Court Judgement against you. This can make it hard to obtain credit for the next 6 years.

**It is only if you don't pay as ordered by the CCJ that further enforcement action such as bailiffs can be used.**

Non Priority Debts include:

- **Old (mortgage style) Student Loans**
- **Personal unsecured loans**
- **Credit Cards and Store Cards**
- **Rent arrears from a previous tenancy** (i.e. if you no longer live there and cannot be evicted).

**Bank overdrafts** are usually a non priority debt. However, you may want to keep a good relationship with your bank if you often rely on extending any overdraft facility when you have no income.

A bank overdraft may have higher priority if you have a loan from your bank that is paid directly from your bank account, or have exceeded your authorised overdraft limit.

If you are in this position you may find that money paid into the account is taken to reduce the overdraft and/or meet your bank loan repayments and you may be unable to take money out of the account. You may also incur charges.

It may be better to open a new bank account for everyday use. You can then treat the overdraft as a non-priority debt, and make an offer of payment to the bank based on what you can afford.

### **OPTIONS AVAILABLE**

Dependent on the circumstances there are a number of options to deal with debt problems this leaflet deals with the most common option of making affordable repayments. However, depending on your circumstances another option may be more appropriate such as bankruptcy or challenging liability if you feel this is the case you should contact the Advice Centre for more information.

### **FILLING IN A FINANCIAL STATEMENT**

Once you have all your information and aware of your priority and non-priority debts you can begin to complete the financial statement. This is a vital tool for negotiations but will also help you look at your overall financial position.

Complete the financial statement by filling in your regular incomings and outgoings remember to include one off expenses such as books.

The Financial Statement is a tool for the creditor to see your financial circumstances and what money (if any) is available. The more accurate the financial statement is the better but it is perfectly acceptable to estimate costs if you are unsure. It is vital however that you are truthful on the statement about your income and outgoings.

There is no set way a financial statement has to be presented but we have attached one as an example that you may wish to follow.

When completing the statement you should consider:

- Complete the figures on a weekly or monthly basis throughout the statement.
- Try not to underestimate your expenses or debts.

- Remember that some expenses are one off throughout the year e.g. contact lenses, books.
- Keep a copy of your financial statement.

To convert weekly to monthly payments:  
 weekly sum x 52 weeks divided by 12

To convert monthly to weekly payments:  
 monthly sum x 12 months divided by 52

To convert quarterly to monthly payments:  
 quarterly sum x 4 quarters divided by 12

If your expenses are more than your income you should contact the Advice Centre to check whether you are entitled to any additional financial assistance. You should also write to your creditors using the Example Letter. See if you can reduce your expenditure but don't cut down on basics, such as food or gas bills.

If your income is more than your expenses, you have an amount of money for creditors. It is important to use any available money to make a repayment plan with priority creditors first

After making priority debt repayments, you should try to make a regular payment towards your non priority debts. Even if you can only afford £1.00 per month you should offer this to show that you are a willing payer but do not have the means to pay what they request.

Any income left after dealing with priority debts is divided in proportion to the amount owed (Pro rata). To calculate how you should distribute any remaining money amongst non priority creditors, use the following formula:

**debt** (e.g. £673.23 credit card) x **money available** (e.g. £20)  
 divided by **total non priority debt** (e.g. £1263.94)  
 = **£10.65 for credit card**

For more information on credit cards and credit card debt see our Advice Centre leaflet on Credit Cards.

Remember that it is more important to pay your priority debts and have enough money for essentials than to pay all your low priority debts off quickly. Use the Example Letter as it can also be helpful to inform the creditor about the reasons behind your financial difficulties such as redundancy, and if there are any dependents/people with disabilities in the household.

## **HOW DO I EXTEND MY OVERDRAFT?**

If you need to extend your overdraft facility it is always better to approach your bank in advance to arrange this rather than going over your authorised limit and incurring bank charges. You may have more success if you try to extend your overdraft in your bank's branch.

When you go into the bank take your financial statement with you. This will help to show why you need the money. Also, set out any possible short term or long term chances of improvement in your situation as they will want to know that you will not continue to increase your overdraft. You could explain for example, that you are going to get work over the summer, or are awaiting Access to Learning Funds or a Student Loan.

## **A CREDITOR IS THREATENING TO TAKE ME TO COURT**

If any creditor threatens court action or you receive a court summons, contact the Advice Centre for assistance.

You will need to reply to a summons within 14 days plus posting but don't make an offer of payment that you can't afford. You should set out your details, and make an affordable offer, even if it is only a token amount.

The completed forms are then sent to the creditor who will either reject or accept your offer of payment. Often when your financial statement shows that there is no money available to pay the debt you can offer to pay a nominal amount of, say, £1 per month in acknowledgement of the debt, on the understanding that as soon as your circumstances change you will notify the court and increase your payment appropriately.

It is often possible to reach agreements with creditors before court action is taken and it is usually in their interests to avoid the hassle of going to court. However, creditors will often threaten court action to try to frighten people into paying more than they can afford. Don't panic, deal with all your creditors rationally rather than responding to the scare tactics of one or two of them and seek advice for practical and moral support.

