



# Are your debts getting you down?

Practical steps to regain control of your money

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## Take control of your money

Often through no fault of their own, many people find that they can't afford to pay all their debts and fall into arrears. If this has happened to you, follow the simple information in this leaflet which is designed to help you take back control of your money:

### Do

- ✓ Stay calm
- ✓ Stand back and take a detached look at your situation. Try to imagine a friend asked you to help with their debt problem. What help would you give them?
- ✓ Admit it to yourself
- ✓ Take action now
- ✓ Pay creditors in a set order, depending on what action they can take against you [See Priority Debt](#) →
- ✓ Get help
- ✓ Tell your family
- ✓ Tell your creditors
- ✓ Keep copies and records of all payslips, benefits, bills, statements, letters to and from creditors, notes of telephone conversations etc. and keep them somewhere safe but handy
- ✓ Stop using credit or store cards until your finances are back under control. Pay by cash or debit card instead
- ✓ Make a list of all your income and outgoings now and keep it up to date [See Household Budget](#) →
- ✓ Increase your income

### Don't

- ✗ Be embarrassed or ashamed to face up to it instead be prepared to fully disclose your problems to your creditors
- ✗ Just pay the creditors that chase you most often
- ✗ Ignore it – the problem won't go away by itself
- ✗ Be afraid to ask for help – it's free, independent, and entirely confidential [See Help](#) →
- ✗ Ignore letters and demands for payment
- ✗ Be tempted to borrow more

### Tips

- Don't keep money problems from your spouse or partner, they will be upset when they find out you have been keeping it secret. You will need support and co-operation from everyone in the household (including adult children) to successfully resolve debt difficulties
- Think before using commercial debt management companies. They are in business to make a profit and the fees they charge you could be used to reduce your debts instead. You can join a debt management service completely free, so why pay for it? [See Help](#) →
- Make sure you claim any benefit that you are entitled to, and consider other ways of increasing your income. [See Maximise Income](#) →
- You may have cut down on spending already, but don't close your mind to other possible ways to economise

**Now -- take the Steps in this leaflet to get your finances back under control...**

## Maximise Income

### Step 1

#### Think about ways to increase the money coming in - Maximise Income

Before you do anything else, you should consider if your household income could be increased to make paying your debts easier. There are many possibilities and they can't all be listed here.

What might be appropriate for you will depend on your circumstances, but here are a few possible suggestions:

#### Payment Protection Insurance

Check all your mortgage, loan, and credit/store card agreements to see if you have payment insurance - ask the lenders if you are unsure. Look at the policy conditions to see if you can make a claim, for instance if you are not working due to redundancy, accident, or illness (or in some cases hospitalisation or unemployment). Remember to keep copies of claims and correspondence.

#### Benefits

Don't be reluctant to obtain every benefit that you are entitled to claim. There is a wide range of benefits available, depending on your circumstances. Take a moment to look at the list of benefits you might be able to obtain. [See Benefits](#) →

It can sometimes be difficult to judge whether you will qualify for a particular benefit, but it is always worth asking. **Remember - claim it if you are entitled to it.** [See Help](#) →

#### Other Possibilities

##### Overtime.

Make sure your employer knows you are interested in extra work when it is available. If you don't ask it might be offered to someone else.

##### Additional part time work.

Ask friends and family for ideas and look in local papers. Consider early morning, late evening and weekend work.

##### Work from home schemes.

These are usually low paid but can be very convenient. Don't consider schemes that mean you to have to pay up front for supplies, materials, training, etc.

##### Sell assets.

Have you got valuable assets that are not absolutely necessary - a second car, boat, motorbike, or caravan? But, don't sell anything that you will have to replace later because you can't do without it.

##### Adult children/non-dependants.

Are they paying their fair share of the household expenses? Can they contribute more?

