

# Debt Management Factsheet

## How do you enter into a Debt Management Plan?

To enter into a Debt Management Plan or DMP you need not be insolvent. However, even if you are solvent, you may be struggling to repay your debts as they fall due. A DMP can be a way for you to manage your debts while keeping your creditors off your back. While you can administer a DMP yourself, most people engage the services of a debt management company or DMC for this purpose. If you use a DMC, they will negotiate an affordable payment arrangement with your creditors on your behalf and then go on to manage the arrangement into the future, hence the term DMP. Your DMC should pass on any monthly payments you make to your creditors within five working days.

## How do Debt Management payments work?

Most DMPs are based on the income of the debtor. However you will have to disclose your assets, including your home if you own it, so that your creditors can decide if a payments plan based on income alone is reasonable or if they should look for you to sell some of your assets so that they get a larger repayment. A DMP can last for five years or more depending on the level of your debts and the rate at which you propose to repay them. Your DMC should give you an estimate of how long the DMP is likely to last in advance of your commencing the payments. They will also review your income every year and should your financial circumstances improve, your creditors will expect you to increase your payments to the DMP as time goes on.

You may be concerned that you will not be left with sufficient money on which to live. Your DMC will help you to prepare your income and expenditure statement and in this you set out your household and personal spending including the needs of your dependants, whether they be spouse or partner, children or other dependants, in accordance with tried and trusted guidelines which

are available to assist in the preparation of these documents. If you have a genuine but unusual expense item that too will be allowed, provided you can provide a reasonable explanation to creditors.

## How much are the fees?

Under consumer credit law the DMC you use to manage your payment plan must be licensed and regulated. Some DMP companies charge a fee for their services. Other organizations are financed by your creditors and so do not charge you directly but get their fees from the creditors whom you are repaying. However that does not mean that you will pay less or that your creditors will benefit more regardless of which type of organization you choose to use. However, it can pay to shop around to identify the organizations that provide the best services and charge the least in fees. Most commercial DMP companies make an initial charge for their services and then levy a fixed percentage of your ongoing monthly payments and they must disclose to you in advance how their charges are levied and how you are to pay for them.

## Will my interest and charges be frozen in Debt Management?

Since a DMP is an informal process, your DMC cannot force your creditors to accept your proposal nor to freeze interest and suspend penalties on your debts and indeed your DMP is not binding on any creditor who refuses to take part in it. Some creditors will freeze interest and suspend penalties for a limited period of time. However, creditors cannot refuse to accept payments made under your DMP, and you remain liable to pay your debts until they are repaid in full.

In reality, debt management companies have a high level of success in getting interest frozen and penalties suspended and, provided you keep up your payments, your DMC will seek to maintain this position for the full term of your DMP. Any of your

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creditors may of course seek to enforce the debt by getting for example a county court judgment and then an order thereby creating a charge on your home. What this means is that if you don't repay your debt, the creditor has a claim on the proceeds if your property is sold.

## What if I have problems keeping up with payments?

Should your financial circumstances deteriorate during the term of your DMP, creditors may allow your payments to be reduced for a period of time and your DMC will endeavour to negotiate this with them.

Creditors have a fairly positive attitude to DMPs since they stand a good chance of getting full repayment of your debts and some creditors may be prepared to write off part of your debts after a period of time if you have shown that you have made every effort to repay them as much as you can by maintaining regular payments to your DMC.

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