

# DEBT

## and insolvency

A lot of people in this country are facing financial problems.

We all know how quickly life can change and, when we're under stress and need help, we sometimes make decisions about money we later regret.

It's tempting to take up offers of credit, especially when they're handed to us on a plate.

# GETTING THROUGH tough times

The UK can get through the recession and come out stronger on the other side if we learn to manage what we borrow better. We want to help people:

understand how to  
manage their finances

be responsible about paying  
back borrowed money

understand the consequences of the  
decisions they make about their money

have more control over  
who they borrow from

to switch when it makes sense

and to get the help they need  
to pull themselves out of debt



# RESPONSIBLE lending

We want the companies lending people money to:

Understand their customers better,  
so they can lend money responsibly  
and give the right advice,  
at the right time.



Be free from unnecessary rules so the  
way they serve customers makes  
sense for their business and  
they can help people when  
they get into trouble.



Have the tools they need to get their  
money back when it's right to do so.



# GETTING credit

What do you think of these ideas:

## ADVERTS

We want to talk about how credit cards and loans are advertised. It's already illegal for financial adverts to be misleading and the Advertising Standards Authority can act against adverts which make it seem as if borrowing money isn't a serious matter, but there are no rules against showing a happy, smiling family to a desperate mother. Should there be?

## STORE CARDS

We want to deal with that moment when you go up to the counter and the shop assistant offers you 10% off right then if you sign up to their limited time interest-free store card.

It's easy to sign up for, but if you don't pay it off before the interest free time is up, the hefty 26% average interest rate might take away more of your money than you can afford.

So what if there was a rule saying you couldn't use the card for seven days? Would that help you make a better decision?

# GETTING credit

## HIGH INTEREST CREDIT

We want to make sure people really understand just how much they'll have to pay when they take up high interest credit, and we want to make sure they know what other options are out there.

Payday loans and rent-to-buy are just some of the ways people with a bad credit rating can get hold of credit, and we want to look into how we can make it easier for people who make regular payments to this sort of loan to build up their credit rating.

Then we want to look at the rules for pawnbrokers and other companies that people with less access to banks and credit cards might use.

## SHARING INFORMATION

We also think it might help if all the people holding information about our debt shared it better. Will connecting someone's student loan payments, income tax, council tax, bills, local services help lenders get a better picture of what we can afford to pay back? Would it help too if people knew more about their credit rating and how it affects what they can borrow?

# MANAGING your credit

## BANK CHARGES

We think people are still unclear about bank charges, and we want to know whether lenders are doing enough to help people understand them and whether they could be fairer. We also want to look at what would happen if banks could only charge a fixed amount for going overdrawn.

## SWITCHING

We know that once they've got a deal, people tend to stick with what they've got, even when new better deals come up all the time and they could save money by switching to them instead. We want to help by getting credit companies to give people an annual statement telling them what their credit cards and loans are costing them – we hope this will give people something to compare with other deals so they can get the best price.

# MANAGING your credit

## HELP WITH MANAGING YOUR MONEY

We're also worried that too many people just don't know how much debt they're in, and rarely keep track of what they spend or know how much they've got available. We want to set up an advice line by next spring to help people review and manage their money regularly. What do you think?

## LIMITING INTEREST

We know interest rates have been creeping up over the last couple of years. This can be a real problem for those with credit and store cards. We're wondering whether an upper limit for interest rates on credit and store cards would help people manage their borrowing better and help them avoid getting into trouble?

## ON YOUR DOORSTEP

We want to look at home credit too. There's not much competition between companies, so there's not much choice for customers, which means people might be paying more than they need to.

# PAYING your debt

We want people who can pay, to pay what they owe.

But when they can't, we want them to get advice about managing their debt as soon as they notice things are going wrong, and help them find the best way out. At the moment the options are:

Asking the people you owe to accept lower payments, or to write off some of your debt.



They don't have to agree.

Getting a lower interest-rate loan for enough money to pay off all your other debts.



Getting a middleman to talk to the people you owe as part of a debt management plan. You pay at a rate you can afford and don't have to deal with the people you owe directly





# PAYING your debt

Getting a County Court administration order where you pay the court from your paycheque and they distribute the money to the people you owe.



Going to a licensed person who will take you through the process of paying back the money you owe, using an Individual Voluntary Agreement. This may be done using money left over from your salary after your bills are paid off. If you can't pay all your debt, some of it might get written off.



Getting a Debt Relief Order through someone registered to deal with them – a good option if you don't owe very much, but can't pay it back and can't afford to go bankrupt.



Going bankrupt through the courts. The things you own that are worth money may be sold to pay your debts and any spare money from your paycheque taken and given to the people you owe for up to 3 years.



# HAVE

*your say...*

Do these ways of paying off debt cope well enough when people's lives change quickly? Are they good enough to make them worthwhile for the lenders? Is anyone missing out? Help us answer these questions and more.

Fill in our online survey at <http://j.mp/bSSyVc> and email your views to: [consumer.credit@bis.gov.uk](mailto:consumer.credit@bis.gov.uk)