##### Lodger.

Have you a spare room that could be rented out to a lodger? (get permission from your mortgage lender first)

**Income Tax.** Do you qualify for a lower tax code or a tax rebate? [See Benefits](#) →

**Child Maintenance.** Ensure you get paid maintenance if you are entitled to it.

## Reduce Spending

### Step 2

#### Think about ways to economise - Reduce Spending

If you keep a note of everything you spend it will help to identify spending that can be reduced or cut out completely. You might have already cut down on your spending and think that there is no room to economise any further, but please keep an open mind to other possibilities, for instance: [See Household Budget](#) →

- Switch to a cheaper supplier of utilities (gas, electricity and telephone) and choose the cheapest payment method. [See Help](#) →
- Stop smoking - it might take a lot of willpower, but you can get free help and support. [See Help](#) →
- Walk or cycle to work or school instead of driving or using public transport.
- Repair rather than replace if possible.
- DIY - not just decorating, but anything you can (safely) do yourself - for instance, clean your own windows rather than paying a window cleaner.
- Don't pay extra for regular deliveries of milk and newspapers.
- Use free public services. Some lending libraries also have a wide range of magazines and newspapers, music and video, and use of PC's and the Internet.
- Always shop around for essential items and make use of genuine 'sales' and money off coupon offers.
- Consider buying good quality used items rather than new.
- Take a packed lunch to work or school.
- Switch your credit card balance to a company that offers a lower interest rate for balance transfers, but don't use the card for new items. We always suggest taking independent advice when rearranging your finances.
- Make a list for regular shopping and stick to it - don't buy on impulse.
- Consider buying less expensive 'own brand' products from supermarkets for regular items - the quality can be just as good as more expensive well known brands.

Saving money will mean changing your spending habits, but try not to think of it as an unwelcome economy drive that is forced on you out of necessity.

Be positive instead. Most of the suggestions above are about having a healthier lifestyle, or being more 'green' and environmentally friendly, or getting the best value for money - not just about spending less.

# Household Budget

## Step 3

### Make a list of all income and spending - your Household Budget

People often say, "I just don't know where all the money goes" - but if you are facing debt problems it is essential to get an accurate and detailed picture of all your income and spending. Use a diary or notebook to record everything that comes in and goes out. You can use this information to refine and update your budget from time to time.

You should prepare a formal Household Budget to send to your creditors so that they can understand your financial situation. An example is shown opposite, but don't worry if yours does not fit on a single page. Use monthly amounts throughout the Household Budget. [\[To convert everything into monthly amounts multiply weekly amounts by 4.3, divide quarterly amounts by 3, and divide annual amounts by 12.\] - GE can provide you with more copies.](#)

### Completing your budget

Start by completing only the yellow part of the budget. Don't complete the rest just yet as this will be covered in Step 4.

### Monthly Net Income

Use net amounts (the amount that you actually receive after deductions), and make an estimate of the monthly value of irregular income like overtime, bonuses, or occasional work. Use a separate 'Other' line for rent from lodgers, interest on savings, and any benefits you are entitled to. [See Benefits](#)

Before you finalise this section think about whether you can increase your income any further. [See Maximise Income](#)

### Monthly Living Costs

Think carefully before finalising this part of the budget. Don't include any item that could possibly fall into arrears, as these should be listed in the debts sections. For instance, don't include electricity costs unless you have a pre-payment meter. **The items and amounts you include should be both reasonable and realistic.** Don't over-estimate your monthly living costs or your creditors might challenge the amount as unreasonable. [\[For example, if you include the cost of 'eating out' several times a month, your creditors would be justified in saying this is not essential living costs.\]](#) On the other hand, don't under-estimate your costs or it will be difficult to keep to the budget. Your local Citizens Advice Bureau may be able to provide you with guidelines as to what is a 'reasonable amount'

### What's left to pay your debts?

Finish completing the yellow part of the budget by working out how much is left to pay your debts - your "Available Income". If your monthly net income is less than your monthly living costs you should urgently seek professional help and advice to check your budget details and see if there is a long-term solution. [See Help](#)

If your income is more than your living costs the Available Income should be divided between your creditors in a strict order of priority. Who to pay first is explained in the next section. [See Priority Debt](#)

