

THE MONEY SECRET

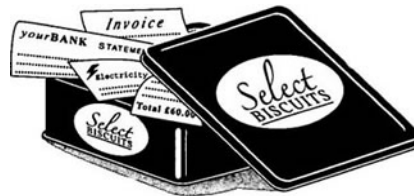


ROB PARSONS



**HODDER &
STOUGHTON**

The Biscuit Tin



Losing Financial Control

Symptoms to watch out for are:

- **Not being sure whether the cashpoint machine is going to pay out or not.**
- **Not being at all sure what figure will be at the end of a bank statement.**
- **Always being overdrawn.**
- **Losing track of the direct debits or standing orders that are operating on your account.**
- **Losing cash around the house or finding odd bits of cash – even bank notes – in various pockets.**
- **Readily borrowing from and lending money to friends.**
- **Impulse buying.**
- **Instead of asking, ‘What is the total cost?’ asking, ‘Can I afford the monthly repayment?’**
- **Making minimum payments each month on credit cards.**
- **Not knowing the rate of interest you are paying on credit cards, store cards and bank borrowings.**
- **Getting taken in by offers of finance that come through the post.**
- **Leaving payment of bills until the last possible moment – certainly until the ‘red’ bill and often not until threatened with legal action.**

Going on the Financial Weighing Scales

- ❶ **Collect the information you need for a financial reality check – this will be things like bank and credit card statements, bills, details of direct debits and the like.**

② Open any mail that you've got lying unopened in a pile, making sure you have a waste-paper bin near. Rip the junk mail up as you go, but put bills, statements, letters from creditors and any court summons to one side.

③ Now write a list of all the people to whom you owe money. Use the pay THEM FIRST system to identify the priority debts and make a list of them and the non-priority debts.

Tax (council

Fines

Hire purchase

Income Tax

Electricity/gas

Rent/mortgage

Maintenance/child support

Second mortgage

Television licence

A typical list might look like this:

PRIORITY DEBTS	
Electricity	£87
Gas	£67
Mortgage	£566
Council tax	£400
Hire purchase car	£7,900
NON-PRIORITY DEBTS	

NON-PRIORITY DEBTS	
Bank overdraft	£500
Bank loan	£789
MasterCard	£488
Visa	£566
American Express	£900
Next store card	£233
Dixons store card	£1,200
John Mills catalogue	£455
Hire purchase on hi-fi	£1,450

4 Fill in the ‘Reality Check’ form below to calculate your actual income and expenditure every week or month. Always start with ‘Income’ – that’s the easy part – and then fill in the ‘Spending’ part of the form.

5 A free legal advice centre will help you decide what monthly offers of payment you can offer to each of your creditors, and come to an agreement with them. All kinds of people from all walks of life use advice centres and you will be helped in a non-judgmental way.

REALITY CHECK FORM

INCOME	
<i>Type</i>	<i>Weekly/monthly £</i>
Basic salary/wages	
Partner's basic salary/wages	
Guaranteed overtime	
Partners guaranteed overtime	
Bonuses	
Partner's bonuses	
Pension	
Child benefit	
Income support	
Job seeker's allowance	
Tax credits	
Maintenance/child support	
Other benefits (1)	
(2)	
Other income (1)	
(2)	
Total	

REALITY CHECK FORM

CURRENT SPENDING /REDUCED SPENDING	
<i>Type</i>	<i>Weekly/monthly £</i>
Mortgage/rent	
Second mortgage	
Endowment	
Ground rent	
Building insurance	
Contents insurance	
Council tax	
Water rates	
Gas	
Electricity	
Coal/oil	
Telephone/mobile phone	
TV licence/TV subscriptions	
TV rental	
Fines	
Petrol	
Car tax	

CURRENT SPENDING /REDUCED SPENDING	
Car insurance	
Car servicing/repairs	
Car loan	
Pension	
Life insurance	
Child care	
Maintenance	
House repairs/decoration	
Charitable giving	
Regular savings	
Housekeeping (food and cleaning supplies)	
Prescriptions	
Launderette/dry cleaning	
Newspapers	
Cigarettes	
Clothes	
Hobbies/sports/toys	
Entertainment	
Meals out/takeaways	
Gambling/bingo	
Christmas/birthday presents	
Holidays	
Emergencies	
Travel to work/school	
School dinners/meals at work	
Other school expenses	
Pocket money	
Pets	
Other (1)	
(2)	
Total	

