Comparison of a Debtor's Options

Individual Voluntary Arrangement (IVA)

An IVA is an alternative to bankruptcy. It is a contract between a debtor and his/her creditors on which creditors will reasonably expect their prospects of recovering monies owed to be at least as good as in bankruptcy. The "proposal" put to creditors will be voted on by them at a creditor's meeting. Generally, if over 75% by value of the creditors who are represented at the meeting vote in favour, the IVA will be agreed and your creditors will be bound by its terms. Creditors may seek changes (known as modifications) to your proposals but they cannot impose them. However rejecting the proposed changes, may mean that the creditor votes against acceptance of the proposal put to them. If the IVA is rejected, a creditor may bankrupt you.

Pros	Cons
Up to 75% of total debt can be written off and an individual can be debt free in five years or less.	An IVA is usually only available for people with debts over £15,000.
Often there is one single monthly payment.	There is a risk that debtors will agree to pay an amount (usually by way of a monthly payment) that they cannot afford.
All creditor action is stopped and interest and charges will be frozen as part of a legally binding agreement.	There is no guarantee that creditors will agree the proposals (although only 75% by value of creditors voting is needed to approve the IVA).
Under certain circumstances (i.e. the release of equity) there is no need for the debtor to lose his/her home.	Can have an adverse effect on future credit.
Assets can be excluded if creditors agree.	If the debtor does not do as he proposes (eg, keeping up with monthly payments) bankruptcy may follow.
Where appropriate a debtor's professional status will be unaffected.	An IVA is entered onto a public register.
It may be possible to continue trading if the debtor operates a business and the debtor can be a director of a limited company. There is a requirement for a company director to resign and be reappointed.	
It can be perceived that there is less stigma than bankruptcy and the debtor's privacy is protected.	

Cost - Variable, fees as detailed in the engagement letter for advice, preparation of Proposal, Nominee's costs and in the IVA Proposal itself for the estimate and basis of the Supervisor's fees

Bankruptcy

A bankruptcy order may be obtained by any creditor owed more than £750, or a debtor can petition for their own bankruptcy. The Official Receiver who is a government official, will either then deal with your assets or appoint an Insolvency Practitioner to act as your Trustee in Bankruptcy to deal with your assets instead.

Bankruptcy usually means that your assets will be sold (subject to certain exemptions) and the money is then used to pay your creditors as much as possible, which can include your home (although your Trustee will discuss how this can be avoided possibly for example, by selling your share to any joint owner or to a friend or relative). If you have surplus income over the needs of yourself and your dependants, you will be expected to make contributions to your creditors for up to 3 years.

In most cases, discharge from bankruptcy occurs after 1 year and your creditors cannot make further claims against you. However, if some of your assets remain unsold at the date of your discharge, they will still remain available to your creditors and your Trustee can still sell them.

Pros	Cons
A "non-culpable" first time bankrupt will be discharged after no more than one year from the date of bankruptcy and will be debt free.	The possible loss of the debtor's home.
A fresh start which protects debtors from their creditors.	The effect on the debtor's job and, in some circumstances, his ability to secure rental accommodation.
Where the debtor has no capital assets, limited income and is in employment unthreatened by bankruptcy, it may be a better option than an IVA for example.	The stigma of bankruptcy and the publicity afforded by the bankruptcy order.
The process can be very swift when a debtor chooses to present his own petition.	Difficulties in obtaining banking facilities.
	The effect on the bankrupt's credit rating both during the bankruptcy and thereafter.
	Following discharge the difficulty and increased cost of obtaining a mortgage or other borrowing.
	A bankruptcy is entered onto a public register.

Cost - £705 - This is made up of a deposit of £525 for managing your bankruptcy plus £180 court costs for dealing with the bankruptcy petition (note you may not have to pay the £180 court costs if you are on income support)

Informal arrangements negotiated with creditors

An informal offer of payment based on a pro-rata distribution of available income. This is usually accompanied by a request to freeze interest and must be wholly transparent with full disclosure. It is an informal moratorium against further action by your creditors.

Pros	Cons
May bridge a gap if the debtor feels that he may be able to regain control of his financial position in the short or medium term.	Difficult to reach agreement with all the creditors. Only one creditor needs to dissent and carry on with proceedings to frustrate the whole scheme.
Possibility of no professional costs.	Unwillingness to freeze interest.
Possible assistance of advice providers such as CAB.	Likelihood of creditors requiring regular review/adjustment of the scheme.
Cost - Variable	

Debt Management Plans (DMP)

A debtor must have at least £100 of net income available and at least three creditors. A single monthly payment is made to a debt management company who then distributes it to the debtor's creditors. The company negotiates with creditors and may obtain a freeze on interest.