Household Budget for

Date

### MONTHLY NET INCOME

Main Salary / Wages	£ <input type="text"/>
Partners Salary / Wages	£ <input type="text"/>
Part Time Jobs	£ <input type="text"/>
Job Seekers Allowance	£ <input type="text"/>
Child Benefit / Tax Credit	£ <input type="text"/>
Working Tax Credit	£ <input type="text"/>
Pension / Work Pension	£ <input type="text"/>
Adult Child Contribution	£ <input type="text"/>
Maintenance Received	£ <input type="text"/>
Income Support / Other Benefit	£ <input type="text"/>
Sick Pay / Maternity Pay	£ <input type="text"/>
Payment Insurance Claims	£ <input type="text"/>
Investment Income	£ <input type="text"/>
Other...	£ <input type="text"/>
Other...	£ <input type="text"/>
Other...	£ <input type="text"/>
<b>Total</b>	<b>£ (A)</b>

### MONTHLY LIVING COSTS

Food / Housekeeping	£ <input type="text"/>
Meals At School / Work	£ <input type="text"/>
Clothing / Footwear	£ <input type="text"/>
Fares/Car Fuel	£ <input type="text"/>
Telephone	£ <input type="text"/>
Prescription / Dentist / Optician	£ <input type="text"/>
Nursery/Childminding	£ <input type="text"/>
Cigarettes / Tobacco	£ <input type="text"/>
Eating Out / Alcohol	£ <input type="text"/>
Other Living Costs	£ <input type="text"/>
Other Living Costs	£ <input type="text"/>
<b>Total</b>	<b>£ (B)</b>

### AVAILABLE INCOME

Total Monthly Net Income (A)	£ <input type="text"/>
Minus Total Living Costs (B)	£ <input type="text"/>
<b>Equals Available Income (C)</b>	£ <input type="text"/>

### PRIORITY DEBTS

Lender or Creditor Name	Normal Payment	Arrears Balance	Payment Offer
Main Mortgage	£ <input type="text"/>	£ <input type="text"/>	£ <input type="text"/>
2nd Mortgage / Secured Loan	£ <input type="text"/>	£ <input type="text"/>	£ <input type="text"/>
Endowment / Life Policy	£ <input type="text"/>	£ <input type="text"/>	£ <input type="text"/>
Buildings Insurance	£ <input type="text"/>	£ <input type="text"/>	£ <input type="text"/>
Ground Rent / Service Charges	£ <input type="text"/>	£ <input type="text"/>	£ <input type="text"/>
Council Tax	£ <input type="text"/>	£ <input type="text"/>	£ <input type="text"/>
Water Rates	£ <input type="text"/>	£ <input type="text"/>	£ <input type="text"/>
Gas / Oil / Solid Fuel	£ <input type="text"/>	£ <input type="text"/>	£ <input type="text"/>
Electricity	£ <input type="text"/>	£ <input type="text"/>	£ <input type="text"/>
Magistrate Court Fines	£ <input type="text"/>	£ <input type="text"/>	£ <input type="text"/>
County Court Judgements	£ <input type="text"/>	£ <input type="text"/>	£ <input type="text"/>
Child Support / Maintenance	£ <input type="text"/>	£ <input type="text"/>	£ <input type="text"/>
Other Priority Debts	£ <input type="text"/>	£ <input type="text"/>	£ <input type="text"/>
Other Priority Debts	£ <input type="text"/>	£ <input type="text"/>	£ <input type="text"/>
<b>Totals</b>	<b>£ (D)</b>	<b>£ (E)</b>	<b>£ (F)</b>

### SECONDARY DEBTS

Lender or Creditor Name	Normal Payment	Arrears Balance	Payment Offer
Overdraft / Loan / Car Finance	£ <input type="text"/>	£ <input type="text"/>	£ <input type="text"/>
Credit Cards / Store Cards	£ <input type="text"/>	£ <input type="text"/>	£ <input type="text"/>
Catalogues / Mail Order / HP	£ <input type="text"/>	£ <input type="text"/>	£ <input type="text"/>
Other Secondary Debts	£ <input type="text"/>	£ <input type="text"/>	£ <input type="text"/>
Other Secondary Debts	£ <input type="text"/>	£ <input type="text"/>	£ <input type="text"/>
<b>Totals</b>	<b>£ (G)</b>	<b>£ (H)</b>	<b>£ (I)</b>

## Priority Debts

## Step 4

### Pay your most important creditors first - Priority Debts

Don't be tempted to pay any particular creditor just because they send you letters, final demands, phone you, visit you, or even threaten you with court. If you are in financial difficulty you must pay creditors in order of priority, according to what action they can take against you and the ultimate consequence of not paying.

