freemanjones

All about IVAs

A guide to help you understand Individual Voluntary Arrangements

What exactly is an IVA?

An IVA is designed to help you clear all your unmanageable unsecured debts – such as personal loans, credit and store card debts – without resorting to bankruptcy.

Backed by legislation, an IVA can only be set up by a licensed Insolvency Practitioner (IP). If your proposal is accepted, your creditors will freeze interest and charges and write off any remaining unsecured debt when your IVA is completed.

An IVA normally lasts for five years, during which time you will make an agreed monthly payment towards your debt. Providing you stick to the terms, you'll have settled those debts at the end of your arrangement.

How long does an IVA last for?

Some debt solutions last as long as they need to - as long as it takes to repay everything you owe.

An IVA isn't like that. You and your lenders will agree on the length of your IVA before it even starts. In most cases, it'll last for five years. As long as you've repaid what you said you would in that time, that'll be it - your remaining debt will be written off and you'll be officially debt-free.

What your IVA will cost

The question of cost really splits into two parts:

How much your IVA will cost per month?

You'll pay what you can afford. No more, no less.

There's no fixed minimum to those monthly payments - if you can afford them and your lenders are prepared to accept them, your IVA can go ahead. And if your circumstances change, your IP might be able to agree a change to the level of the payments you're making with your lenders.

How much an IVA will cost you in fees?

An IVA always comes with fees. It's a formal, legally binding agreement that takes a lot of work from the professionals involved in making it a success.

Those fees will come out of the payments you make into your IVA. You won't have to pay anything you weren't expecting when you committed yourself.

I'm a homeowner - would I lose my home?

It's extremely unlikely - you might have to release some equity from your home if you're a homeowner, so you can pay more in to your IVA, but you'd be very unlikely to have to sell your home.

In fact, your IVA should make it easier for you to stay on top of your mortgage and avoid falling into arrears, since your IVA payments would be calculated to leave you with enough to cover your mortgage payment (and other essentials) every month.

If you entered bankruptcy, on the other hand, you'd have to release any equity over £1,000 - and you might be forced to sell your home.

If you're worried about the impact of an IVA in any way, please get in touch and we can answer all your questions.

When would I qualify for an IVA?

In most cases you'd qualify for an IVA if you are unable to pay your debts as they fall due and you would be unable to pay them within a reasonable period on an informal debt management plan i.e within 5 years, the usual term for an IVA.

You'd also need to be able to make a reasonable monthly payment towards your debts based on affordability which would be calculated using guidelines recognised by creditors.

Having said that, both these figures are guidelines rather than actual rules. Finally, you'd need to live in England, Wales or Northern Ireland - if you live in Scotland, you might be eligible for a Trust Deed.

What debts could I include in an IVA?

An IVA can help you repay your unsecured / non-priority debts such as:

- Credit card / store card debts
- Catalogue debts
- Unsecured loans
- Overdrafts
- Credit agreements

What debts couldn't I include in an IVA?

An IVA can also help you afford your other debts and expenses, such as:

- Mortgage / rent
- Secured loans
- Student loans, etc.
- Conditional sales agreements

That's because your payments into your IVA would be set at an affordable level. That means you wouldn't have to use money you should be keeping back for your essential costs.

What if I don't qualify for an IVA?

An IVA isn't always the answer to debt problems. If it isn't the best way for you to tackle your debts, our advisers can help you explore your options.

No matter how much debt you're in, we have a debt solution that could help.

What's the difference between bankruptcy and an IVA?

If you're struggling with unmanageable debts and it seems there's no way out, you might need to consider bankruptcy.

Under the right circumstances, bankruptcy can be the best approach - but it should be given serious consideration.

On the plus side, bankruptcy can give you a chance to 'start over', with your debts written off.

However, it'll also see your assets (possibly including your home) sold off and the proceeds divided among your lenders.

IVA or bankruptcy?

Without expert advice, it's very difficult to know whether an IVA or bankruptcy would be a better option for you.

One thing is certain: bankruptcy is a serious step and it's well worth exploring the alternatives. To quote The Insolvency Service:

'The principal statutory alternative to an IVA is bankruptcy. Bankruptcy should always be the last resort as the debtor will lose control of their assets and will be subject to bankruptcy restrictions, potentially up to 15 years.'

IVA pros & cons

A look at the pros & cons of entering an IVA.

The pros

- Writes off unaffordable unsecured debt on successful completion
- Fixed repayment plan - you'll know how much you're paying each month, and for how long (normally five years)
- Protects against action from lenders
- Can help to ensure homeowners avoid repossession (unlike bankruptcy)

The cons

- Will normally require homeowners to release equity in the final year of the arrangement
- Will affect your credit rating for six years from the date of registration
- Lasts longer than bankruptcy normally does
- Will leave you with very little money for non-essentials

Bankruptcy pros & cons

A look at the pros & cons of entering bankruptcy.

The pros

- Once your bankruptcy is over, any outstanding unsecured debt will be written off
- You'll be protected against any action by your lenders
- You could be discharged after a year
- It could give you a chance to 'start over'

The cons

- You could lose your assets, including your home.
- Your bankruptcy will be advertised in the London Gazette and may be advertised in local newspapers, usually only in exceptional circumstances.
- Your bankruptcy will stay on your credit file for six years
- You may have to make contributions for up to three years.
- You could also be subject to a Bankruptcy Restriction Order for up to 15 years in extreme cases.

We're there when it matters

Call and talk to one of our specialist advisers on **0161 672 8990**

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