

## [Information Sheet - Institute of Welfare](#)

### **Consumer Debt**

Consumer debt is debt that develops due to everyday expenditures. Unlike debt incurred for education or homeownership (such as mortgages) consumer debt is considered detrimental; it usually takes the form of a credit card balance or payday loan, and both forms of debt carry high interest rates.

#### **Getting to grips with your debt**

#### **Brief outline on tackling debt**

#### **Gathering the information**

- how much do you owe and whether this can be challenged; *and*
- which debts are emergencies; *and*
- whether the debts are priority or non-priority debts
- Finding out the your income in detail
- And most important of all are you liable for the debt

#### **Examples of priority debts**

<u>Debt</u>	<u>Ultimate sanction available</u>
<b>Mortgage\secured loan arrears</b>	<b>Repossession followed by eviction</b>
<b>Rent arrears</b>	<b>Eviction</b>
<b>Council tax arrears (EWS only)</b>	<b>Imprisonment (EW only) Summary warrant procedure (S only)</b>
<b>National insurance contribution arrears</b>	<b>Fine/imprisonment</b>
<b>Child support arrears</b>	<b>Imprisonment</b>

### Examples of non priority debts

<u>Debt</u>	<u>Ultimate sanction available</u>
Penalty charges for parking contraventions (EW)	Registration of charges as if it were a county court judgement - bailiffs may seize vehicle
Unsecured credit arrears, (for example, credit card/overdraft/catalogue/clothing clubs/unsecured loans)	Court action for debt
Hire purchase arrears (less than a third paid) = priority debt	Repossession of goods without court action
Hire purchase arrears (more than a third paid) = non-priority debt, unless for essential goods	Repossession of goods with court action

### Dealing with emergencies

Examples of situations where emergency action may be required are:-

- the gas or electricity is about to be cut off
- your landlord or mortgage lender has started eviction proceedings
- you have failed to pay a magistrates' court fine and have been summonsed to court again or arrested
- you have an imminent court appearance for any type of debt
- bailiffs are due to call soon to seize goods or repossess something on hire purchase

### Maximising income

- Are you receiving all the income to which you are entitled
- Benefit income
- Tax Credits etc.

### What is a priority debt?

- The size of the debt is not the most important factor when deciding whether something is a priority debt. In some circumstances, you may have strong reasons for believing a debt to be a priority when it does not fall into one of these categories. However, in general, a priority debt is one that could involve the loss of your :-
  - liberty

- home
- fuel supply
- in some circumstances, essential goods

### **Dealing with creditors**

- Basic rules for dealing with priority debts  
Priority debts must always be dealt with before non-priority debts. A priority creditor should be contacted as soon as possible, and, if necessary, emergency action should be taken to prevent the loss of home, liberty or essential goods. For example, a telephone call to priority creditors will often cause a hold on action.
- In reality, you may not have enough available income to deal with all your priority debts. If this is the case, you need to decide which priority debts to concentrate on and which courses of action are appropriate. For example, if you have fuel bill arrears, it will not be appropriate for you to sell your house to pay them off. However, if you have mortgage arrears, the consequences of default are more serious and you may have to sell your house to clear the arrears.
- A priority debt involves an ongoing commitment. You always have to make the basic payments. If you have arrears, an offer to repay the arrears is made in addition to the current basic payment. The basic payment may be subject to increases, as in, for example, council tax.

### **Dealing with non-priority debt**

Non-priority debts include:-

- bank overdrafts
- unsecured personal loans
- credit card and store card debts
- hire purchase on non-essential goods
- social fund loans
- parking penalties
- mortgage shortfall
- benefit overpayments
- You may not wish to alert the creditor to the fact that you are in difficulties. However, any arrears which arise will be recorded on your credit reference agency record. Serious arrears may have an adverse affect on your ability to get credit in the future. To minimise future problems, you should tell the creditor you are having problems as soon as possible and try to arrange a revised payment plan. The arrangement made between the creditor and

you may be recorded on your credit record, but is likely to be less damaging than a record of arrears.

- A non-priority creditor cannot usually threaten your liberty, home or essential utilities. However, if the creditor has a judgment against you, and you do not comply with the terms of the judgment, the creditor can apply for an order to:-
  - seize your goods - a creditor may not always need a judgment to do this
  - obtain an attachment of earnings order
  - freeze your bank account
  - make you bankrupt (a creditor does not need a judgment in the case of bankruptcy although s/he does have to apply to court for the bankruptcy order)
  - put a charge on your property (a charging order)

### **Practical things you can do if you feel that your debt is out of control**

- Drawing up a financial statement to send to creditors with pro-rata offers
- Changing your bank account for your wages/benefits to be deposited
- Contacting and dealing with all creditors and not just the one that you feel is the most important
- Sticking to any arrangements that are made
- Acknowledging letters creditors send to you in the future to check that your income has not changed

**People sometimes need practical assistance. There are now many organisations that will help. The following are just a few.**

- Citizens Advice Bureau
- Shelter [www.shelter.org.uk](http://www.shelter.org.uk)
- Consumer Credit Counselling Service [www.cccs.co.uk](http://www.cccs.co.uk)
- Payplan [www.payplan.com](http://www.payplan.com)
- Independent Financial Adviser