### What is a "priority" debt?

A priority debt is any debt where failure to pay could result in a prison sentence, the loss of your home, or the loss of essential goods or services. For example:

Priority Debt	Ultimate Action	Ultimate Consequence
Mortgage (and linked insurance)	Repossession	Lose your home
Second Mortgage / Secured Loan	Repossession	Lose your home
Magistrates Court Fines	Imprisonment	Lose your freedom
Council Tax	Imprisonment	Lose your freedom
Gas / Electricity	Disconnection	Lose essential services
Income Tax (unless deducted from pay)	Bankruptcy	Lose your home
Child Support / Maintenance	Imprisonment	Lose your freedom

If you run a business in your own name VAT and National Insurance arrears should be considered as priority debts. You can also include other essential items as priority debts, but you must be prepared to show that they really are essential and not just desirable. If you want to include car running costs, can you show it is essential for travel to work, school, hospital, shopping, etc, because public transport is not available? If you can then, apart from fuel (already included in living costs) you should include all the costs (car tax, insurance, MOT test, and car finance) as priority debts. But remember, even if your creditors accept that a car is an essential item, they might still object if you are running an expensive car rather than a more modest model.

### Work out how much to pay on Priority Debts

Complete the light green part of the budget, but don't complete the Payment Offer (dark green) column until you have finished the calculations below.

### If your Available Income (C) is less than your Total Normal Payments (D)

- offer reduced payments.

$$\frac{\pounds 900 (C)}{\pounds 1200 (D)} \times 100 = 75\%$$

$$\text{Normal payment} = \pounds 100 \times 75\% = \pounds 75 \text{ Offer of payment}$$

Doing this calculation will ensure that all priority debts are treated equally and fairly, so your creditors are more likely to accept your offer of reduced payments.

### If your Available Income is more than your Total Normal Payments (D)

- offer payments to priority debt arrears.

Again, all your priority debts in arrears should be treated as of equal importance and payments towards the arrears should be proportionate. Use the following example to work out the amounts that apply to your particular circumstances:

$$\pounds 900 (\text{Avail Income (C)}) - \pounds 800 (\text{Normal Payment (D)}) = \pounds 100 (J)$$

$$\frac{\pounds 1000 (\text{Arrears Balance (E)})}{\pounds 100 (J)} = 10$$

$$\text{Priority Debt 1} = \pounds 600 / 10 = \pounds 60 \text{ towards arrears each month}$$

$$\text{Priority Debt 2} = \pounds 400 / 10 = \pounds 40 \text{ towards arrears each month}$$

$$\text{Priority Debt 1 payment offer is normal payment } \pounds 50 + \pounds 60.00 \text{ towards arrears} = \pounds 110.00$$

$$\text{Priority Debt 2 payment offer is normal payment } \pounds 50 + \pounds 40.00 \text{ towards arrears} = \pounds 90.00$$

The payment offer for all other Priority Debts (not in arrears) is the normal payment

### Don't be reluctant to ask for help if you need assistance with this calculation. (HELP)

You are now ready to make payment offers on priority debts, but you should finish completing your household budget first. How to deal with secondary (non-priority) debts is explained in the next section.

## Secondary Debts

### Step 5

#### Don't pay any Secondary Debts until your Priority Debts are up to date

Any debt that is not counted as a Priority Debit is classed as a secondary debt. You should not make payments on any secondary debts until the arrears on Priority Debts have been cleared and normal payments are being made regularly. Secondary debts include Credit card bills, Personal loans, Bank overdrafts, Unsecured Loans, Store cards, Catalogue and Mail Order accounts. It is vital that you inform these companies that you will be suspending or reducing payments and why (We have provided an example letter that you can use). Include a copy of your completed household budget so that they fully understand your financial situation.

