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# Priority Debts vs Non Priority Debts

What’s the difference between priority and non-priority debts?

**Priority debts**

* Mortgage or rent arrears. If you do not pay these, you could lose your home.
* Gas and electricity arrears. If you don't pay these, you can have your supply disconnected.
* Council Tax arrears. If you do not pay these, a court can use bailiffs to take your goods. If, after this, you still have arrears unpaid, you can be sent to prison.
* Court fines such as magistrates' court fines for traffic offences. If you do not pay these, the court can use bailiffs to take your goods. If, after this, you still have arrears unpaid, you can be sent to prison. Parking penalties issued by local authorities are not priority debts.
* Arrears of maintenance payable to an ex-partner or children. This includes Child Support you owe to the Child Support Agency. If you do not pay these, a court can use bailiffs to take your goods. If, after this, you still have arrears unpaid, you can be sent to prison. Income tax or VAT arrears. You can be sent to prison for non-payment of income tax or VAT.
* TV licence or TV licence arrears. It is a criminal offence to use a television without a licence. You could be fined. If you do not pay the fine (from a Magistrates Court), you could be sent to prison.

These are called ‘priority’ debts because of the consequences already mentioned. Always pay your priority debts off first before any non-priority debts.

**Non-priority debts**

* Benefits overpayments.
* Credit debts such as overdrafts, loans, hire purchase, credit card accounts and catalogues.
* Water and sewage charges – you can’t be cut off for water debts!
* Student loans.
* Money borrowed from friends or family.
* Parking penalties issued by local authorities.

You cannot be sent to prison for not paying non-priority debts. But if you do not make any offers to pay, without explaining why, your creditors may take you to court. If you still fail to pay when the court has ordered you to, your creditors can take further action. For example, they can get another court order which allows them to send bailiffs round to take your property away. This will be sold to cover your debts.

If you do not keep up payments under a hire purchase agreement, the lender may be able to take back the goods. Depending on how much you have paid, the lender may not need to get a court order first.

Debt agencies and charities e.g. Citizen’s Advice and Stepchange will advise their clients that money owed to these organisations is not as important to pay back as money owed for your ‘priority’ debts.

 [www.citizensadvice.org.uk](http://www.citizensadvice.org.uk)

 [www.stepchange.org](http://www.stepchange.org)

Representatives for doorstep lenders/home credit organisations are aware of this hence why they attempt to become a ’friend’ to you. It is much harder not to pay a ‘friend’ to whom you owe money.

# Debt

**Tips for dealing with debt**

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| 1 |  | **Don’t ignore the problem -** it won’t go away. The longer you leave it, the worse it gets. |
| 2 | Image result for £ | **Make the most of your income -** check you are claiming all the benefits and tax credits you can. If you’ve lost your job, or are off work because you’re ill, check if any debts are covered by payment protection insurance. |
| 3 |  | **Tackle your priority debts first -** for example, debts that could mean losing your home, or having your gas or electricity cut off. |
| 4 |  | **Work out your personal budget -** show it to your creditors when you contact them. |
| 5 |  | **Get in touch with your creditors straight away** and explain your situation. Contact all of your creditors. If you arrange to pay some but not others, you may get into difficulty again. You do not need to offer payment straight away. |
| 6 |  | **Work out a reasonable offer** for each creditor. Don’t worry if the offer seems small. Creditors prefer a regular small amount more than an offer you can’t afford. |
| 7 |  | **Don’t give up** trying to agree an offer, even if creditors are difficult. If the first person you speak to is unhelpful, ask to speak to someone more senior. They may be able to agree to what you want. |
| 8 | BD09203_ | **Always keep copies** of letters and papers you send or receive |
| 9 |  | **Don’t borrow money** to pay off your bills without thinking carefully. Get advice first. This kind of borrowing could lead to you losing your home. |
| 10 |  | **Get advice** **from a Citizens Advice Bureau** or other independent advice service. If you get taken to court, do this urgently. Fill in reply forms to court papers, and let the court have all the facts. Always go to court hearings and take your personal budget with you. |

**Debt Solutions**

For independent information on debt solutions, including factsheets, budget plans and sample letters, visit the National Debt line website:

[www.nationaldebtline.org](http://www.nationaldebtline.org)

Citizens Advice Sandwell / Dudley has a team of specialist debt advisers who can help you resolve your debt problems, whatever the cause or amount you owe. This is a free and independent service. A team of debt specialists are available in local offices to help you find the right way to deal with your debts and move on.

Check out the Citizens Advice Sandwell / Dudley website to discover how to arrange to see a Citizens Advice debt adviser and how to prepare for the appointment by bringing the correct paperwork with you.

[www.citizensadvicesandwell.org.uk](http://www.citizensadvicesandwell.org.uk)

[www.citizensadvicedudley.org](http://www.citizensadvicedudley.org)

Their teams of debt experts help thousands of people every week to deal with their debt problems, and get their lives back on track. They have 25 years’ experience providing free, expert debt advice. They offer the widest range of practical debt solutions of any provider in the UK. No matter how large or small your debt problem is, they can help. They will look at your financial situation and give you expert debt advice and recommend debt solutions to suit your situation. They can also help you set up and support your chosen solution.

There are three steps to getting advice and a debt solution

Whether you get advice online or over the phone, you'll follow a straightforward advice process giving you a clear picture of how to deal with your debts.

