

*Practical tips to enhance your financial position:*

# ‘The Fastest Way Out of Debt & Dealing With Financial Distress’

*This will help you take control and get back on the road to recovery!*

**Luv Asha x**

**Asha's  
Financial Academy**

If only they had taught us this at school...



*Inspirational financial education and guidance to help you plan and create the life you want to live!*

## The Fastest Way Out of Debt and Dealing with Financial Distress.

We'll divide this one into 2 parts:

**Part 1: The Fastest Way Out of Debt**  
**Part 2: Dealing with Financial Distress**



### Part 1: The Fastest Way Out of Debt

Personal debt can be a major burden on your monthly income and cause a lot of stress and anxiety if it gets out of control.

Getting debts paid off is not only a psychologically liberating feeling, but it can also be very rewarding if you then use some of the freed up income to work for you (to invest/save) instead of working for someone else.

#### Here's the fastest and most efficient way to get all debts paid off in 5 Simple Steps:

**Step 1.** Stop taking on anymore debt, ideally cut up your credit cards except for one, which is to be used for emergencies only.

**Step 2.** Make a list of all your debts including what you currently owe and the monthly payments or minimum monthly payments for credit/store cards like the following example:

Debt	Provider/Type	Balance	Monthly Payment	Interest Rate
1	Next Store card	£4,700	£80.00	28.9%
2	Barclaycard	£3,400	£68.00	18.9%
3	MBNA Credit card	£5,200	£104.00	15.7%
4	Capital One card	£1,900	£38.00	13.4%
5	Lloyds/TSB Loan	£4,170	£140.00	8.9%
	<b>Totals</b>	<b>£19,370</b>	<b>£430.00</b>	

***Congratulate yourself because most people in debt never even get this far!***



**Step 3.** Prioritize them by the interest rate you are being charged on each one, the highest rate debt goes at the top of your list (as shown above).

**Step 4.** Pay the minimum amount due on all your debts except the one with the highest interest rate and on that one, pay as much as you possibly can afford (in the above example it would be Next Store card).

*E.g. although the total contractual payments are only £430.00, let's say you can stretch to £550.00 per month as you are committed to paying off all your debts. So, you take the additional £120.00 (£550.00 - £430.00) and pay it off the first debt (highest interest) in addition to the standard payment (i.e. Next Store card at £80.00) so you'd actually pay £200.00 to Next Store card (£80.00 + £120.00 extra).*

**You keep doing this (add more if circumstances permit) until the **first debt** is cleared.**

**Step 5.** When the first debt is paid off, apply the amount you were paying on it (i.e. £200 = £120 + £80) to the next debt (the 2nd highest interest rate) on your list.

*Now you would be paying £268.00 (£68.00 + £120.00 + £80.00) to Barclaycard until repaid.*

**...now continue this for each debt until you're debt-free.**



It may be tough to start with, the key is to get going, and it will start to get easier, I promise!



## Momentum is the key

You will find as each month goes by, the rate at which your debt balance reduces starts to gather momentum, in other words it reduces by a slightly bigger amount each subsequent month (even if you pay off the same amount) and starts a snowball effect. This is simply due to the reduction in interest payable as the overall balance reduces.



### One (optional) exception to step 4

The above 5 steps are the fastest way to pay off debts based on a mathematical/logical basis. However, humans are emotional creatures and may find the size of the task very overwhelming and struggle to find the motivation.

So, if this happens, instead of starting with the debt at the highest rate (£4,700 Next store card), start with the debt with the lowest balance (£1,900 Capital One card). You'll clear this much quicker and feel a big psychological boost and lots of inspiration in the process. Try this if the standard way seems daunting or overwhelming, if not start with highest interest.

**Now you can invest it...** when all your debts are cleared, consider channelling some or all of the amount you have been paying on your debts each month (£550) straight into some form of saving/investment, so it now works for you and not everyone else (lenders)!

This will be emotionally very rewarding, you'll feel good and in control from paying off your debts and then feel even better by channelling some or all of the surplus funds into investments for your future.