[See Letters](#) →

#### Why is there a difference?

Failure to pay Priority Debts can ultimately result in very serious consequences, such as losing your home, imprisonment, or loss of essential goods and services. Generally speaking, the worst action a lender can take for a secondary debt is to obtain a CCJ against you. This might seem like a terrible prospect, but it is less serious than the possible consequences of not paying Priority Debts.

Hopefully, once your secondary creditors understand your financial situation they will stop any threatened court action and accept your proposals for payment. But, if they continue with legal action, don't ignore any papers you receive from the Court. If you don't respond to the Court, the lender will obtain a judgement against you for the whole amount owed. Then if you don't pay the full amount within the time specified the lender might take more serious action, such as bankruptcy proceedings. So, if you receive Court papers you should deal with them straight away, or immediately seek help and advice. [See Help](#) →

#### Work out how much to pay on Secondary Debts

Complete the blue part of the household budget using a separate line for each creditor (eg list the name and account details of each credit card, loan, etc).

If you have arrears on your Priority Debts all of your Available Income (C) will be allocated to clearing the arrears and you will not be able to afford payments on secondary debts. Until the arrears on your Priority Debts are cleared you should offer to make a nominal payment of £1 per month to each of your secondary creditors. This will show them that you intend to make proper payments when your circumstances improve.

If your Priority Debts are up to date you can allocate any remaining Available Income (C) to your secondary debts, using the same calculations as for priority debts.

## Payment Offer

### Step 6

#### Make a payment offer to each creditor

When you have fully completed all sections of your household budget you are ready to tell all your creditors what you can afford to pay them. Send each of your creditors a copy of your household budget together with a letter to explain your financial difficulties, and an offer to make payment (remember to keep copies). Sample letters are shown in the next section.

[See Letters](#) →

If you have prepared your household budget carefully and reasonably, your creditors should realise that they are all being treated fairly and that your payment offer is the most that you can afford to pay them. Hopefully, they will all accept your proposals. Be prepared to answer any queries they may have, and don't be surprised if they insist on a review of your circumstances every few months. Don't wait for a response from everyone before starting to make the payments you have offered.

#### What next?

Make sure you keep to your budget and pay your creditors the amount offered by the agreed date each month. Don't let them send you reminders or chase you for payment.

You should keep your creditors informed of any changes in your circumstances by sending them an updated household budget and revised payment offer.

Keep positive - continue to look for ways to improve your income and reduce your spending so that you can pay more towards your debts and get them cleared more quickly.

#### Don't despair - ask for help and advice if you need it.

Ask secondary debt creditors to stop charging any penalty interest or late payment fees on your account.

## Letters

### Sample letters to send to your creditors

Arrears Department XYZ Company Ltd Company Address	Your name Your address  Date
Dear Sirs	
Reference: (account or agreement number)	
I am not able to make normal payments because (full and frank details of the cause of your problems).	
I am preparing a detailed household budget and will send you a copy soon, together with my proposals for future payments. In the meantime, please stop charging any penalty interest or late payment fees on my account.	
Yours faithfully	

#### Initial letter

Send this straight away to let your creditors know you are facing financial difficulties

#### Remember to keep a copy

Arrears Department XYZ Company Ltd Company Address	Your name Your address  Date
Dear Sirs	
Reference: <b>(account or agreement number)</b>	
I am experiencing financial difficulties because <b>(full and frank details of the cause of your problems)</b> .	
I enclose a copy of my household budget and I propose to pay you £____ per month until my situation improves. Please confirm that you will accept this payment amount for the time being. Please also confirm that you will stop charging any penalty interest or late payment fees on my account.	
Yours faithfully	

#### Payment Offer Letter

Send this once you have completed your household budget

#### Remember to keep a copy

## Benefits

### Claim it - its yours

If you qualify for a benefit you should claim it. Even if the amount is small it will help you to manage your budget more easily and clear your debts more quickly.