## **WHAT SHOULD I DO IF I'M IN ARREARS WITH RENT**

It is important to keep your rent arrears below 2 months or 8 weeks. Depending on the type of tenancy that you have, being in arrears for longer than this may give your landlord a ground for possession of the property, and eventually you could be evicted. Your landlord must send

you a Notice Seeking Possession and then obtain a court order to do this if they do not it could be classed as an illegal eviction.

You should offer to pay your landlord an amount towards the arrears that you can afford based on the MONEY FOR CREDITORS box on the Financial Statement. Send a copy to support your offer. If your income is very low, do not be frightened to offer a small amount, if that is all that you can afford.

### **IF THE LANDLORD REFUSES MY OFFER**

If your landlord refuses to accept your offer of repayment, regularly pay the amount you have offered anyway. Pay the normal rent plus an amount of the arrears. This will help you if the landlord takes court action. If you are served with notice of court action you should contact the Advice Centre or another advice agency straight away.

### **I AM STILL PAYING INTEREST ON THE DEBT**

Most debts have two parts, the money owed and the interest. You should find out if interest is being added to your debts: the creditor should tell you this. If your new offer is less than the interest being added on, your debt will continue to grow. So, you should ask the creditor to stop charging you interest. However there is no legal right to have the interest stopped and it is up to the creditor's 'goodwill'. Contact the Advice Centre if a creditor refuses to stop charging interest.

### **WHAT IF MY CREDITORS PUT PRESSURE ON ME TO PAY MORE THAN I CAN AFFORD?**

If you do not pay, your creditors are allowed to keep reminding you from time to time. However they shouldn't do this if you have already come to an agreement and even if not, it is illegal for a lender to keep demanding payment in an unreasonable manner, such as phoning late at night, or repeatedly at work. If you feel you are harassed in any of these ways, contact the Advice Centre.

### **CAN I GET CREDIT AGAIN?**

There are a number of ways that companies check credit 'worthiness' and there is no such thing as a credit "blacklist", but if you fall into arrears you may find it difficult to get credit in the future. When you apply for credit (e.g. for buying goods on credit, store cards, credit cards, mortgages, bank loans) most companies will consult a Credit Reference Agency. There are several agencies in the UK. They keep records of all County Court Judgements and details of some credit accounts.

If you are refused credit, the company is obliged to tell you if they consulted a Credit Reference Agency, the agency's name and address, and the principal details for refusing credit.

It may be useful to request a copy of the file held about you from the Credit Reference Agencies to check for any mistakes or out of date information. The Advice Centre stocks a useful leaflet explaining how to get access to your credit reference files.

### **EXAMPLE LETTER**

Use this letter if you:

- cannot pay at present or
- want to offer reduced payments.

Dear Sir/Madam

**Re: Account**  
**Ref/Account Number**

I am writing because I am unable to make the agreed payment of £ per week/ month.

My circumstances have changed because.....  
(eg bereavement, late loan cheque, large number of bills, large recent expense, lost a job, split up with partner).

I have enclosed a copy of a Financial Statement, which shows my total weekly/ monthly income from all sources and my total expenditure. As you can see, I am unable to pay the agreed amount, as I have £ left to pay creditors OR have no money to pay.

I am writing to all creditors to ask that in view of my circumstances, they accept reduced payments of £ OR no payments at this time. I will review my situation in six months. Should my circumstances improve, I will contact you again.

I would be grateful if you could freeze the interest and any other charges added to my account. Please send a paying in book OR a standing order form to make it easier to pay you.

Yours faithfully,

## **CONTACTS**

### **Advice Centre**

The HUBS  
Paternoster Row  
Sheffield  
S1 2QQ  
Tel: 0114 225 4148  
Fax: 0114 225 4943  
Email: [advicecentre@shu.ac.uk](mailto:advicecentre@shu.ac.uk)  
Web: [www.hallamunion.org/advice](http://www.hallamunion.org/advice)

### **Student Finance Centre**

Second floor Surrey Building  
Sheffield Hallam University  
Sheffield S1 1WB

Telephone: 0114 225 2184

### **Student Services Centre**

Heart of the Campus  
Collegiate Crescent  
Tel: 0114 225 3992

### **National Debtline**

[www.nationaldebtline.co.uk](http://www.nationaldebtline.co.uk)  
Tel: 0808 808 4000

### **Moneymadeclear**

[www.moneymadeclear.org.uk](http://www.moneymadeclear.org.uk)

### **Experian**

[www.experian.co.uk](http://www.experian.co.uk)  
Tel: 0844 481 8000

### **Equifax**

[www.equifax.co.uk](http://www.equifax.co.uk)

Experian and Equifax are two of the main credit rating agencies used in the UK.

### **Adviceguide**

[www.adviceguide.org.uk](http://www.adviceguide.org.uk) - Basic debt advice provided by the CAB

### **HMS Court services**

<http://www.justice.gov.uk/>