Pros	Cons
One single payment which includes the debt management company's fees.	Creditors cannot be forced into agreement. Only one creditor needs to dissent to frustrate the whole scheme.
Lower monthly payments than currently being made and may be lower than in an Individual Voluntary Arrangement (IVA).	Unwillingness to freeze interest. As such the plan can go on for a long time and the debt can grow.
Perceived to be a fair and transparent method of distributing payments.	Frequently creditors still require payment in full so no debt forgiveness is involved.
Someone other than the debtor will conduct the negotiations with creditors.	Creditors can change the terms and there is a likelihood of creditors requiring an increased payment if the debtor's circumstances improve.
	Can have an adverse effect on future credit.
Cost - Variable, usually a % of monthly payment	

Debt Relief Orders (DRO)

A DRO may be suitable for debtors who owe less than £15,000 in total and whose assets do not exceed £300 (subject to certain exceptions – see below). Your surplus income must not exceed £50 per month after paying essential personal and household spending.

An application is made to a government official called the Official Receiver who will make the DRO if thought appropriate.

The DRO will last for 1 year and once it has ended the debtor will be free from their debts (subject to certain exceptions – see below).

Pros	Cons
Your debts will be written off at the end of your DRO (with the exception of some debts such as student loans, fines and some debts arising from family proceedings).	Debts must be less than £15,000 so most consumer debtors (those with numerous loans & credit card debts) are excluded.
The application fee is more affordable than bankruptcy.	You cannot have a DRO if you have an existing bankruptcy order in force against you, are in an IVA, are subject to bankruptcy restrictions or have had a DRO in the past 6 years
The £300 asset limit does not include clothing, furniture and a vehicle worth less than £1,000.	DRO's are not suitable for anyone who owns a house even if there is not equity (value) in it
No further action can be taken by any of your creditors listed in the DRO application without the court's permission.	You will not be able to obtain credit of more than £500 without disclosing the DRO. You will not be able to act as a director of a company or be involved in its management without the court's permission. Your employment may be affected.
Cost - £90 application fee	

Charitable assistance

There are various Charities and Trusts that exist to help debtors although they are only likely to help in real emergencies.

Pros	Cons
The payment is usually purely charitable and does not require repayment.	The criteria are usually strict and the debtor's circumstances may not fit.
Credit ratings are unlikely to be affected.	It is unlikely that help will be given with large debts.
	The level of help is unlikely to solve the whole debt problem.

Cost - None

County Court Administration Orders (CCAO)

A debtor must have a County or High Court judgement, owe less than £5,000 in total and have money owing to at least two creditors. On application a County Court order is made whereby a single monthly payment is made into Court. The Court will then distribute it pro rata to creditors.

The Court may make the order for a given period (e.g. three years) using a composition order.

Pros	Cons
One single payment.	Debts must be less than £5,000 so most consumer debtors (those with numerous loans & credit card debts) are excluded.
An application to Court can be made for a reduction of the amount if circumstances worsen.	Creditors can object.
Creditors cannot take further action without Court permission.	If payments are not maintained the order may be revoked.
Perceived to be a fair and transparent method of distributing payments as the administration of the scheme is carried out by the Court.	Payments can be increased if the debtor's circumstances improve.
No "up front" fee. The Court takes 10p in every £1.	Can have an adverse effect on future credit.

Cost - Fee taken from payments made, 10p in every £1

Consolidation Loans

A debtor may apply to a lender for a loan to clear existing debts. The debtor will have one creditor rather than a large number.

Pros	Cons
One single payment.	It will be difficult to get the best deal if the debtor has a poor credit rating.
The new payment may be lower than the combined existing payments although this may not necessarily be the case.	The lender may want the loan secured so the debtor is converting unsecured into secured debt.
Credit ratings are unlikely to be affected.	Interest will not be frozen and the rate and amount may increase depending on the terms of the loan.
	The new loan is likely to be repayable over a longer term and this is also likely to mean that the interest paid will be higher.
	No debt write-off; repayment will be required in full.
	The temptation for the debtor to retain and use the existing credit cards thereby rejoining the debt spiral.

Cost - Variable loan rate