

The **co-operative** bank
good with money

Seeing red?

A guide to help you manage your debts



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Getting on top of your finances

Most people will encounter financial difficulties at some point in their lives. Whether it is due to redundancy, illness, divorce or taking on too much credit, we can easily find ourselves struggling to pay our bills.

This booklet has been designed to provide some practical ideas for when you cannot fulfil your financial commitments.

The Co-operative Bank has a partnership approach to all of its business dealings.

We are always here to help and guide our customers through the difficult times whenever we can. So, as a first step towards overcoming your financial difficulties, call **0845 6001170**.

The lines are open from 9.00am-8.00pm Monday to Friday and 9.00am-1.00pm on Saturday.

Act now

The most important thing to do to prevent your debts spiralling out of control is to speak to all your creditors (the people you owe money to). The longer you leave it before you speak to them, the worse the situation will become.

Many creditors will charge interest or fees to customers who are late with their payments, so the quicker you contact them, the sooner you may avoid these extra charges.

Each creditor will have a different policy for helping customers who are in financial difficulty. However, most follow a similar process.



Our approach

At The Co-operative Bank, we first of all make sure that we understand your financial position. We can then work out the best way to help you.

We will need a financial statement from you, a process which is widely used across the banking industry and debt advice agencies to support customers who are finding it difficult to meet their financial obligations. The statement will include details of your income and expenditure, as well as details of any debt that you may have. With this information we can work out how much income you have available to pay your creditors (the people you owe money to).

We do this by calculating the difference between your income and your priority expenditure – this is referred to as disposable income.

Priority expenditure takes in to account money you spend on essential items (e.g. food), priority debts (e.g. rent or mortgage), as well as some allowance for non priority items such as mobile telephones.

The bank expects its customers to keep their expenditure on non priority items as low as reasonably possible and may question levels of expenditure in this category if they feel it to be excessive.



Working out your disposable income



Below is an example of monthly income and expenditure figures.

The difference between the two is referred to as your disposable income.

Expenditure		Income	
Mortgage/rent	550	Wages/salary	1450
Mortgage/rent arrears	65	Wages/salary (Partner)	650
Council Tax	88	Benefits	185
Council Tax arrears		Pensions	
Water rates	36	Other income	
Electricity	38	Total income	2285
Gas	25	Total income	2285
Telephone	32	Less total expenditure	1916
Mobile	26	Total available to creditors	369
TV licence	11		
Life assurance	12		
Household insurance	24		
Buildings insurance	18		
Car Insurance/maintenance	77		
Travel expenses	64		
Food/housekeeping	485		
Clothing	45		
Secured loan	180		
Child maintenance	95		
Other	45		
Other			
Other			
Total expenditure	1916		

Working out your pro rata payments

Once you have worked out how much you can afford to pay each month, you calculate how much you should pay each creditor.

You do this by offering each a 'pro rata' payment:

- divide how much you owe each creditor into the total amount owed
- this gives the pro rata %
- multiply your disposable income by this percentage to find the pro rata payment.

In the example below

- The Co-operative Bank Visa is owed £2,000 out of the £20,000 total debt
- The pro-rata percentage is therefore 10%
- The disposable income of £369 multiplied by 10% gives a monthly offer of £36.90.

Creditors	Balance	Pro-rata	Offer
Co-operative Bank Visa	£2,000	10%	£36.90
Co-operative Bank loan	£6,000	30%	£110.70
Other creditor Visa	£1,500	7.5%	£27.68
Other creditor Visa	£2,800	14%	£51.66
Other creditor Loan	£2,900	14.5%	£53.50
Other creditor Loan	£3,800	19%	£70.11
Catalogue	£1,000	5%	£18.45
Total	£20,000	100%	£369

Getting yourself organised



Will your creditors accept a reduced payment?

Creditors are not obliged to accept reduced payments, however, they are more likely to if they believe you are genuinely trying to sort out your problems and have made every reasonable effort to minimise your non priority expenditure.

At The Co-operative Bank, for example, we will always accept a reasonable offer of repayment as long as it has been calculated on a pro rata basis and it reflects how much you can really afford.

When an offer is very low, your account may be passed on to a third party to administer the arrangement as this is often more cost effective. Third parties should be dealt with in the same way as you would deal with your other creditors. (see Collections Agents, in the glossary).

You should always be realistic. Your creditors will almost certainly challenge any expenditure they consider to be excessive. However, most creditors will be reasonable in their assessments of your monthly outgoings.

