Debt Management Plans

This factsheet explains Debt Management Plans (DMP). It will explain what a DMP is, the criteria to apply for one, what debts can and cannot be included, how your assets are treated, the advantages and disadvantages and what the DMP process involves.
Read time: 19 minutes

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What is a Debt Management Plan?

A Debt Management Plan is an informal agreement made between you and your creditors in which you agree to repay your debts in full at a reduced payment amount that is affordable to you. If you are finding it difficult to maintain non-priority debt repayments such as store cards, credit cards and loans then a DMP may be an option for you. You can set up a DMP with all your creditors through a debt management company to pay back the debt with a single, set affordable monthly payment, which is then divided up between your creditors on a pro-rata basis. The result is that each creditor will get a fair share of the payment made based on how much they are each owed.

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How we can help

Advice NI can help you assess any priority debt issues and options to deal with your non-priority debts. If you feel like a DMP is the best option for you, you should contact us and we can help put you in touch with a fee-free DMP provider, or you can find your own DMP provider. Before contacting the DMP provider, we recommend that you have worked out your budget for the DMP after repaying all your priority debts to check you have enough funds for a DMP.

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DMP Eligibility

There is no fixed eligibility to qualify for a Debt Management Plan but it is generally recommended that those entering a DMP:

- Can repay their debts within 10 years
- Have surplus income to offer creditors
- Have two or more debts to different providers

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Debts that cannot be included in a DMP

There are some debts that you cannot include in a DMP, therefore you will still be liable to pay the monthly repayments in full. The debts you cannot include are:

- Mortgage arrears
- Magistrate or High Court fines
- Money owed under a criminal confiscation order
- Student Loans
- Child Support Agency or Child Maintenance Service arrears
- Budgeting loans, social fund loans or crisis loans
- Any debt that has arisen from a personal injury claim against you

If you are unsure if a debt can be included in a DMP, **contact us for advice**.

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HMRC and other debts

Debts owed to HMRC can be included in a DMP, however HMRC can act to reduce your benefit overpayments or change your PAYE tax code to take funds from your wages directly. Including them in your DMP does not prevent them from doing this. If you owe HMRC debts and are considering a DMP **you should speak to one of our advisers**

If you are self-employed or have been acting as a sole trader, you may also include debts incurred through your trade in your DMP. Examples of the trade debts that can be included are:

- Debts to suppliers or wholesalers
- Debts owed to customers whose orders for goods or services you haven't fulfilled.
- Money owed to employees or former employees

You can include priority debts in a DMP, however we would advise you to **contact us for advice** before doing so as this could put you at risk of further action from priority creditors. The aim of a DMP is to make sure you can maintain payment towards your priority debts allowing your quality of life to improve. Examples of priority debts that can be included in a DMP are:

- Rent arrears
- Utility bill debts – such as gas, electricity or telephone
- Property rates arrears
- Service or communal area property charges

  If you include rent arrears in your DMP, your landlord could take steps to evict you as you have broken the terms of the rental agreement.

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Bank accounts and Debt Management Plans

If you do not have an overdraft on your account and do not owe your account provider any debt that will be settled in the DMP, then you can normally keep your current bank account. However, it is advisable to check the terms and conditions of your bank account to ensure that it cannot be affected by a DMP in any way.

If you do owe your bank some debt that is to be included in your DMP, they could freeze the account or offset funds from it towards your debts. To prevent this you will need to open a basic bank account which is with a creditor separate to those whom you do owe debt. A basic account does not offer any credit facilities, such as an overdraft, but it will still provide a debit card and standard banking facilities.

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Hire purchase or conditional sale debts in an DMP

If you have a hire purchase or a conditional sale agreement, for example for a car, you can usually maintain the repayments in a DMP and continue to use the vehicle. Check your hire or credit agreement carefully before proposing a DMP as it could contain clause that states the creditor can terminate the agreement if you enter a DMP.

If you have a hire purchase or conditional sale agreement and you do not wish to maintain the repayments or cannot afford to, then you can propose to terminate your agreement, return the goods and include any shortfall that arises from this to be included in your DMP.

