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Attaining Help with your Debt via a Debt Management Plan

Debt Management Plans are much in the news these days. Some negative aspects of the industry made the biggest headlines. Like any industry a few bad apples can give the barrel a bad name. In the UK the Office of Fair Trading (OFT) has already taken steps to deal with the bad apples. The most serious offences it has identified occurred in the areas of marketing and charging practices. In September 2010 it issued a warning to 129 debt management companies and followed that up with high profile enforcement action against the worst offenders. The OFT intends to publish revised debt management guidance in June 2011. It is not clear at this point whether the government plans to introduce any legislation to regulate Debt Management Plans. However The Ministry of Justice has issued a consultation document on the future of Debt Management Plans. Three options for regulation are being suggested. These are to marginally enhance regulation by the OFT, to introduce industry self regulation with voluntary codes of practice and/or to create a new solution i.e. a statutory Debt Management Plan. Since the Debt Management Plan is the dominant personal insolvency solution in the UK at present, it is puzzling that the government seems to shrink from the responsibility of legislating in this area. So what is the current status of national debt management and how does it bring relief to debtors?

A Debt Management Plan is an informal workable method for fixing an individual debt difficulty by which creditors are paid back in full over a period of time. The rate at which creditors are paid back will depend on what the person can afford and therefore a Debt Management Plan can last for many years. You possibly can administer your own personal Debt Management Plan by doing business directly with your creditors. These self administered Debt Management Plans are sometimes labeled SA Debt Management Plans or DIY Debt Management Plans. Still, almost all people who end up in a Debt Management Plan implement it with third party support, and employ the assistance of a commercial debt management organization or one of a variety of not for profit enterprises. These include the CCCS and Payplan as well as CAB who can furnish invaluable free advice and support.

Why should the financially troubled borrower employ a third party service provider to help arrange a Debt Management Plan with lenders? There are two main reasons for this. Firstly, borrowers are likely to be embarrassed in attempting to work with their creditors directly. Additionally, lenders themselves usually would prefer to work with a service provider who realizes the need for efficiency and suitable structures in managing a Debt Management Plan but without the (understandable) sentiment and personal upset that dealing directly with a troubled consumer may entail. The knowledge and experience accumulated by service providers, in working with creditors during many years, offers debtors a level of security and assurance that their Debt Management Plan will be handled well and with the minimum of trouble and undesirable phone calls from creditors.

Can you obtain new credit while in a Debt Management Plan? Because it is an informal process, you can not be kept from securing additional credit when participating in a Debt Management Plan. Nonetheless, it is against the spirit of the plan that you should do this and creditors who may have accepted your Debt Management Plan in the first instance might and probably will certainly reject it if they discover that you have broken the spirit of the agreement in this manner. This is because you made a commitment to utilise your complete disposable income to paying back your present obligations when you entered the Debt Management Plan.

So, what debts are covered by a Debt Management Plan? All unsecured obligations such as loans, credit cards, store cards and bank overdrafts are covered. Your secured debts for example your mortgage or HP agreements are prioritized in your income and expenditure calculations, so that you do not fall behind on these payments.

What are the advantages of a Debt Management Plan? Creditors generally prefer debt management to other processes for resolving financial difficulties because in due course you will repay all of your debts. From the debtor's point of view, you do not have to release equity from property, you only pay what you can afford, your Debt Management Plan is designed to suit your personal circumstances and needs and your details will not be put on the Insolvency Register.

How much does a Debt Management Plan cost? It depends on who you use since debt management fees vary from one provider to the next. It may pay to shop around before you select your provider. Most Debt Management Plan service providers charge a set up fee equal to the debtor's first monthly payment into the Debt Management Plan. This means that creditors receive nothing during the first month the Debt Management Plan is running. Thereafter, charges are usually a fixed percentage of the monthly payment made by the debtor. The average monthly charge is 15% with a minimum of around 25 and a maximum of around 100. As you shop around, you will

find that charges vary. For example, if you enter a Debt Management Plan and agree to make monthly payments of 300, your Debt Management Plan provider retains the first payment of 300 in respect of set up fees and thereafter it charges 45 per month. It distributes the remaining 255 to your creditors on a pro-rata basis.

What is the influence of entering a Debt Management Plan on the debtor's credit ranking? The reality is that the credit standing may possibly already be affected if the debtor has arrears of repayments or a record of missed repayments or overdue repayments. The debt management provider negotiates decreased monthly payments with lenders, and therefore the original contracts will end up being broken. Non-payments are often documented on the debtor's credit profile and credit reference agencies continue to keep such files for a minimum of six years.

