# Individual Voluntary Arrangements (IVA)

This factsheet explains an Individual Voluntary Arrangement (IVA). It will cover the criteria to apply for an IVA, what debts can be included, how your assets are treated, the advantages and disadvantages of an IVA, what the IVA process involves and how we can help you apply for one.
Read time: 24 minutes



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## What is an Individual Voluntary Arrangement?

An IVA is a legally binding agreement between you and your creditors. This agreement allows you to repay what you can afford towards your debts. Any remaining debt will be written off by your creditors when the arrangement is completed.

An IVA can be set up in several different ways. It can be a monthly instalment plan based on your surplus income over a fixed term (normally five years), or if you do not have a monthly surplus to offer your creditors you can propose a short-term arrangement if you have an asset that can be sold, or a third party has a lump sum to offer your creditors. An IVA can also be a mixture of both instalments and a lump sum.

> You can propose an interlocking IVA with a partner by considering both your circumstances and debts and make a joint proposal to all of your creditors.

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## IVA Eligibility

An IVA may be a suitable option for you if you:

- Have a monthly surplus of at least £80 available to offer towards your debt
- If you do not have a monthly surplus, but are able to raise a lump sum
- A combination of a monthly surplus available and a lump sum
- Debts to at least two different creditors
- Are able over the course of the IVA to pay back at least 10% of the total debt that you owe

> Even if you meet these criteria, you will not automatically get an IVA.

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## Debts that cannot be included in an Individual Voluntary Arrangement

There are some debts that you cannot include in an IVA, therefore you will still be liable to pay in full even if your IVA application is approved. The debts you cannot include are:

- 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 include rent arrears in your IVA, your landlord can still take steps to evict you as you have broken the terms of the rental agreement. However, all rent arrears up to the date of your approved IVA will be cleared.

If you are self-employed or have been trading, you may also include debts in your IVA incurred through your trade. Examples of the trade debts that can be included are:

- Debts to suppliers or wholesalers
- Debts owed to customers that you haven’t fulfilled the order for goods or services
- Money owed to employees / former employees

> All debts you include in your approved IVA are settled up to the date the IVA is accepted. It is important to continue to pay all priority expenses such as mortgage or rent, utilities and housing rates for example from the IVA approved date onwards as normal.

If you are unsure if you should continue to pay a bill after the IVA approval date, contact us for advice.

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## Bank accounts in an IVA

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

Some banks have multiple trading names so in order to reassure you that your bank account will not be affected you should **contact us for advice**.

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## Hire purchase or conditional sale debts in an IVA

If you have a hire purchase or a conditional sale agreement, for example for a car, you can usually maintain the repayments in an IVA and continue to use the vehicle, with the approval of your other creditors. However, you should check your hire or credit agreement carefully before proposing an IVA to see if it contains a clause that states the creditor can terminate the agreement if you enter an IVA.

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

Assets generally include items such as motor vehicles, antiques, luxury items, stocks, shares, premium bonds, cash or savings or any collections you may have. If your assets are worth more than the total amount of your debts, an IVA may not be a suitable option. Each IVA is assessed individually and it is possible to propose an IVA if you have assets. If you have assets that you need to exclude from an IVA **contact us for advice**.

Always give complete information about your assets and debts when applying for an IVA, if you don't you could be committing a criminal offence.

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## Your home in an IVA

If you rent your home, you may need to check the tenancy agreement to ensure entering an IVA does not affect your tenancy.

If you are a home owner, depending on your circumstances you can propose an IVA and not have to sell your property, unless you volunteer to as part of your IVA. However, the IVA proposal will normally include an equity clause. This means that during the fifth year of a five-year repayment IVA if there is equity in your property you must attempt to obtain a secured loan or re-mortgage to release your share of these funds.

If you can re-mortgage or obtain a secured loan, then the repayments will also have to be affordable. You should also be left with equity of at least 15% of the value of your share in the property.

If you are unable to obtain a re-mortgage or secured loan, and there is equity in your property then you usually must make an additional 12 monthly repayments in lieu of your share of equity.

These are specific guidelines at dealing with the property in which you live, so to assess your individual situation please **contact us for further advice**.

The rules described above are for the home you live in and do not apply to buy-to-lets or other properties you may have an interest in.

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## Your credit rating in an IVA

Credit reference agencies record any information regarding your finances for six years on your credit report, and this is the same with an IVA. It is recorded for six years from the date of approval.
However, even after six years if your IVA has still not fully completed it will remain on your credit record until it has officially completed.