When working out your expenditure, it is advisable to make an allowance for emergencies, as you must stick to any reduced payment arrangement

made with your creditors. They are unlikely to keep changing the arrangement if you break it due to unexpected bills.

Priority debts

Ensure that you list any 'priority' debts in your expenditure rather than with your list of creditors as you would not be expected to reduce payments to these.

A priority debt is anything you need to pay to avoid loss of your home or other essential item (like a car necessary to get you to and from work), loss of essential supplies (such as water and electricity), or imprisonment. It also includes any debt which is deducted directly from your salary.

If you have a loan for a car, for example, you should check with the lender whether the loan is secured against the vehicle. If it is, check that you have repaid enough to prevent repossession if you ask to reduce your payments. If the car can be repossessed, then it should be treated as a 'priority debt'.



Work with your creditors

If your list of creditors is long, be prepared to supply photocopies of statements if requested. In order for The Co-operative Bank to agree to an arrangement, we will require wage slips and proof of mortgage/rent payments.

We will reduce or freeze interest on your account during an arrangement if your circumstances warrant it. Some other creditors may also agree to reduce or freeze the interest on your account – but you must ask them to do so and not just assume that they will. Check any statements to make sure that this has been done.

Most creditors operate call centres and will prefer to deal with you over the telephone. This will help speed things up – and that is to everyone's benefit. Always ask for any arrangements that may be agreed to be confirmed in writing and take the name of the person you have spoken with, together with a date and time. (See: 'Keeping a record' page 17). It is also worth keeping:

- copies of any statements and letters that you receive
- details of payments that you make during the arrangements (especially if you change how you make your payments).

Frequently asked questions

On the following pages you will find the answers to the questions we are most commonly asked. If you cannot find the answer to your question here, please call us on **0845 600 1170**.

How much will The Co-operative Bank charge me for this service?

Nothing. The service is free to all of our customers.

What's in it for The Co-operative Bank?

We recognise that we have a commitment to support our customers during the hard times as well as the good. It is in nobody's interest to throw more money at a problem, so we will not lend additional money to customers who clearly cannot afford the extra payments.

In addition, by offering this service, we build life-long relationships with customers. In the years to come, we hope they remember which banks supported them through the difficult times.

Do I have to complete a financial statement?

It is unlikely that any creditor will accept reduced payments without one. If you need help preparing one, call one of our advisers on **0845 600 1170**.

What if my expenditure is greater than my income?

If your financial statement has been completed accurately and it shows that you cannot afford to make an offer of payment, we will accept a period of suspended payments from you as well as freezing any interest during this time. Your account will then be reviewed on a regular basis to see if the situation has improved. Other creditors may expect you make 'token' payments during this time.

In cases of extreme hardship, where it is felt that there is no or little chance of improvement, consideration may be given to writing-off the debt.

What if the creditor refuses to accept the pro rata payment?

Pay it. As long as the financial statement is a true reflection of your situation and there is no excessive expenditure, you should keep paying the pro rata payment but ask the creditor to write to you to explain why they will not accept this offer.

Once you receive this explanation you should seek advice. Your creditors will not want to take you to court unless they feel they would be awarded larger repayments through a judgment. You will know whether this is likely, given your financial situation.

Why should I include my partner's income in the financial statement if the debt is only in my name?

You do not have to include your partner's income – but it is in everyone's interest to have a full picture of your situation if you are to receive the right kind of help and advice. If you choose not to provide the information, you must adjust the expenditure details to exclude your partner.

Can they send the bailiffs around?

If your debts are unsecured, your creditors can apply for a warrant of execution (bailiff involvement) through a court. However, you must have already been taken to court for the debt and not adhered to the original judgment. If the debts are secured, they can only repossess the goods under the original terms and conditions of the agreement. You should check whether the original agreement is covered by the Consumer Credit Act and whether you have repaid enough of the debt to prevent repossession.

Will I be blacklisted?

There is no such thing as a 'blacklist'. Most people who have credit will have a file with the Credit Reference Agencies.

The information held on file is provided by the creditors and is mostly just data about how much you borrowed, how much you still owe and whether you have been late with payments. The majority of data is numerical and must be factual. No opinions are expressed as to whether you are credit-worthy.

When you apply for credit, a lender will access your file (but only with your permission) and decide, based upon the information provided, whether they are prepared to grant you further credit. Each lender will have their own criteria for what is acceptable or not and you may therefore be declined

by some but accepted by others. Of course, the worse your payment profile, the less chance there is of being successful.

