

IVA Factsheet

How do I enter into an IVA?

To enter into an IVA you must be insolvent i.e. you must be unable to pay your debts as they fall due. You must use the services of a professional called an Insolvency Practitioner or IP. The IP you use must be licensed and regulated under the insolvency laws. You cannot use just any accountant or solicitor for this process. Your IP is responsible for preparing, negotiating and administering your IVA or Individual Voluntary Arrangement whereby you voluntarily repay your debts to your creditors.

How do IVA payments work?

Your repayments may come from your surplus income i.e. the money you have left over after you have paid for your essential household and personal expenses. Alternatively you may repay your creditors from a lump sum you may have available or which you can realize from the sale of your property or which can be provided to you by a family member, a friend or any third party who is able and willing to advance such a lump sum to you. Indeed your IVA proposal may consist of a combination of payment method i.e. monthly contributions and a lump sum. Proposing an IVA to your creditors offers you protection from them taking recovery action against you. If creditors accept your proposal, it usually means that they are prepared to write off a certain part of your debts. At least 75% of your creditors have to accept your proposal for your IVA to become reality. Once your IVA is accepted, creditors who voted against it are still bound by it and none of your unsecured creditors can take any further action against you. Interest is frozen on all your unsecured debts.

How much are IVA fees?

Your IP will charge fees for the work undertaken in getting your IVA accepted and for subsequent administration of the IVA. You are entitled to know in advance what these fees will be and how

and when they are to be paid. Many IPs allow you to pay any such fees as part of your IVA with no payments having to be paid in advance of the meeting of your creditors and, in the event of your IVA proposal being rejected, charge no fees whatsoever.

How do I propose an IVA?

In the preparation of your IVA proposal your IP helps you to agree with creditors the allowable level of your household and personal expenses, based on guidelines which are agreeable to creditors. You make your single monthly contribution to your IVA fund and this is administered by your IP who retains the agreed fees and pays the balance of the money to your creditors on a regular basis. If there is any net worth or equity in your home, your IVA allows for that to be realized and paid into your IVA fund without your home having to be sold. This might be done by a spouse or relative buying out your share of the net worth by means of a remortgage or loan. Net worth simply means its value after any debts secured on the property have been paid. If your share of the equity cannot be realized in this way, creditors may extend the duration of your IVA for up to another year, usually no more, to enable you to make additional monthly payments in lieu of the equity.

If you have a business and are perhaps self employed, you can generally continue to trade while your IVA is up and running and your IP will be able to advise you on this at the preparation stage.

What happens on completion of an IVA?

On completion of your IVA the balances of all your debts to your unsecured creditors are written off completely and no recovery action can be brought against you in respect of those debts.

Will my credit rating be affected?

There are some downsides to an IVA. Your credit rating for

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for example will take some time to repair after you successfully exit your IVA. Defaults are usually recorded at the beginning of the IVA and run for six years before they are erased from your records. So if you enter an IVA of five years duration, it will be another year before your credit ratings are fully repaired.

Will anyone find out about my IVA?

Details of your IVA are also entered on a public record and remain there until you have been issued with a Certificate of Completion (of your IVA) by your IP. However, there is substantially less publicity with an IVA than there is with bankruptcy.

What if I cannot manage the IVA payments?

If financial circumstances change for the worse during the term of your IVA, your IP can seek to get agreement from you creditors to accept variations to the terms of your IVA e.g. reduced contributions by you and consequently a reduced dividends to creditors. If that agreement is not forthcoming, it is possible that your IVA will fail and you will still owe your creditors the full amounts of your original debts to them less any dividends paid to them to date since the commencement of your IVA. You could even be bankrupted in such a scenario. It should be said however that creditors take a pragmatic view of such an adverse change in financial circumstances and do not automatically seek to punish the debtor, particularly if the conduct of the IVA has been satisfactory up to that point. The other side of the coin is that in the event of the debtor's financial circumstances improving, the debtor will be obliged to increase the monthly contributions to the IVA, thus enhancing the return to creditors. The terms and conditions of the IVA usually cover such eventualities thoroughly. Much has been written about IVAs and there are additional sources of advice available on the internet. The debtor should consider all of the available options before committing to any one of them.

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