1. Tell CAB your situation - Give us details about your debts, income and outgoings and we'll help you create a budget.

2. Explore your options - You'll get a personal action plan and recommended debt solutions that suit your situation.

3. Choose your debt solution –They will help you get things set up and give you the support to deal with your debts, however long it’s needed.

You can also seek help and advice through The Christians against poverty charity please visit:

[www.capuk.org](http://www.capuk.org)

**CAB debt solutions**

Which one is suitable for you will depend on your particular circumstances. The table below describes a range of debt solutions:

* Administration Order - An Administration Order is a legal way of dealing with debts of £5,000 or less by including them on a Court Order.
* Payment Plan - A payment plan is an informal arrangement between you and your unsecured creditors. This may be an option for you if you have had a change in your circumstances.
* Full and Final Settlement - If you have a lump sum of money available that would cover part of your debts, you could ask your creditors to accept part payments in full and final settlements of the whole debt.
* Bankruptcy - Bankruptcy is a legal way of dealing with your debts and may be suitable if you have significant debts and little or no assets or disposable income.
* Debt Relief Order - A Debt Relief Order is a legal way of dealing with your debts and may be suitable if your total debt is below £20,000 and you have little or no assets or disposable income.
* Individual Voluntary Arrangement An Individual Voluntary Arrangement or IVA is a legally binding arrangement between you and your creditors which is supervised by an Insolvency Practitioner.
* Write Off - In exceptional circumstances, if you have no available income to offer to creditors and you have no savings or assets, you can ask your creditors to consider writing off your debts.

Please note: All of the above options will have an effect on your credit reference file.

You can find more information about this on the Money Advice Service website and step change website.

[www.moneyadviceservice.org](http://www.moneyadviceservice.org)

[www.stepchange.org](http://www.stepchange.org)

**Persistent Debt**

Take a very simple case: one month, where your balance is £2,000 and you have not used the card. How much interest are you charged and what is the minimum payment? Here are two examples:

* Barclaycard (18%APR) – the interest charged for the month will be £28. You will fall into the persistent debt definition unless you usually average more than twice the interest, so pay £56 or more. The Barclaycard minimum payment would be £48.
* Aqua (50% APR) – the interest charge will be £69 a month. You will have to pay more than £138 a month to avoid the persistent debt definition. The Aqua minimum payment would be £89.

So anyone making the minimum payment on these cards for most months is likely to be termed as *being in persistent debt*. These are typical results – there are very few cards where the minimum payment is large enough so that you paying off as much capital as you are pay in interest

The FCA have declared that lenders have to take action over accounts in persistent credit card debt at three points.

* At 18 months: Lenders have to contact the customer and tell them that increasing their payments would reduce the time taken to repay their debt and the amount of interest paid. If they continue to make low repayments for a further 18 months, the firm may suspend the card and affect their credit report.
* At 27-28 months: If customers still seem likely to remain in persistent debt at the 36 month point, firms have to write again and repeat the previous warning.
* At 36 months: The FCA estimates over 2 million accounts may still be in persistent debt at 36 months. Lenders have to offer these customers options that will allow the debt to be paid more quickly.

This could be a repayment plan over a three or 4 year period – one option could be a loan for the current balance and allowing the customer to carry on using the card.

At credit card interest rates such a “loan” would not be cheap. If the customer says they cannot afford that, the lender would have to offer “forbearance” – options such as reducing interest to enable the account to be cleared in a reasonable length of time. In this situation, use of the card would normally be suspended and the account would be reported to credit reference agencies as being in arrears.

**Credit limits**

At the same time as this consultation on persistent credit card debt, the FCA announced the credit card lenders have agreed to change the way they offer credit limit increases. At the moment unsolicited credit limit increases – ones the customer didn’t ask for – are offered by the lender then automatically applied unless the customer rejects it. The lenders have agreed that:

* After 8 months of minimum payments, any limit increases will only be applied if the customer specifically agrees they want the increase;
* After 14 months of minimum payments, the lender will not make an unsolicited offer to increase a credit limit.

Here is an example in a table compared to repaying £150, £175 and £200 every month. This has been calculated assuming that you do not spend any more using the credit card.

|  |  |  |  |
| --- | --- | --- | --- |
| **Repayment schedule** | **Interest paid in total** | **Total paid back** | **How long it takes to repay the £5k loan** |
| Minimum payment – first month £132.92 reducing every month after | £7,277.84 | £12,277.84 | 18 years and 10 months |
| £150 every month fixed | £2,338.96 | £7,338.96 | 4 years and 1 month |
| £175 every month fixed | £1,831.93 | £6.831.93 | 3 years and 4 months |
| £200 every month fixed | £1,511.27 | £6.511.27 | 2 years and 9 months |

The easiest way to deal with being contacted by your bank or Credit Card Company is to increase your repayment to a level that is still affordable for you. Making small changes can save you hundreds or thousands of pounds.

**Do not think of it as a demand for money**

New rules mean that credit card companies have to let you know when you could save money by changing how you are paying back your credit card bill. It is also a chance to look at your credit card balance and see if it is costing you more than you want.

If you do not do anything or have not sufficiently increased your repayments on your credit card after a further 18 month period your credit card provider has to help you by offering ways of repaying more quickly, such as proposing a repayment plan.

If you do not get in contact with them, cannot afford to repay your credit card debt faster or decline a repayment plan you could have your credit card suspended.