



# Chestnut Financial Services



Independent Financial Advisers  
Solving Problems For Our Clients

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## **What to do When You Are Drowning in Debt**

When you're drowning in debt, it often feels like the world is caving in around you. Your thoughts are swirling and just won't stop: How will I make ends meet? How will I cover my mortgage/rent this month? You're not the only person who's ever been in debt. Here's some guidance on do's and don'ts.

### **Do These Things**

#### **Consider Getting Debt Advice**

You can get advice from a national charity - <https://www.stepchange.org/how-we-help/debt-advice.aspx>

Or <https://www.nationaldebtline.org/>

You can get advice from online, face-to-face and phone services accredited by Money Helper, the government's money service that used to be called the Money Advice Service - <https://www.moneyhelper.org.uk/en>

Or you can get help from Citizen's Advice - you can read guidance or contact them on line to find your nearest office - <https://www.citizensadvice.org.uk/about-us/contact-us/contact-us/contact-us/>

#### **Believe In Yourself!**

You can choose to start changing the way you interact with money. With a plan, you can be standing on solid ground in no time.

#### **Get on a Budget**

Doing a budget is one of the most important steps you can take when you're drowning in debt. A budget is the very thing that will show you where your money is going and why you feel like you're drowning. But you don't have feel that way any longer—and a budget will help!

Make sure your basic needs are met:

- Food
- Utilities
- Shelter
- Transportation

Now, after you've budgeted for groceries, water, electricity, your rent or mortgage, and fuel to get you to work (in that order), you can start assigning any leftover money to other pressing needs.

#### **Cut Back on the "Extras"**

Now that every pound has been accounted for, it's time to see where you can cut back.

Take an inventory of any direct debits and standing orders that routinely come out of your bank account. Cut back on what you agree are non-essential items. Don't take chances – cut out all forms of gambling!

#### **Pause all Investing**

If you're still trying to pay off credit cards, an upside-down car loan, or a huge pile of student loan debt, it's time to press pause on your future investments... temporarily. This temporary pause frees up extra cash you can use to pay down your debt. Don't worry, you'll come back to this once you're debt-free.

## Don't Take on Any New Debt

None. We know it's hard (and maybe not what you've been used to) but trust us—taking on debt robs you and your family of a secure financial future. Your choices right now can and will impact future generations of your family tree. So don't take on even another penny of debt.

Get out your favourite scissors and do some plastic surgery by cutting up those credit cards.

## Start Working the Debt Snowball

List your debts from smallest to largest—no matter the interest rate.

Attack the smallest debt with everything you have until it's gone.

Once that debt has been paid, take the minimum payment and throw it at the next largest debt while paying minimum payments on the rest.

Keep this snowball rolling until you are debt-free!

## Start (or Keep) Working the Baby Steps

After the first five stages you'll be feeling much better. But then, here's another six steps to help you change your life:

- Save £1,000 for your starter emergency fund.
- Pay off all debt (except the house) using the debt snowball.
- Save 3–6 months of expenses in a fully funded emergency fund.
- Invest 15% of your household income in retirement.
- Pay off your mortgage early (get independent financial advice to show you the best way).
- Build wealth and give.

It may feel like you're drowning in debt right now. But like we said earlier, it doesn't have to be this way. Once you've had it with debt (and we hope you have), you can climb your way out of it. And remember: You're not alone in this.

## **Don't Do These Things – At Least Not Without Advice First**

Don't click on Google, and call the firms placing adverts on the front page of Google offering debt advice, even if their advice is "free" – it isn't... why would they place an advert on the front page of Google?

Don't believe that your debts can be written off (some debt might be, but that's rare, instead most firms will agree to longer repayments to help you) – despite adverts promising they can.

Some firms are offering an Individual Voluntary Arrangement (IVA) which will have an impact on your credit rating and it will show on your credit report for six years. An IVA can be imposed on creditors provided 75% of them have agreed.

A Debt Management Plan (DMP) is an agreement between you and your creditors to pay all of your debts in small amounts each month. You can arrange a plan with your creditors yourself or through a licensed debt management company for a fee. Your creditors do not have to agree to any plan and it will affect your credit rating.

Administration Orders are a way to deal with debt less than £5,000 if you have a county court or High Court judgment against you and you cannot pay in full. You make one payment a month to your local court who divide this money between your creditors (minimum 2). Creditors listed on the administration order cannot take any further action against you without the court's permission. Your Administration Order is added to the Register of Judgments, Orders and Fines, but it's usually removed 6 years after the date the order was made.

You can be made bankrupt if you don't pay your debts and you owe £5,000 or more (there are other ways to become bankrupt). Before you can be made bankrupt, your creditors have to try other legal ways to get you to pay your debt. This is usually a statutory demand or a court judgment. Citizen's Advice has guidance on what to do if you're sent a statutory demand. You can decide to challenge a statutory demand if you disagree with it. If you're made bankrupt: your assets can be used to pay your debts, you'll have to follow bankruptcy restrictions, and your name and details will be published on the Individual Insolvency Register.

All these options (IVA, Debt Management Plan, Administration Orders and Bankruptcy) will prevent credit and mortgage applications for several years.

### **Want Advice From Us?**

You can call us and we will not charge you for our time on a call (we do make a charge for meeting times as we are a business). We will not advise you about debt management plans but we will give you as much guidance as we can, and all of our discussions are entirely confidential.

Our contact details are up on top!