Does a person really need to be insolvent to go into a Debt Management Plan? No, it isn't a necessity to be insolvent. It might be that the debtor's income put together with any assets they may possess is sufficient to repay all financial obligations in full in line with the terms under which the funds were loaned. In spite of this, the borrower could be reluctant to do several unpalatable things to settle the debts. For instance, there might be adequate equity in the debtor's residence to pay off the debts when combined with the debtor's income. This could call for selling the family home to release the equity if the debtor cannot get a remortgage or if the terms of a sub-prime remortgage are prohibitive. A Debt Management Plan could possibly provide a method of delaying the selling of the family home or allowing the person some respite until such time as a remortgage can be arranged on decent conditions.

Will creditors accept the debtor's offer of payment in a Debt Management Plan? There are plenty of Debt Management Plan companies with long experience of negotiating with lenders and with a history of getting offers accepted. Of course, creditors are not required to consent to diminished payments or stop interest and charges and there is no guarantee that any current or threatened legal measures or proceeding will be terminated or pulled. What's more, any debt recovery outlay incurred by a lender is usually added onto the debt. The Debt Management Plan provider keeps the debtor informed relating to the position and progress of talks on decreased repayments.

Must a borrower have to be in work to enter a Debt Management Plan? No, but it is required to have a form of income which is greater than what's needed for living costs. Most of the people who enter into a Debt Management Plan work. However, consumers who have lately become unemployed and who are positively in search of work can consider offering their creditors a short timeframe Debt Management Plan, especially when they have good prospects of acquiring a job having a decent level of disposable income. Even though individuals whose whole income is made up of benefits can put forward a Debt Management Plan to their lenders, the level of disposable income is probably going to be below average and it may be that an alternative option such as bankruptcy or maybe a Debt Relief Order may well be a more advantageous and correct choice.

Are employers informed concerning their employee getting into a Debt Management Plan? Professional Debt Management Plan companies give complete confidentiality and privacy regarding the monetary affairs of borrowers. No information about the borrower is exposed to any outside companies or other citizens for instance the debtor's company. Special care is taken when making contact with the debtor to make certain that others will not learn of the debtor's circumstances. Obviously the debtor really should behave discreetly in communications with creditors and with any third party advisors to ensure that the Debt Management Plan is not unintentionally disclosed to the employer.

Just how long does a Debt Management Plan keep working? That really depends on the debtor's particular circumstances. However, the Debt Management Plan provider can calculate how long the plan is likely to carry on, once it has been given all of the debtor's personal data particularly the volume of the money owed and the debtor's disposable income. Because all the debts have to be repaid in full, the duration of the Debt Management Plan is often rather lengthy.

Will the debtor have to open a fresh bank account when entering into a Debt Management Plan? Yes, generally. The majority of people nowadays get their wages/salary/benefits paid into a bank or building society with which they also have borrowings - such as an overdraft, credit card or loan. This can be fairly messy once the Debt Management Plan commences, since the existing bank or building society may perhaps look to use all of the

debtor's wages/salary/benefits to address the deficits in the debtor's accounts with them, to the disadvantage of the debtor's other lenders. So, it is best to open a new bank account with a bank or building society that is not attached to your current bank. The consumer needs to ensure that wages/salary/benefits are paid into the new account and that priority payments (mortgage, rent, council tax, car HP etc) are made from the new account also. Any direct debits with the debtor's existing bank should be terminated in writing and applicable creditors advised. These actions ought to ensure that the debtor continues in control of his or her income and that all creditors will be dealt with equally and on a fair and equitable basis.

What happens if the debtor's circumstances change while in a Debt Management Plan? Because a Debt Management Plan is flexible and informal, it is not as rigid as other processes. The Debt Management Plan provider will usually have assigned a contact or liaison officer with specific responsibility for the debtor's Debt Management Plan. The debtor should know who that contact person is and keep them fully aware of their circumstances at all times, particularly in relation to any direct correspondence or contact from creditors or any changes to income and expenditure. The Debt Management Plan provider should then contact creditors and communicate any issues that arise from such changed circumstances and propose solutions that satisfy the debtor and creditors.

What are the alternatives to a Debt Management Plan? There are several different courses of action available to anyone in financial trouble who is searching for relief. The debtor should be aware of all available options prior to deciding on which path to take. Some of the most common alternatives are Bankruptcy, Individual Voluntary Arrangement, Debt Relief Order, Debt Consolidation, Asset Sale & Debt Settlement and Property Remortgage & Debt Settlement. It may even be that financial assistance can be obtained from a member of the debtor's family or friends.

Looking for legitimate [help with debt](#) ? Get inside info on how and where to find the best now in our guide to all you need to know about [Debt help](#).