# Debt management plan questions and answers

Listed below are some of the frequently asked questions on DMPs.

**When is a Debt Management Plan suitable?**

A Debt Management plan is a debt solution for anyone who has unsecured debts that they can't afford to repay and owe money to more than one creditor. A DMP requires the person to have a surplus income each month. (Money left over after having paid all living costs and household bills from income).

**Advantages of a DMP**

- One monthly payment is paid to the Debt Management Company who distribute all of the payment on a pro-rata basis to creditors after deducting the administration fee (PTDM charge a fees for administering a DMP)
- Interest and charges may be frozen in some cases depending on the creditors policy, so the debt doesn't increase.
- The monthly payment is calculated on what is affordable, based on incomings and outgoings.
- PTDS negotiate on the client's behalf with their creditors.
- PTDS keep the client fully informed with quarterly payment statements

Creditors may still write to the client but PTDS encourage them to contact us instead. This can often reduce the number of calls and letters to the client.

**Disadvantages of a DMP**

- It isn't legally binding, so creditors can proceed with court action.
- Depending on the amount of monthly payments and the size of the debt, it could take several years to clear the debt. (PTDS will recommend all alternative solutions if this is the case)

**Is it a loan?**

No, a debt management plan is exactly what it says, a way to help manage debts. PTDS doesn't buy the debt from the original creditors. What they do is to help to manage the debts by offering a reduced payment to each of the creditors and then negotiate to freeze interest and charges.

**How long will a DMP last?**

The length of the DMP depends on each individual situation. It also depends on the level of debt and monthly surplus. If creditors freeze interest and charges, the length of the DMP can be dramatically reduced. For example: If £12,000 is owed and the client can afford to pay £200 per calendar month the DMP will last for just over 5 years (60 months). This applies only if the payments are maintained each month and the creditors freeze interest for the duration of the plan. However, if the creditors do not agree to freeze interest and the some of the companies will not, then the period of repayment will be longer. The DMP can be completed sooner if the clients circumstances improve and their payments can be increased.

**How much does it cost?**

PTDS wish to take a market leading position by offering this service at a competitive and fair price. The cost for setting up the DMP will be the first monthly payment that is agreed after negotaition with all the creditors and thereafter, an adminstration fee of 15% of the monthly payment is charged

**How much will each creditor get?**

This depends on the surplus income (i.e. money left over every month after paying all living expenses) and how much is owed to each creditor.

**For example:**

If there were three Creditors, as below:

| Creditor | Amount (% of total debt) |
|---|---|
| Total | £9600.00 |
| Credit Card | £2304.00 (24%) |
| Store Card | £1056.00 (11%) |
| Bank Loan | £6240.00 (65%) |

If surplus income = £210 per month, then the pro-rata payments to each creditor will be:

| Creditor | Amount (% of total debt) |
|---|---|
| Total | £210.00 per month |
| Credit Card | £50.40 per month (24%) |
| Store Card | £23.10 per month (11%) |
| Bank Loan | £136.50 per month (65%) |

We will pay the agreed amount each month to each of the creditors, on the client's behalf, after deduction of the administration fee.

**How are the payments made?**

The client pays monthly using one of two methods:

- Direct debit
- Cheque

**Can the client stop the DMP when he/she likes?**

The client can stop the DMP at any time, but we ask that we are notified so we can inform all of their creditors.

If the client is experiencing further financial problems and cannot afford the payments and let's us know, we may be able to restructure the plan.

Please note: Once the plan is cancelled, any creditors who have frozen interest may and will resume interest and charges.

**Who informs the creditors of the agreement?**

One of the benefits of a our service is that we will contact the creditors, explain the situation, provide them with details of the client's income and expenditure and make an offer of payment to them.

**Will the creditors agree to the offer of payment?**

Creditors don't actually have to agree to the payments in order for the payment to be sent the money. The offer will be what the client is stating they can afford and no more but they will always attempt to get the offer increased

**Is the client's credit rating affected?**

A DMP will not show on you credit file, however, if the client is already in financial difficulty, the credit rating is likely to have been affected already. Whenever the full contractual payment isn't made, whether this is through a DMP or not and even if the payment is just a few pounds short, it will still affect the credit rating as the client is not complying with the credit agreement.