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Assets in a DMP

As a DMP is an informal arrangement with your creditors, assets are generally not detailed in your DMP unless your creditors specifically ask for information in relation to them. In this case you are not obliged to disclose the information, however the creditor may then not accept the DMP.

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Your home in a DMP

If you rent your home, unless you are including rent arrears in your DMP, the arrangement should not affect it. To be totally sure, you still should check the tenancy agreement to ensure entering a DMP does not affect your tenancy.

If you are a home owner and you can fully maintain the repayments on your mortgage going forward with no mortgage arrears, or if you have a separate plan in place to deal with your mortgage arrears, then your home is safe in a DMP.

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Your credit rating in a DMP

Your DMP may show up on your credit file as a creditor may ask for a note to be placed on it which will be there for six years. For the full duration of the DMP your creditors might record that you regularly miss payments, or mark each payment as a default, as you'll be paying less monthly than you agreed to when you took out the original credit agreement. This is likely to reduce your chances of getting credit in the future, as it would show you've previously

However, a steadily maintained DMP will look better on your credit file than unpaid debts or debts that you only make infrequent payments towards.

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Joint debts or guarantor debts in a DMP

If you have a joint debt with another person, this can still be included in your DMP. However, this creditor will still pursue the other joint owner of the debt for full repayment. Creditors are within their rights to do this as when you obtain a credit agreement with someone else, you are both liable for the full amount of the debt. This is known as joint and several liability. This is the same for debts someone else has agreed to be a guarantor for.

If you and a partner are joint borrowers and are both struggling with your debts, you should consider seeking advice on a joint DMP.

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DMP Costs

A DMP should be free. However, companies will offer to arrange a DMP for you if you pay a fee upfront or will take a monthly fee from the money you offer to your creditors. We advise extreme caution here as there are many DMP providers available who provide their services for free. If Advice NI help you find a company to set up a DMP for you, they will never charge you for your DMP. It’s is important to ensure that all the funds you pay into your DMP go towards repaying your debts and help you become debt free as soon as possible.

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Applying for a DMP

Once you have chosen a DMP provider to assist you, the process is as follows:

- you provide all the necessary information and documentation to your DMP provider to allow them to contact your creditors on your behalf. If all debts are not disclosed the creditors could decide not to agree to the proposal
- you then complete a budget with your DMP provider, detailing income and household expenses to check that you can afford your monthly priority repayments – such as mortgage or rent, housing rates, electricity, heating, food and transport costs
- after calculating your priority monthly repayments the surplus income you have remaining is what you can offer to your non-priority creditors in your DMP
- the DMP provider will then contact all your creditors informing them of your DMP and the pro-rata offer they will be receiving on a monthly basis
- you pay your DMP provider the one payment every month
- you should not obtain any further credit after entering a DMP

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Advantages of a DMP

- your monthly repayment will be based on what you can afford and not on the original contractual repayments to your non-priority creditors
- the company managing your DMP will handle all the creditors and remove the stress of dealing with them individually
- having only one monthly repayment to settle your non-priority repayments will help you to budget
- your creditors receive a pro rata of what you can afford, so all creditors are treated equally
- a DMP is not legally binding, therefore you can cancel it at any time

If a creditor agrees to the DMP then they should stop writing to you with threats or demands.

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Disadvantages of a DMP

- as a DMP is an informal arrangement so some or all of your creditors may not agree to freeze the interest and charges on your debts, which could mean the amount you owe may not reduced while in a DMP
- it could take you a long time to repay your non-priority debts as you are paying a lower amount per month
- the DMP provider may charge a fee to maintain the DMP
- the account default notices after you enter DMP will show on your credit record for six years, which could make it more difficult for you to get credit in the future. Or a creditor can put a note on your credit file stating the account is in a DMP
- one or more of your creditors could refuse to co-operate with the DMP, or continue to take further action against you to recover the debt. For a DMP to be successful, it requires all creditors to agree.

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