

Tackling unsecured debt can prevent repossession



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Responding to the 2008 repossession and arrears statistics released by the Council of Mortgage Lenders (CML), debt specialists [Debt Advisers Direct](#) have stressed the relationship between unsecured debt and mortgage arrears.

"As the CML reports, there were 40,000 repossessions in 2008," said a spokesperson for Debt Advisers Direct, "and a further 219,000 mortgages ended the year more than three months in arrears.

"For many of those people, however, the problem lay not in the cost of their actual mortgage payments, but in the cost of servicing their unsecured debts. Charging significantly higher interest rates than mortgages, unsecured debts can easily 'snowball' to the point where borrowers simply can't keep up with them - where their monthly payments barely suffice to pay off the accumulating interest.

"Unsecured debts can also be alarmingly easy to take on. Credit cards and store cards in particular allow significant levels of debt to accumulate gradually: people who would hesitate to take out a £2,000 loan can find they've acquired £2,000 of debt on a number of cards without even noticing it."

This combination of high interest rates and ease of access has left many homeowners with unsecured monthly debt repayments that take up some or all of the funds they need to service their mortgage debt. Unless they take steps to address this, it can end up leading to repossession.

"There are ways of reducing the burden of their unsecured debts," the spokesperson continued. "Many people successfully negotiate with their unsecured lenders - either on their own or through a professional debt management organisation - asking them to accept lower payments, freeze interest and/or waive charges, to ensure that servicing their unsecured debts doesn't take up funds they need to stay on top of their mortgage payments.

Others find that their unsecured debts have passed the point where negotiation is a realistic option: "In 2008, some 106,000 people in England and Wales turned to insolvency (bankruptcy or an [IVA](#) (Individual Voluntary Arrangement)) as the only realistic path out of debt - and experts such as KPMG believe this figure could easily grow by 50% this year.

"For the majority of homeowners, an IVA offers distinct benefits over bankruptcy. Like bankruptcy, an IVA lets them write off the debt they can't afford to repay, and will have a severe impact on their credit rating. Unlike bankruptcy, however, it will allow them to retain ownership of their property."

This is what makes it a particularly interesting option for homeowners who worry that their unsecured debts could end up costing them their home: "An IVA requires substantial commitment, as they will need to make regular payments towards their unsecured debt for five years, but those payments are designed to be affordable.

They will be calculated to take up the individual's entire disposable income - the money they will have left after taking into account their essential monthly expenditure, such as food, petrol, utility bills and (most importantly) mortgage payments.

"So a homeowner in an IVA will be required to contribute all their disposable income to their IVA for a full five years, as well as releasing some equity halfway through the final year of the IVA to maximise the amount they can pay their unsecured creditors.

"However, they'll know they're protected from any legal action by their unsecured creditors - including attempts to make them bankrupt - and they'll know their outstanding unsecured debts will be written off at the end of that period. Most important of all, they'll know the budget they're following is specifically designed to ensure their monthly mortgage payments will be met."

"The important thing is to take action in time, as soon as their unsecured debts reach unmanageable levels. An IVA is a legal procedure that requires the approval of creditors who collectively 'own' 75% of the debt in question - in general, the sooner an individual speaks to an Insolvency Practitioner about an IVA, the better their chances of gaining that approval."

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