**Will the client still receive calls and letters from the creditors?**

Creditors are still entitled to contact the client directly so we cannot guarantee that all letters and phone calls will stop immediately, but we will attempt to get them down to a minimum and once the DMP is well established they should stop altogether. All correspondence received from the creditors by the client should be sent to our customer service team for action.

**How will the client know creditors are being paid?**

PTDS will send a quarterly statement to the client setting out details of payments received from the client and payments made to the creditors

Clients may occasionally be contacted by the creditors to say that they haven't received a payment from PTDS, which may be untrue; they may be asking you for more money directly, or there may even be a misunderstanding between departments. If the client suspects the creditors aren't being paid or that a mistake has been made, then they should get in touch with our customer service team.

**What support do I get?**

Our commitment is to provide excellent support to clients. If the client's financial situation changes, the client can contact our customer service team who will try and arrange a new plan. Our members of staff are always there to give support and answer any questions the client may have.

**Can the client continue to use credit?**

We ask clients **not** to obtain further credit whilst in a DMP. It can be considered fraudulent to take out credit that you know can't be repaid. The DMP will make sure that the client has enough money to live on, so they shouldn't need to take out any more credit. There are of course exceptions, such as a company credit card where the clients are not liable for the payments, but these should be declared to the customer services team to avoid any problems.

**Will interest and charges be frozen?**

Creditors aren't obliged to freeze interest and charges and this cannot be guaranteed. However, if a realistic income and expenditure statement is provided to creditors  through a DMP, then there is an opputunity of achieving this although there are some lenders whose policy is not to freeze interest. Creditors can be more cooperative when they see that the debtor is making every effort to clear their outstanding debts.

**What happens to to secured debt?**

Secured debts i.e. mortgage and car HP can't be included in a DMP, and if the client is unable to make the contractual payments to the secured debts they are at risk of losing the item to which the loan is secured on e.g. a car or house. The commitments for secured debts will be included in the income and expenditure. Clients should never get into arrears with secured debt.

**Is the property at risk**?

Providing the client keeps up the payments on any mortgages or loans secured on property. Then there is no reason why the property should be at risk. A DMP isn't legally binding so you won't lose your home if you continue to make the agreed payments into your DMP.

**Which debts are included?**

A DMP will only help the client make reduced payments to unsecured creditors, therefore the debts that can be included are:

- Personal loans (loans taken to purchase cars are fine but Hire Purchase (HP) agreements cannot be included)
- Credit cards
- Store cards
- Catalogues
- Overdrafts

Secured debts can't be included in DMPs because any payments on secured debts that aren't met in full, can lead to the goods being repossessed.

**Will the client have to live on a tight budget?**

To enter into and maintain a successful DMP the client will need to live within a budget, however this is discussed openly with the client at the client meeting. PTDS are required to submit income and expenditure details to the clients creditors. It is in the client's interest to show creditors that they are prepared to make some sacrifices to help repay the debts.

**Why do clients have to change their bank account?**

If the client has a current account with a company who money is owed to, they will be required to open a new bank account. This is not only the case with a DMP but the client should change their bank account if they are going to make reduced payments to a company that they also bank with. Banks have the Right to Offset so any money in a current account could be used to pay another debt with the bank.

**Can the creditors still issue the client with a County Court Judgement?**

As a DMP isn't legally binding creditors could still take action. As PTDS have many years experience and have a good relationship with the creditors this is less likely to happen. However PTDS would continue to support the client if any of the creditors applied to the court for a CCJ. Even if a creditor applied to the court for a CCJ the payment should remain similar to what has previously been agreed

**Will the client get a Default Notice?**

By entering into a DMP, the creditors can issue a default notice as the client is defaulting on the original credit agreement. If the client receives a default notice it doesn't automatically mean the creditor is going to take legal action. The default will appear on the credit file for 6 years from the date it was issued.

**Can a client enter into a DMP if they already have a CCJ?**

CCJs don't prevent clients entering into a DMP and PTDS will help the client make the payments to creditors who have issued the client with a CCJ. The client will be required to provide details of the CCJ during their financial assessment. CCJ payments will be given priority when PTDM distribute the payments monthly.