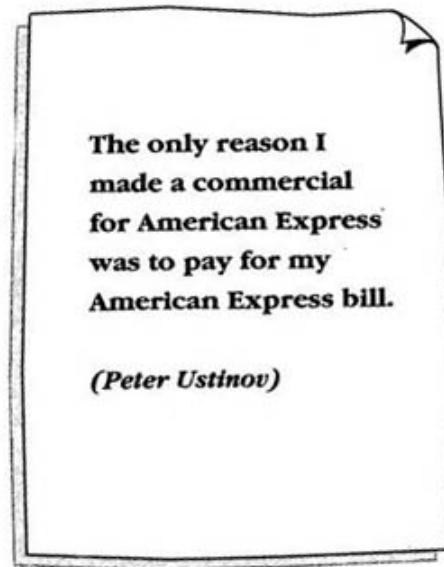
Paying Credit and Store Card Arrears

Use as much money as possible to get rid of your credit card debt and especially any store card debts! Go to a free debt advice centre and ask them to work out how much you can allocate to repaying these.

List your credit and store cards showing the rates of interest on each. It might look like this.

CARD	AMOUNT OUTSTANDING	RATE OF INTEREST
Card 1	£1,000	29.90%
Card 2	£600	28.90%
Card 3	£890	19.00%
Card 4	£680	18.00%
Card 5	£560	18.00%
Card 6	£660	17.00%

Remember we talked about hitting the most expensive first. Start to pay the minimum amount each month on each card, except for the most expensive one. You should throw all you've got left from your credit card budget at this one. And when that is paid off, move on to the next one. You'll be amazed how fast those bullies fall!



Remember the ‘wealthy pauper’ was in danger of losing his home – here are some ways to avoid that

- ❶** Go to a free debt advice agency immediately – some are listed at the back of this book.
- ❷** Don’t ignore a bank or building society when they write or telephone you. The problem is not going to go away and nothing frustrates creditors as much as people who just won’t talk to them.
- ❸** Even if you have ignored the lender for some time, it is never too late to contact them. If you have not paid for some time, start paying again as soon as possible.
- ❹** If you have an endowment policy with your mortgage, it may be a good idea to cash this in, but in some cases there may be a better option. Make sure you get independent advice.
- ❺** If you have a repayment mortgage, ask the lender if they will allow you to pay interest only. This means that you won’t actually be paying back any of the capital (the money you originally borrowed) and so your mortgage will take longer to repay, but it will give you a little breathing space. Your lender may insist that the ‘interest only’ arrangement is a temporary measure.
- ❻** Ask the lender to roll your arrears into the amount you already owe and to extend the number of years over which you will be allowed to repay the mortgage. The advantage of this is that the arrears will be totally wiped off, but, of course, you will owe that extra sum and your mortgage will take longer to repay.
- ❼** Ask the lender to allow you to make a reduced payment for a while. This is hard to get them to agree to, but they will sometimes do so because it is cheaper and easier for them than repossession proceedings.

8 Consider the possibility of whether you should sell your home and buy a less expensive one. Definitely do this before losing your home in repossession proceedings as you will almost certainly get a better price for it by selling it yourself.

9 Ask your local authority if they have a 'mortgage rescue scheme' for which you might qualify.

10 If court proceedings have already been issued, always attend the hearings. Remember that the court will want to keep you in your home if possible. Usually, if you show that you can make the normal monthly payments as well as repaying the arrears within a reasonable time, the court will suspend any possession order.

11 Don't be bullied into paying more than you can afford. Lenders often like the arrears to be cleared in one to two years, but if you cannot afford this, don't panic. Remember that it is up to the court, not the lender, to decide what amount you should repay, and in some circumstances the court will allow you to stretch your repayment of the arrears over the remaining term of the mortgage.

12 Above all, don't put your head in the sand – get help as soon as possible.

Most banks and building societies don't want people to lose their homes. Just work with them – give them a chance to help you.