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## Joint debts or guarantor debts in an IVA

If you hold a debt jointly with someone else, it can still be included in your IVA. However, this creditor will still pursue the 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 included in an IVA that someone else has agreed to be a guarantor for.

However, if you and a partner are joint borrowers and are both struggling with your debts, you should both seek advice on a joint IVA. It will not matter if you have different levels of debt in your sole names or if you earn vastly different amounts, you would still only maintain one monthly repayment into the IVA towards all the debt.

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## IVA Costs

All Insolvency Practitioners will charge fees for setting up and supervising an IVA. The level of the fees the IP can charge will be agreed by the creditors at the creditors meeting. The fees will then be taken from the funds you have proposed to pay into your IVA. Any IP we refer you to will never charge you any fees if your IVA is rejected.

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## Applying for an IVA

An IVA must be set up by an Insolvency Practitioner (IP). An IP is usually an accountant or solicitor who is authorised to set up IVAs.

Once an Insolvency Practitioner has agreed to make an IVA proposal for you, they can apply on your behalf to the High Court for an interim order. This stops your creditors from starting or continuing any enforcement action against you while the interim order is in place.

If you wish to obtain an interim order you must pay the costs involved upfront. These are are substantial and are non-refundable even if your IVA is accepted.

> You can put forward an IVA without applying for an interim order but your creditors will still be able to take enforcement action against you until the IVA is agreed. You can only have one interim order in a 12-month period. Most IVAs are presented without an interim order in place.

Once you have chosen an IP, the process then is as follows:

- Your Insolvency Practitioner prepares the proposal on your behalf
- You agree the content of the proposal with your IP who then forwards it to all your creditors and arranges a formal meeting called a creditors meeting
- At the meeting your creditors must vote on whether to accept the IVA offer proposed.
- The IVA proposal must be accepted by 75% - or by value - of the creditors that submit votes for it to become legally binding on all creditors. 'By value' means creditors votes are weighted by the total amount of debt owed to them, not by the number of creditors.
- Creditors can approve your IVA but submit modifications to the terms asking you to contribute more, pay for longer, or include assets that you have originally excluded from the IVA. The IVA is not approved until you agree
- Once approved your IP will supervise the arrangement and make sure you fulfil the obligations you have agreed to
- If the IVA is rejected, you return to the same position as you were before you applied, and still owe your debts in full

> HMRC have specific rules that must be satisfied if they are to support an IVA. If you owe significant debt to HMRC **contact us for advice**.

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## Advantages of an IVA

- Any amount of debt can be included in an IVA.
- Repayments are made for an agreed period and based on what you can afford
- You usually only repay a percentage of your total debt
- The remainder of your unsecured debt is written off upon the successful completion of your IVA
- Interest and charges will be frozen
- You can continue with secured finance agreements and hire purchase or conditional sale agreements (subject to the agreements' terms)
- You will not automatically lose your house or any other assets
- You must approve any modifications your creditors propose to the offer you put forward in your IVA.
- You will not have the same restrictions on you as you would if you went bankrupt/insolvent
- You may be in a profession where you could lose your job if you go insolvent, it is rare for your employment to be affected by an IVA
- If you can raise a lump sum it is much easier to deal with your creditors through the IVA than individually

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## Disadvantages of an IVA

- If you do not keep to the terms of the IVA then creditors can take action against you if it fails
- You must declare all assets and liabilities in your IVA
- You cannot leave out any creditors as they must all be treated equally
- If you can no longer afford the payments, your IVA may end if the creditors do not accept a variation of your IVA
- If the IVA is accepted it is recorded on your credit file for six years or until it completes
- The IVA is recorded on a public register
- You are usually unable to obtain further credit while in an IVA.
- You may have to change bank accounts depending on your circumstances

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## Change in circumstances while in an IVA

If your circumstances change when you are in an active IVA, you must tell your IP. If you are unable to keep up with your payments, your IP can ask the creditors to accept lower payments and put forward a variation to your original IVA. If you cannot make any payments, or your creditors refuse to accept lower payments, your IVA may fail. Your creditors may then act against you and could make you bankrupt if they wish, so it is very important if your IVA fails to immediately contact us for advice.

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## How we can help

Advice NI advisers will run through your circumstances and ensure you are aware of all options open to you. We will check that an IVA is a good option for you, and we can help you obtain a copy of your credit report to ensure all your debts are considered.

We can also help you find an insolvency practice form that will not charge any upfront fees

> You do not have to use one of the Insolvency Practitioners that we can refer you to. If you prefer, we can give you advice on how to find one yourself.

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