

CityAdvice

Understanding debt

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Why do people get into debt?

Getting into debt or getting behind with your bills is becoming more and more of a problem these days but unfortunately it is still something people are really afraid to talk about.

There are many reasons people struggle with debt some of these include: poor health, insecure work, poor pay, high housing costs, loss of income, relationship breakdown, having children, problems with their benefits, mental health and addiction problems.

This is all in addition to rising costs of many day-to-day bills and essential items.

Sadly, due the feelings of guilt and shame many people are afraid to get help or discuss what is going on and this usually makes things worse.

This guide is designed to make some helpful points about what you need to know if you are struggling with money and gives you the chance to try and get the help you many need.

Are all debts the same?



Even though debt is a complex area, it is really important to understand the difference between different types of debt. The three kinds of debts are:

Priority debts

Non-priority debts

Other debts that don't fit in either category

This guide will go through the different kinds of debts and consequences of not being paying those debts.

Priority debts

- ❖ These debts can lead to really serious problems. If you have priority debts and can't see how you can pay these, it is important to get help as quickly as possible to try and stop the worst enforcement action happening.
- ❖ It may be possible to come to an arrangement to pay back the debt, get extra help, such as an energy grant or support from benefits or even a reduction in how much you have pay altogether or in how quickly you have to pay the money owed back.
- ❖ Getting help will make sure you know what your options are and how best to make the situation better

See the types of priority debts on the next page.

Types of priority debt

This is not an exhaustive list, but covers the most common priority debts and the non payment consequences.

Types of Priority Debt	Non-payment Consequences
Rent or mortgage arrears https://debtfree.london/understanding-debt/rent-difficulties	If you don't sort these out you are likely to eventually lose your home
Council Tax arrears https://debtfree.london/understanding-debt/council-tax-difficulties	Non-payment of Council Tax usually leads to bailiffs coming to your home to try and take property to pay the debt, but it could lead to being made bankrupt if the arrears are high or even in extreme cases imprisonment. Council tax arrears can also be collected directly from your wage or salary.
Gas or Electricity Arrears https://debtfree.london/understanding-debt/utility-bills	These are likely to lead to you having your supply cut off but not by the company. Normally you will be forced to have a pre-payment meter installed and then if you run out of money you will cut yourself off.
Magistrates Court Fines	Non-payment of these can lead to bailiffs pursuing you or even imprisonment
Child Maintenance Arrears	If you don't live with your school aged children and have been told to pay child support it is important to try and pay as there are many actions that can be taken against you for failing to pay this debt
Debts to HMRC	Again it is important to pay these as they can quickly increase especially if it is tax you owe and HMRC have a number of ways of collecting these debts and causing you a lot of problems.
Hire Purchase (for an essential item)	If this is for an essential item such as a car for work or for essential use, then the risk is that you will lose the car which might mean you can't do your job or carry out family and caring responsibilities.

Non-priority debts

This is not an exhaustive list, but covers the most common priority debts

Types of Non-Priority Debt	Non-Payment Consequences
<p>Credit cards or store cards https://debtfree.london/understanding-debt/credit-cards</p>	<p>If you can't pay what you owe, the creditor can apply to a county court to make you pay. You will normally only have to pay the most you can afford after all your essential expenditure and payment of priority debts.</p>
<p>Loans https://debtfree.london/understanding-debt/loans</p>	<p>The situation is the same as with credit cards and store cards as if you don't pay these, even though the company can apply to the court, you may only have to at a very low rate according to what you can afford.</p>
<p>Overdrafts</p>	<p>Please remember if you are still using the account for your benefits or earnings to be paid into, then this is a more serious problem as the bank can use what is paid in to the account to help reduce the overdraft. If however you don't use the account then the bank can only try and force you to pay what you can afford.</p>
<p>Water debts</p>	<p>You cannot have our water cut off so this is a less serious debt than gas or electricity and there are also schemes to help with arrears or high water costs depending on your income and circumstances.</p>
<p>Hire- Purchase (for non-essential items)</p>	<p>Again you are likely to end up losing the item if you cannot keep up with payments but if it is a non-essential item it isn't normally treated as a priority debt.</p>
<p>Phone, mobile phone, internet and television contracts</p>	<p>These are usually treated as non-priority debts as you can't be made to pay back at a rate you can't afford but of course if you get behind you will lose the service which can create a lot of problems for people.</p>

Other debts

Some debts are treated differently

Some may usually be treated as non-priority but in some circumstances, they can be treated as priority debts

In the case of rent arrears or utility bills from a home that you are no longer living at

Debts in their own category	Consequences
Parking and Penalty Charge notices for parking violations	If you get a parking ticket this can become very serious as if it is not paid and the ticket is allowed to go for enforcement then this can lead to bailiffs being allowed to clamp your car. If the car is essential to you this can be a really priority situation and a real emergency.
Debts to Family and Friends	If you have borrowed money to family and friends you normally have to treat this as a non-priority but of course if your family help you by supporting you in other ways it can become a big problem to manage such a debt but legal to enforce the debt your family would need to ask the court to make you pay and this would need to be affordable for you
Debts to private individuals who are charging interest and may be threatening you.	Only financial institutions and companies that are regulated and with whom you have a proper legal contract with can charge you interest. If someone is trying to charge you interest or threatening you with violence or in any way because you borrowed money from the then this is illegal and you need to get help immediately: Call 0300 555 2222 to get help urgently (Stop Loan Sharks).

When should I get help?

Getting into debt or getting behind with your bills is becoming more and more of a problem but unfortunately it is still something people are really afraid to talk about.

Being debt can often be like having a leaking roof, you may be able to go a long time not doing anything about it and then one day the roof can fall in so it is always better to get help as soon as you know there is a problem and especially if it is because you are getting behind on a priority debt and really don't have the money you need to pay this off.

- ❖ To identify how severe your situation is, set up a budget to see how much money you have coming in and how much going out.
- ❖ Sometimes this can show that you have more money going out than coming in and this shows you really need to get help as quickly as possible.
- ❖ It may be that you are entitled to more money or help from benefits, it may be another adult you live with, such as a grown-up child could be paying towards household bills and costs.
- ❖ It may be that you can look at reducing some of your costs or expenditures and that this will enable you to pay off these priority bills.
- ❖ Whatever is happening for you a debt adviser can support you to look at your budget and look at what help you can get to make it work.

To take the first step towards tackling your debts, contact City Advice. Call us on 020 7392 2919, visit www.toynbeehall.org.uk/cityadvice or email us at city.advice@toynbeehall.org.uk