

# Summary of Advantages and Disadvantages of Options from Your Point of View

<h2>Advantages</h2>	
<b>Repayment Plan (Debt Management Scheme)</b>	<ol style="list-style-type: none"> <li>1. Simple repayment plan. Often the amounts repaid can be negotiated to be interest free.</li> <li>2. If debt repayment ratio is between 15% and 20% of net household income, the repayment plan is likely to be successful.</li> <li>3. Home not affected, as long as mortgage payments continue.</li> <li>4. No obligation to bankrupt debtor if the repayment plan fails (as there usually is in an IVA).</li> <li>5. None of the disadvantages of bankruptcy and IVA apply.</li> </ol>
<b>Individual Voluntary Arrangement (IVA)</b>	<ol style="list-style-type: none"> <li>1. Generally, the disadvantages of bankruptcy do not apply.</li> <li>2. An approved IVA binds all creditors. This is not the case in the repayment plan.</li> <li>3. Financial benefit 1 – Normally creditors agree to a certain amount of their debt being written off. As a result of only paying back a portion of the debts due to his creditors, the debtor effectively saves the amount not paid back. (Creditors agree to this upfront).</li> <li>4. Financial benefit 2 - The amounts that are repaid are interest free.</li> <li>5. A debtor (under an IVA) will be able to continue to act as a director of a limited company.</li> <li>6. The debtor maintains control of these assets, rather than in the case of bankruptcy where the trustee-in-bankruptcy has control over the assets.</li> <li>7. The debtor may be able to retain a greater proportion of his income than in bankruptcy.</li> <li>8. The debtor may be able to keep his matrimonial home (generally) as long as he can keep up his mortgage payments.</li> <li>9. An interim order protects the debtor while the proposal is being considered by the creditors. This is a very powerful tool, as the effective operation of the interim order:               <ul style="list-style-type: none"> <li>- Stays all bankruptcy proceedings, and</li> <li>- All other legal proceedings subject to the leave of Court life.</li> </ul>               (It is not always necessary to obtain an interim order)             </li> </ol>
<b>Bankruptcy</b>	<ol style="list-style-type: none"> <li>1. Relative peace of mind and relief (in right circumstances).</li> <li>2. No payment obligations carried forward (subject to Income Payment Agreement or Order which is quite common)</li> <li>3. Slate wiped clean.</li> </ol>



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Registered Office: 28<sup>th</sup> Floor, Tower 42, 25 Old Broad Street, London, EC2N 1HQ

## Disadvantages

<p><b>Repayment Plan (Debt Management Scheme)</b></p>	<ol style="list-style-type: none"> <li>1. The repayment requires each creditor to consent. Dissenting creditors are not bound. This potentially becomes an issue if creditors are not to receive 100p in the pound.</li> <li>2. There is a risk creditors will take action outside the Repayment Plan. However, if the payment terms are complied with this it is rarely an issue.</li> <li>3. The debtor may still receive letters from creditors that will have to be dealt with.</li> <li>4. Creditors may not agree to freeze interest meaning the amounts paid each month will not reduce the amount outstanding.</li> <li>5. The debtor's credit rating is likely to be affected in the medium term as loan and credit card companies will register a default in payment. This may have already happened.</li> <li>6. The Repayment Plan is likely to last longer than IVA or Bankruptcy.</li> </ol>
<p><b>Individual Voluntary Arrangement (IVA)</b></p>	<ol style="list-style-type: none"> <li>1. The debtor normally has a minimum payment which must be made each month for the period of the IVA (the normal period is 5 years). This can often be a significant obligation (and is longer than bankruptcy).</li> <li>2. The proposal may be rejected or modified to be more onerous at the creditors' meeting.</li> <li>3. The debtor's credit rating is likely to be affected in the medium term. The IVA is registered on a public register called the Individual Insolvency Register during its term. (It is removed after the IVA completes successfully). Private credit referencing agencies keep records of IVAs as well.</li> <li>4. The supervisor takes on the role of ensuring payment is made each month (just like a loan). He is therefore contractually obliged to pursue the debtor if he fails to make payments or comply with the IVA. This could result in the supervisor making the debtor bankrupt. The grounds of default are determined by the terms of the proposal.</li> </ol>
<p><b>Bankruptcy (normally lasts a maximum of 1 year)</b></p>	<ol style="list-style-type: none"> <li>1. The debtor loses ownership/control of his assets, except for certain assets.</li> <li>2. The bankrupt has significant restrictions on obtaining post bankruptcy credit.</li> <li>3. An undischarged bankrupt is prohibited from acting as a director.</li> <li>4. An undischarged bankrupt is restricted from being a partner in a partnership.</li> <li>5. An undischarged bankrupt has severe restrictions on sole tradership.</li> <li>6. There are miscellaneous professional and career restrictions. An undischarged bankrupt may be restricted from acting in his chosen profession or may have restrictions on his career.</li> <li>7. An undischarged bankrupt is potentially liable for bankruptcy offences. Furthermore, the bankrupt has a duty to co-operate with the trustee-in-bankruptcy and/or the official Receiver.</li> <li>8. It may be harder to obtain credit when the bankrupt is discharged. All bankruptcies are registered on a public register called the Individual Insolvency Register. Private credit referencing agencies keep records of bankruptcy as well.</li> <li>9. There may be negative stigma, bad publicity and the possibility of a public examination. The importance and implications of this will depend on each individual.</li> </ol>



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