Details of any County Court Judgments or fraudulent activity are also held on your file.

How long is this information kept?

Information recorded at the Credit Reference Agencies can be held on file for up to six years after your payment has ended or after your account has been formally 'defaulted'.

Why are you registering a Default against me?

We have an obligation to ensure that the information we provide to the Credit Reference Agencies, as to how you have maintained your account, must be up-to-date and correct.

This information stays on your file for up to six years from the date of the final payment or from when the account has been registered as in Default. If you were placed on a long term arrangement for many years, this would extend the length of time that your payment history would be recorded and could be longer than the payment history of someone who made no payments.

This would be in conflict with the guidelines set out by the Information Commissioner, who recommends that in order to avoid such occurrences an account should have a Default registration where the customer has been unable to meet their contractual repayments for a period of time, with a recommendation of six months. We will give you notice if this is likely to happen to you.

This action does not change any repayment arrangement that you may have agreed with us and your account will continue to be managed in the usual manner.

What is an IVA?

Individual Voluntary Arrangement. This is a legally binding arrangement between you and the creditors (of your unsecured debt) to repay the money you owe them. It is administered by a licensed Insolvency Practitioner (IP) who will help you draw up a repayment schedule. The IVAs normally last five years after which your liability to the creditors is fulfilled. However, if you have equity in your property, some creditors may only agree to the IVA if you are prepared to release some of the equity to pay towards your debts.

Depending upon your circumstances, some of the debt you owe may be written off by your creditors, as part of the arrangement, but this is determined on an individual basis. Normal criteria for applying for an IVA is that you have at least £15,000 of unsecured borrowing and can afford to repay your creditors £200 or more per month. There is no guarantee that your IVA will be agreed, as the majority of your creditors may not vote in favour. It is therefore important for you to start paying the amount being put forward in the IVA before the creditors vote on the IVA proposal. This will illustrate both your willingness and ability to pay, even if the IVA application is ultimately rejected.

You should be aware that, if you decide that an IVA is right for you, you will be expected to maintain the arrangement as any missed payments could lead to you being made bankrupt. Additionally, during the arrangement you would not be able to take on more credit and your file at the credit reference agencies will be updated to register the IVA.

During an IVA, creditors will not be allowed to apply interest to the account and all communication should be channelled through your Insolvency Practitioner.

Should I apply for Bankruptcy?

It is not recommended in most cases. If you make yourself bankrupt, you will have to pay the fees yourself (currently around £500 for both court fees and the administration of the bankruptcy). If you are a homeowner, then you may lose your home and any other assets that you have.

Bankruptcy can be a real solution for people who are in severe debt and see little chance, if any, of the situation improving. Your creditors are unlikely to make you bankrupt unless you have property or items that they feel can be sold off and the proceeds used to pay towards your debt.

Although the information registered at the Credit Reference Agencies will remain on your file for a minimum of six years, bankruptcy will normally mean that a person is free from their debts after one year, however, there are serious implications of undertaking such action and you should seek advice first.

Who can I speak to for advice?

There are three main sources of advice

The lenders – they have an obligation to talk to you about any problems that you may be having in fulfilling your financial commitments. However, they may not be prepared to advise you on repayments to other creditors and may advise you to approach each creditor separately.

The organisations that offer free, impartial and confidential advice – such as the National Debtline, Payplan or the Consumer Credit Counselling Service. These organisations are a real lifeline for many people and CCCS, for example, is open 8am to 8pm Monday to Friday.

The organisations are busy, so don't expect to get advice on all your debts immediately; be patient. You will always be given a reference number on your very first call – always make a note of this as your creditors will require it in order to consider allowing further time for you to seek advice. You also need to ask the organisation whether they are going to provide advice only or, alternatively, take your case on directly and make payment offers to your creditors on your behalf.

Consumer Credit Counselling Service

Tel: 0800 138 1111

email: www.cccs.co.uk

National Debtline

Tel: 0808 808 4000

email: www.nationaldebtline.co.uk

The fee-charging companies – over the past few years there has been a significant growth in the number of companies which will act as a liaison between you and your creditors. Some offer to negotiate and administer payments to your creditors on an informal basis, some will include services such as IVAs. **These companies charge a fee** for such services which is typically around 17.5% of your disposable income, and some will even keep your first two instalments as a deposit. You may feel that this money would be better utilised being paid to your creditors and potentially paying off your debts quicker. **If you decide to sign-up for one of these services, make sure you read the terms and conditions fully as there may be additional charges if you change your mind further down the line.**

What can I do if my finances are causing me stress?