### Some common benefits and where to get them

Contact	Details
<a href="http://www.jobcentreplus.gov.uk">Jobcentre Plus <sup>1</sup></a> www.jobcentreplus.gov.uk	Jobseekers Allowance Sickness Benefit Income Support Mortgage Interest Benefit Job Grant Disability Living Allowance Incapacity Benefit Industrial Injuries Disablement Benefit Severe Disablement Allowance Bereavement Benefit Carer's Allowance Maternity Grant Maternity Benefit Cold Weather Payments NHS Prescription, Dental & Eye Test costs Winter Fuel Payments
<a href="http://www.inlandrevenue.co.uk">Sickness &amp; Disability Benefits only</a> 0800 88 22 00 (free)	
<a href="http://www.inlandrevenue.co.uk">Inland Revenue</a> 0845 300 3900 www.inlandrevenue.co.uk	Child Tax Credit Working Tax Credit
<a href="#">Local Authority/Council</a> Check in the Phone Book	Housing Benefit Council Tax Benefit
<a href="#">Pension Service</a> 0800 99 1234 (free)	Pension Credit

<sup>1</sup> Some areas have a separate Jobcentre and Social Security office - check in the Phone Book. Make a note here of addresses and phone numbers you look up.

# Help

## Where to get FREE and confidential expert help and advice

Contact	Details
<a href="#">Consumer Credit Counselling Service</a> 0800 138 1111 (free) <a href="http://www.cccs.co.uk">www.cccs.co.uk</a>	Free help and expert advice on how to deal with debt problems. Help provided in leaflets, on the Internet, by phone, or face to face. Can help you to prepare a budget and payment offer plan, or can act as intermediary with a managed debt repayment plan.
<a href="#">Citizens Advice</a> 0870 128 8080 <a href="http://www.citizensadvice.org.uk">www.citizensadvice.org.uk</a> <a href="http://www.cas.org.uk">www.cas.org.uk</a> (Scotland)	Free advice, leaflets, and web pages on how to deal with debt and advice on wide range of benefits you might be entitled to and how to get them. Get help by phone or meet a trained counsellor face to face (phone for an appointment).
<a href="#">National Debtline</a> 0808 808 4000 (free) <a href="http://www.nationaldebtline.co.uk">www.nationaldebtline.co.uk</a>	Free confidential and independent advice by phone. Many useful fact sheets and self help leaflets available to callers or online. Assistance with setting up debt management plans.
<a href="#">Credit Action</a> 0800 591 084 (free) <a href="http://www.creditaction.com">www.creditaction.com</a>	Online debt advice and self help guides.
<a href="#">Jobcentre Plus</a> <sup>1</sup> <a href="http://www.jobcentreplus.gov.uk">www.jobcentreplus.gov.uk</a>	Information and advice on jobs, training, and benefits.
<a href="#">Child Support Agency</a> 0845 713 3133 (local rate) <a href="http://www.csa.gov.uk">www.csa.gov.uk</a>	Advice and information on how much maintenance (child support) you should expect, and how to get it.
<a href="#">Financial Services Authority</a> 0845 606 1234 (local rate) <a href="http://www.fsa.gov.uk/consumer">www.fsa.gov.uk/consumer</a>	Information and advice on mortgages, including leaflet on what to do if you can't meet your mortgage payments (leaflet MA2).
<a href="#">NHS Stop Smoking Helpline</a> 0800 169 0 169 (free) <a href="http://www.givingupsmoking.co.uk">www.givingupsmoking.co.uk</a>	Support and advice and encouragement on how to stop smoking.
<a href="#">Insolvency Helpline</a> 0800 074 6918 (free) <a href="http://www.insolvencyhelpline.co.uk">www.insolvencyhelpline.co.uk</a>	Advice and help on very serious debt problems, insolvency and bankruptcy.

<sup>1</sup> Some areas have a separate Jobcentre and Social Security office - check in the Phone Book.