

Debt

Unfortunately for most students 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.

FILLING IN A FINANCIAL STATEMENT

Before you can begin to deal with your debts, you will need to gather information about your finances and debts to see what money (if any) you have after your essential expenses. Fill in the attached 'Financial Statement.' This can be very useful as it can form the basis of negotiations with creditors (the people you owe money to).

- 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 low 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. To calculate how you should distribute any remaining money amongst low priority creditors, use the following formula:

debt (e.g. £673.23 credit card) x **money available** (e.g. £20)
divided by **total low 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 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/disabilities in the household.

WHAT ARE MY PRIORITY DEBTS?

Some debts are more important to pay because the creditor can take action against you, which has 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 to a student 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 mainly just threaten court action, however if you have defaulted on a debt, then they are within their rights 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 is affordable to yourself according to 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 after a CCJ has been defaulted on can further enforcement action such as bailiffs begin.

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 also a low 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. 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.

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 Sheffield branch. The staff are used to dealing with students and your home branch may not be as sympathetic. It is best to make an appointment to see a Student Account Adviser.

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 to the Advice Centre for advice.

You will need to reply to the summons within 14 days plus posting but don't be rushed into making an offer 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 there is no money left over 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 for your offer to be changed appropriately.

It is often possible to reach agreements with creditors before court action is taken - it is also often in their interests to avoid the hassle of going to court. However, creditors will often threaten court action to frighten people into paying when they can't afford to. So don't panic, deal with your overall situation rationally 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 you can afford from 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 what you can afford. Pay the normal rent plus an amount of the arrears. This will help you if the landlord takes court action if this happens you should seek further advice.

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 are harassed in any of these ways, contact the Advice Centre.

CAN I GET CREDIT AGAIN?

There is a number of ways that companies seek credit 'worthiness' but 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, and to check for any mistakes or out of date information. For further details on how to get access to your credit reference file, the Advice Centre stocks a useful leaflet on the subject.

FURTHER OPTIONS

This leaflet mainly deals with pro rata offers as the most common way of dealing with debts. However dependent on your circumstances other option may be more appropriate and further advice at the Advice Centre should be sought.

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

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

Tel: 0808 808 4000

Moneymadeclear

www.moneymadeclear.fsa.gov.uk

Experian

www.experian.co.uk

Tel: 0844 481 8000

Equifax

www.equifax.co.uk

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

Adviceguide

www.adviceguide.org.uk - Basic debt advice provided by the CAB

HMS Court services

www.hmcourts-service.gov.uk