## Debt consolidation

There are many tempting ads for consolidation loans where you roll all your debts up into one lump, with one monthly payment. Although it appears a nice short-term solution due to a reduction in monthly payments, you need to be very careful with this method as it very often means you will end up paying back far more interest as these loans tend to be set over longer periods than the individual debts originally had to run.



However, used the right way with the right plan, you can use a consolidation loan to help you clear your debts much quicker as follows. Let's say you want to consolidate the following current debts shown on the next page:

Debt	Provider/Type	Balance	Monthly Payment	Interest Rate
1	Barclayloan	£3,400	£160.00	14.9%
2	Peugeot HP	£5,500	£182.00	23.4%
3	Halifax credit card	£4,900	£98.00	18.9%
	<b>Totals</b>	<b>£13,800</b>	<b>£440.00</b>	



### Consolidation loan offer:

Let's say you have been offered a consolidation loan (that allows you to pay the balance off early without penalty) of £13,800 at 8.9% over 5 years for £250.00 a month saving you £190.00 compared to the £440.00 you are currently paying on the 3 debts.

### Here's what you do...

Take the new loan and pay off all of your other debts, now instead of just paying the £250.00 per month, you simply opt to keep paying the £440.00 as you have been in the habit of paying this each month. The £190.00 additional capital is classed as an additional capital repayment and is deducted directly off the remaining capital balance.

As long as you do this the whole loan will be repaid quicker than if you had continued as before, because you are still applying the same amount of £440.00 but you are borrowing the money at a much cheaper rate (8.9%), and the additional capital repayments are coming directly off the capital balance.

**Concept** ~ same outlay each month – but now your money now works harder for you and pays the balance off quicker.

**Resist Temptation**...there is often a temptation to consolidate and enjoy the savings (most of us have done it!), in the above example this was £190.00 a month, countless people do this and lenders absolutely love it (and want you to do it), because you end up paying back more in interest to them, over the term of the loan.



**Remember all debt only has to be repaid once, the quicker you reduce the balance the less interest you pay.**

---

## Part 2: Dealing with financial distress

Do you ever feel as though you are steadily sinking in terms of your debts?

There's no doubt we now live in a credit driven society where it's never been easier to obtain credit. With loans and credit cards being thrown at us from every angle, it's easy to see why the number of personal debt problems and bankruptcies are rapidly increasing.

Dealing with debt problems can often manifest further into emotional, health and stress related problems causing a lot of despair and frustration.

Unfortunately, a common tendency amongst people with debt problems is to 'bury their head in the sand' and hope it goes away. This is just basic human nature mainly due to the perceived embarrassment of having debt problems.



### IMPORTANT

Having debt problems is nothing to be ashamed about (can happen to anybody), if you do find yourself in this predicament, you're not alone, every year several million UK adults experience financial difficulties and debt repayment problems.



The No1 rule if you're in Financial Distress is:  
Don't bury your head in the sand, talk to your creditors, professional advisers or debt advisory services. As the saying goes 'A problem shared is a problem halved'



## **8 steps to take if you are experiencing financial difficulties**

### **1. Don't bury your head in the sand...talk to your creditors**

If you are struggling to make payments, the best thing you can do is inform your creditors of the situation immediately; they will be more sympathetic than you maybe think and will try and help you work towards a solution.

*N.B. Ignoring your creditors only makes it worse. It might not be a phone call that you want to make but put yourself in their position, if you were lending to a customer who ran into difficulties, wouldn't you rather be aware of their problems than suddenly receive no payments?*

### **2. Always! Always! Always! Pay something...**

If you can't afford the contractual payment, at least make a token payment to each creditor each month (£1 is enough if that's all you've got), regardless of the scale of your financial difficulties as your creditors and the courts (if it goes that far) will look on your situation far more favourably if you have made an effort to pay at least something each month.

