

## Settling debt while in a debt management plan

Many people who are suffering with debt problems in the UK choose to manage their payments using a debt management plan. Unfortunately there are no official figures for the number of individuals who start new debt management plans each month. However, the number could be triple the volume of those entering into formal debt solutions such as an individual voluntary arrangement or bankruptcy. If correct, this could be as many as c30, 000 people starting new debt management plans every month.

The downside of debt management plans compared to more formal debt solutions such as IVA or bankruptcy is that 100% of the outstanding debt still has to be paid. In addition, there is no legal obligation on the creditors to stop interest or late payment charges. As such, it will take a very long time to repay the debts involved. Given this, it is very important to understand that you may be able to reduce the time it takes to pay your debt by settling some or all of the balances with cash lump sums.

The first question to consider when thinking about making a settlement offer to one of your creditors is when is the best time to do it? Generally, you will have a greater chance of success if you have already been making monthly payments through a standard debt management plan – ideally for 6 months or more. If your creditors are aware that you are struggling to repay them and they will have difficulty to collect the full debt owed, they will be more inclined to accept a lump sum in settlement of the debt. This will mean of course that they have to write some of the debt off, however, they will also avoid the ongoing costs of collecting small sums each month and the problems of chasing when payments are missed.

It is also important to consider how much the settlement offer should be. It is difficult to give a hard and fast rule here. However in general you should look to offer 50% of the outstanding debt. Of course, depending on how long you have been paying into your debt management plan, this figure may vary, however, it is a good rule of thumb.

It is not necessary to settle all of the debts you may have at one time. One of the advantages of a debt management plan is that different creditors can be included or excluded from the plan. As such, if the lump sum funds available are limited, it is possible to make an offer to settle just one of the debts. Where this is the case, it is generally sensible to try and settle with a creditor who is persistently continuing to add interest or late payment charges. The settlement of just one creditor's account will actually benefit all the other creditors as the continued monthly payment will be shared across fewer accounts and therefore each of the remaining creditors will be repaid more each month.

Of course, you will only be able to offer a lump sum settlement if you have access to the required funds. Many debt management companies will advise that you try to save a small sum each week or month from your budget to put towards a "lump sum offer fund". This is never easy. However, if you can do it, it will pay dividends as your debt will start to disappear much more quickly. Alternatively of course, you may have access to funds from a third party such as friends and family.

Very often, people will dismiss the possibility of settling their debts with cash lump sums because they do not believe that they will ever have money available to achieve this. However, as discussed above, even putting a small amount aside each month may be enough to save a fund and make settlement offers to pay off minor debts. This will significantly speed up the time it takes to repay the total debt. If you are using a debt management plan the possibility of settling all or some of your debts with a cash lump sum will be of significant advantage.

*by Steve Jackson | 27<sup>th</sup> August 2009*  
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