We always try and support our customers during any period of financial difficulty and aim to deal with everyone in a fair and consistent manner. We appreciate that some customers may find themselves unable to deal with their finances due to stress and we would urge them to contact us for guidance.

There are occasions where a customer's mental well-being may impact on their ability to manage their finances. We support and encourage the use of the Debt and Mental Health Evidence Form for any customer who is being treated by their doctor or supported by a mental health professional. This will enable us to gain a full picture of their condition and deal with them in an appropriate way. Any customer who feels this would be of benefit to them should speak with their case worker or contact their local Citizens Advice Bureau.

What about Debt Consolidation?

Some customers find themselves struggling to repay their debts as they have over-stretched themselves with too many loans or credit cards. Their income and other circumstances remain unchanged.

One option that can be helpful is to consolidate your borrowing (put all your debts in to one loan and repay over a longer period of time). This solution is mostly available to homeowners as the lenders will be concerned about their extent of borrowing and will want some security to their loan.

Taking a secured loan or remortgage and using some of the equity to repay your loans and credit cards will normally result in a lower interest rate and you are more likely to be approved, however, your home could be repossessed if you fail to meet the repayments so this option should not be taken lightly. If you feel that there is a chance that you may not be able to meet your repayments, you should avoid further borrowing, whether it be secured or unsecured.

Glossary

On the following pages are definitions of some of the words or phrases that you may come across. If there is anything else you do not understand, do not hesitate to call us on **0845 600 1170**.

Attachment of Earnings

A method of enforcing an unpaid Court Order entitling your creditor to have their payments paid from your earnings, via your employer. The amount deducted is agreed with the court. Certain professions will not tolerate an Attachment of Earnings order and an application for one could lead to your dismissal. In such instances, the court may take this into consideration and suspend the order to safeguard your employment.

Bailiffs

Officials who have the authority to take goods away from you and sell them off to pay towards your debts. They have no right to break in to your property, however, they do have the right to gain access through an open door or window but cannot force themselves past you. They can make forced entry if you have previously invited them in to your home. If you are aware that a bailiff will be visiting, seek advice immediately.

Capitalisation

This is where your mortgage lender will remove the arrears outstanding on your account and add them back in to the overall amount owing. This is usually done if you have restarted paying your monthly contractual repayments, having been in arrears. Each lender is different so you may want to check whether they will consider doing this and under what criteria.

Some creditors take similar steps with unsecured loans or credit cards. They may call it a 're-age' or 'clearing arrears'. If you are maintaining your monthly payments but still have arrears outstanding, check with your creditor whether they offer this facility.

Charging Orders

If you do not make the payments as instructed by the court through a judgment, the creditor can apply to have the judgment enforced through a charging order. This is a charge on your property and means that when you sell your property, any proceeds from the sale will be paid to your creditor with the remaining funds then being released to you. In some instances, the creditor can apply to force the sale of the property.

Collection Agents

If the creditor feels that they have exhausted all attempts to recoup the money that you owe them, they can pass your account on to a collection agent. These agencies specialise in collecting debt and may ultimately go on to buy the debt from your creditor. They do not, however, have any more power than your creditor and dealings should be treated in the same way. Some creditors may also sell your debt on to a Collection Agent whilst you are on a repayment plan. This may be because it is cheaper and more efficient for them to do this and should not necessarily be interpreted as the commencement of further recovery action.

Conditional Sale/Hire Purchase

Some purchases made on finance, for example, a car, remain the property of the creditor until the finance has been fully repaid. If you fall in to arrears and fail to bring the account up to date after a Default Notice has been issued, the goods can be repossessed unless you have repaid one third of the total amount repayable. You also have the right to hand the goods back at any time within the agreement, but you will remain liable for payment of 50% of the total amount payable and the cost of any work required to bring your vehicle back to a roadworthy condition.

County Court Judgment (CCJ)

If you do not pay your arrears, or break any arrangement that you may have made, your creditors may take you to court. These are not criminal courts. You should receive a letter advising you that you are being taken to court and you can often prevent this action by paying the balance outstanding. If you are unable to do so, the court will issue an order called a County Court Judgment (CCJ) for either the amount agreed between you and your creditor or if you can't agree, a payment set by the court. Unless you pay the full amount of the judgment within one month a CCJ will be recorded on the register of County Court Judgments for a period of six years.

Once you have repaid the debt outstanding, you can apply to have the file marked as 'satisfied with the Credit Reference Agencies'. If you fail to keep to the payment schedule set by the court, your creditor can apply for an order of enforcement, such as an Attachment of Earnings or a Charging Order.