### **3. Draw up a budget plan...**

Using a budget planner or piece of paper, sit down and list all of your household income and expenses, just doing this exercise may highlight areas where you can save money (your creditors are likely to ask you to do this anyway at some point).

### **4. Eliminate unnecessary day to day spending...**

Go through each item on the budget and see if you can reduce the cost, this may mean cutting back on luxury items (e.g. sky tv) or having less nights out etc, but it may be what's needed to get you back on track.

Use the guidance steps in report 9: "**How to Put Your Finances on Autopilot Towards Financial Freedom**"

### **5. Consider professional advice to see if you can save on financial products...**

You can always shop around to see if you can save money by switching deals on mortgage, loans, credit cards, insurance, utilities etc. I recommended you consider the help of a mortgage or financial adviser for this as they can look at your situation and explore all the avenues and solutions available to you and advise you accordingly.

### **6. Seek further specialist assistance...**

If you have gone through all the above steps and are still having problems, you can contact the following specialist organisations who are equipped to help with financial difficulties:

**StepChange debt charity:** [www.stepchange.org](http://www.stepchange.org) or **0800 1381111** this is a registered charity that can provide you with free confidential advice and support.



**National Debtline:** [www.nationaldebtline.org](http://www.nationaldebtline.org) or **0808 808 4000** this a telephone helpline service for people with debt problems and is also a free service.

**Citizens Advice Bureau:** [www.nacab.org.uk](http://www.nacab.org.uk) or visit a local branch if you would prefer to discuss your financial difficulties face to face with a counsellor.

**Debt Management Companies:** Be very careful with these private companies, they will deal with your creditors on your behalf and help you put a budget and debt management plan together (they will take a fee which usually comes out of the amount you budget for debt repayment, be very wary of companies asking for fees upfront fees). StepChange will provide this same service for free.

### 7. Put together a debt repayment plan...

The first thing the advisory organisations will do is help you prepare a debt repayment plan. In a nutshell, this involves preparing an accurate monthly budget to determine the amount of income you can afford for debt repayment and a list of all your creditors and amounts owing.

This list is then sent to each creditor so they can see your financial situation. You then make a payment each month to your creditors by dividing up (pro-rata) the available income on the budget plan.

### 8. Finally...

If your financial difficulties are severe you may need to seek the advice of an insolvency practitioner to explore the routes of Individual Voluntary Arrangement (IVA) or Bankruptcy. These are the last resort and may seem drastic, but they are legally binding protection orders and put an end to all creditor correspondence and any intimidation.

Your credit status will be severely affected but they will stop all correspondence from creditors and end all the mental stress and anguish. Insolvency practitioners are licensed practitioners trained to deal with severe financial situations and advise on the best solutions.

To find one a local one, search online for 'insolvency practitioner'.

## Financial distress 'Do's and Don'ts'

**DO** try to stay calm and try not to feel guilty or afraid - even if threats are being made.

**DO** seek professional help for any health, emotional or family problems that may arise from the stress of having financial problems.

**DO** consider telling your family and friends as they may be able to help you – remember 'A problem shared is a problem halved.' Let your partner know (if they don't already know) the situation, it may be a very difficult conversation, but this is essential, you need their support.

**DO** make sure that you are claiming all the allowances and benefits to which you are entitled. Millions of pounds in allowances and benefits go unclaimed every year and creditors will expect you to have considered all the options.

**DON'T** bury your head in the sand, the problem won't solve itself

**DON'T** borrow more money to pay off existing debts without getting advice (preferably professional and independent).

**DON'T** spend money on non-essential things.



## Obtaining Your Credit File (UK)

Your credit file contains important information that shows how you have conducted your financial affairs over the previous 6 years. It's this information that companies use to assess any applications you make for credit.



Under the data protection act you are entitled to see a copy at anytime and take action if you discover incorrect information on your file.

### Had credit problems or been refused?

It is certainly worth checking your file if you have ever been refused credit or you live at the same address as someone (even a previous occupant) who has bad credit, as this shouldn't, but could be linked to you.