Frank and Sarah were considering bankruptcy.

Here are a few notes ...

Dealing with Creditors – the Last Resort

There are several courses of action open to people which will allow them to pay their creditors what they can without having to deal with them directly. Bankruptcy is the most extreme, but in some cases is the most sensible route. Others are an Administration Order and an Individual Voluntary Arrangement. Here are some brief details, but if somebody is considering any of them they should get advice from a free advice centre.

Administration Order

If a person has debts of £5,000 or under, and at least one county court or high court judgement, then it may be in their interest to apply for an Administration Order. They will need to complete an application form and take it to the court. If the Order is granted they will have to make one affordable monthly payment to the court who will distribute the money for them – the creditors can take no further action against them. After 3–5 years the court may order any outstanding balances to be written off.

Individual Voluntary Arrangement

This will allow a person to settle their debts without resorting to bankruptcy. It is a legally binding arrangement and is normally carried out with the help of a specialist insolvency expert who is usually a chartered accountant.

Under this agreement they will pay their creditors a lump sum or agreed instalments within a set period, usually 5 years. In return the creditors will agree to write off part of the debt and not take court action against them or make them bankrupt. It only affects unsecured debts – so they will not be able to use this to deal with mortgage arrears on their home.

Bankruptcy

Bankruptcy can be a fresh start and a positive step. A person in debt can apply to a county court themselves to go bankrupt or, under certain circumstances, a creditor can apply. If it is a creditor, the application can be contested by the person in debt.

Many people considering bankruptcy are most worried about losing their home, but this is not inevitable. If the bankrupt owns his or her home, the trustee in bankruptcy will investigate whether it should be sold so that the equity (the money left after any mortgages are paid off) can be used to pay creditors.

If there is very little or no equity, the trustee in bankruptcy may allow the bankrupt to remain in the house for some time. He has up to three years to see if the house has risen in value and is worth selling. In this situation, the bankrupt would have to continue to make the mortgage payments otherwise the lender could take action to repossess the property. If the mortgage is very large the trustee could refuse to allow the bankrupt to keep sufficient income to pay the mortgage.

It may be possible after a person is made bankrupt for a joint owner, spouse, partner or friend to buy the share of the property that is controlled by the trustee.

After the bankruptcy, creditors will not be able to pester the bankrupt person and will have to deal with the trustee in bankruptcy.

A bankruptcy is normally discharged after twelve months provided there is full co-operation with the trustee in bankruptcy. If the bankrupt cooperates well with the trustee, discharge from bankruptcy can sometimes happen earlier. After the discharge, the former bankrupt is likely to find it difficult to obtain credit or get a mortgage for a number of years.

A decision to become bankrupt is a serious one and there are many issues which a free legal advice centre will be happy to discuss with you. It may have especially serious implications for those who own a property or business.

Some Golden Rules

- ❶ Don't believe this is 'just me' – most people have known debt problems of some kind.
- ❷ Don't feel you have to deal with the problem on your own. There are many free advice agencies, including the CAB, who are ready to help in a non-judgmental way.
- ❸ Don't ignore the problem – perhaps by leaving letters unopened or refusing to speak to those to whom you owe money – it won't go away.
- ❹ Don't go to debt management companies that offer to negotiate with your creditors in return for payment. They often offer to reduce your monthly repayments, but the way they deal with debt and the fees they charge often make things worse.
- ❺ Always get in touch with your creditors and explain your difficulties.
- ❻ Always keep copies of the letters you write and receive, and make notes of phone conversations.
- ❼ Always attend court hearings. The county court is not one that deals with criminal matters, there is no jury.
- ❽ Beware of borrowing even more money to clear off existing debts.
- ❾ Be especially careful not to borrow any more money using your house as security – even if it means your total monthly repayments would be reduced – without getting advice from a free advice agency.
- ❿ Try not to let worry over money overwhelm you. It is of great concern, but the most important thing in life is relationships. The hardest thing is to keep a sense of perspective. Don't battle on alone. With help, you will come through this difficult time.



¹ You can't have your water cut off for non-payment unless you are a business so water debt is not a priority debt.