Default Notice

Your creditors are legally obliged to issue this letter to you before commencing with legal action. The letter must clearly state the breach of contract that they are pursuing (usually non-payment) and what action you should take to remedy the breach. The letter must also show the outstanding balance and what amount is required to close the account. It must also give you 14 days to bring your account back in order.

Interim Order

The main effect of an interim order is to prevent a bankruptcy petition being presented or proceeded with while you are preparing offers to your creditors. This will only be considered if a Insolvency Practitioner has been appointed and you are planning to pursue an IVA.

Priority Debts

These are the most important debts when you are working out your income and expenditure.

They include:

- fines
- income tax demands
- utility bills
- rent or mortgage payments
- Council Tax
- debts secured on goods.
(see 'Conditional Sale/Hire Purchase').

These should be paid in full before you distribute the remaining money between your creditors.

Pro rata

This is the method of calculation used to work out how much money you should pay to each creditor. The example in this booklet shows how it is worked out.

Statutory Demand

This is a legal document that a creditor must serve against you before petitioning for your bankruptcy. You have 21 days from receiving the demand to make a satisfactory response on how you intend to clear your debt, otherwise the creditor can apply to have you declared bankrupt. The debt that is being pursued must be more than £750. If you receive a Statutory Demand, seek advice immediately.

Contacts

Useful telephone numbers, addresses and websites.

Age UK

0800 169 6565

www.ageuk.org.uk

Benefits Enquiry Line

(for disabled people and carers)

2nd Floor, Red Rose House

Lancaster Road, Preston

Lancashire PR1 1HB

0800 882 200

www.direct.gov.uk/disability-money

For advice on other benefit entitlements, please speak to your local job centre or Citizens Advice Bureau.

Business Debtline

0800 197 6026

www.bdl.org.uk

Child Support Agency

National Helpline

PO Box 55

Brierly Hill DY5 1YL

08457 133 133

www.csa.gov.uk

Consumer Credit Counselling Service

Wade House

Merrion Centre

Leeds LS2 8NG

0800 138 1111

www.cccs.co.uk

CAP: Christians Against Poverty

Jubilee Mill, North Street

Bradford BD1 4EW

01274 760720

www.capuk.org

Cruse Bereavement Care

PO Box 800

Richmond, Surrey TW9 1RG

0844 477 9400

www.crusebereavementcare.org.uk

Federation of Information and Advice Centres

New London Bridge House

25 London Bridge Street

London SE1 9ST

020 7407 4070

www.fiac.org.uk

Citizens Advice Bureau

www.citizensadvice.org.uk

National Debtline

0808 808 4000

www.nationaldebtline.co.uk

Samaritans

08457 909 090

www.samaritans.org

Credit Reference Agencies

Experian

PO Box 9000

Nottingham NG80 7WP

0870 241 6212

www.experian.co.uk

Equifax

Equifax Credit File Advice Centre

PO Box 1140, Bradford BD1 5US

www.equifax.co.uk

Working out your disposable income

Expenditure		Income	
Mortgage/rent	£	Wages/salary	£
Mortgage/rent arrears	£	Wages/salary (partner)	£
Council Tax	£	Benefits	£
Council Tax arrears	£	Disability allowance	£
Water	£	Incapacity benefits	£
Electricity	£	Child Benefits	£
Gas	£	Job Seeker's allowance	£
Telephone	£	Income support	£
TV Licence	£	Child support payments	£
TV rental	£	Private pension	£
Life assurance	£	Other income	£
House contents insurance	£	Total Income (B)	£
Buildings insurance	£		
Car insurance/maintenance	£		
Travel expenses	£		
Food/housekeeping	£	Total income (B)	£
School dinners	£		
Clothing	£	Less total expenditure (A)	£
Entertainment	£		
Child maintenance	£	total available to creditors	£
Breakdown cover	£		
Subscriptions	£		
Medicines	£		
Other (priority debt)	£		
Total Expenditure (A)	£		

Phone our helpline
0845 600 1170

We are here 8am to 8pm Mon to Fri and 9am to 1pm Sat

or visit co-operativebank.co.uk

Please call 08457 212 212 if you would like to receive this information in an alternative format such as large print, audio or Braille.

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Calls may be monitored or recorded for security and training purposes. Calls to 0845 numbers will cost no more than 4p per minute for BT customers. Call charges from other companies may vary and you may want to check this with your service provider.