### Obtaining your credit file

If you wish to obtain a copy of your credit file, there are three main credit reference agencies you can get it from. Starting at £2.00, you can either request a copy be sent to you or you can access it immediately online. The contact details are as follows:

#### Experian Ltd

Consumer Help Service  
PO Box 8000  
Nottingham  
NG80 7WF

Tel: **0800 013 8888**

[www.experian.co.uk](http://www.experian.co.uk)

#### Equifax PLC

Customer Service Centre  
PO Box 10036  
Leicester  
LE3 4FS

Tel: **0800 085 0650**

[www.equifax.co.uk/](http://www.equifax.co.uk/)

#### Transunion

One Park Lane  
Leeds  
West Yorkshire  
LS3 1EP

Tel: **0330 024 7574**

[www.transunion.co.uk](http://www.transunion.co.uk)

### How to correct any errors/inaccuracies on your credit file

Contact the appropriate creditor to dispute the incorrect item, as long as you have proof that the item in question is incorrect, it should be resolved quickly. If the creditor finds that the disputed information is indeed incorrect, the creditor is required by law to update its records both internally and with the credit reference agencies it deals with, usually within 28 days.

If you find an inaccuracy with one credit agency, you may want to get your credit file from the other two agencies to see if their reports contain the same error. After you've corrected an error with one agency, the other agencies *should* eventually receive the corrected information. But for prompt correction, it's best to contact each of the three agencies yourself.

### If You Cannot Resolve a Disputed Item

You have the right to attach a 200-word statement, free of charge, explaining the nature of your disagreement. Your statement will become part of your credit file, and will be included each time your credit file is accessed.



### Adverse Credit Terminology

If a borrower has a history of poor credit, this is often referred to as Adverse Credit, the common terminology is explained as follows:

**Arrears:** this describes the amount (of monthly payments missed) the borrower is behind with contractual repayments on current borrowing commitments.

**Bankruptcy:** protection order granted by court to a corporation, firm or individual who are relieved from paying all debts once assets have been surrendered to an appointed third party.



**County Court Judgments (CCJ):** is an adverse ruling by a County Court against a person who has not satisfied their debt payments with their creditors. Once the ruling has taken place it will be recorded against the person's credit history and will appear every time a credit search is done for the next six years making it more difficult to obtain credit.

**Default:** this is a failure of an individual to make payments on a formal credit arrangement at the required time or to not comply with the contractual requirements. The lender will place the account into default.

**Individual Voluntary Arrangement (IVA):** is a means of protecting yourself from your creditors by entering into a legally binding agreement supervised by an Insolvency Practitioner. Usually, a monthly instalment is paid over 5 years with the majority of the debt written off although in some cases a lump sum payment is made or a mixture of both.

**Repossession:** is where the Lender takes over ownership of the property, usually for non-payment of the mortgage and is accompanied by legal eviction of the occupants.



### **Need professional help/advice?**

As usual, I strongly recommend you consider the advice and guidance of a suitably qualified professional adviser or specialist charity (StepChange/National Debtline) for any debt advice you require. They will take you through a set process to establish your situation and then help you present a suitable solution to your creditors.

## **Section 12 Summary**

### **Fastest way out of debt (5 steps)**

1. Stop taking on more debt, 2. List your debts, 3. Prioritise in rate order, 4. Pay as much as you can afford on the top priority and minimum on all the others, 5. Repeat until all debts cleared.

### **Dealing with financial distress**

Don't bury your head in the sand, use the 8-step process and most importantly speak with your creditors, professional advisers and free debt helplines as necessary.

### **Final Thought:**

Financial distress is very common today (there are millions of people in this category) and nothing to be ashamed of. Remember, tough times don't last but you must take action quickly, get professional advice, talk to your creditors and work out a solution.

***Wishing you all the best,***

***Asha x***

**If you find yourself in financial difficulty, promise me you'll take positive action!**



### **Final Word:**

***"Poor is eternal, but broke is temporary. If you lose everything and yet, you're financially literate, you'll be able to build it again."***

