



SCOTLAND – FACT SHEET NO. 19

FULL AND FINAL SETTLEMENT OFFERS

WHAT ARE FULL AND FINAL SETTLEMENT OFFERS?

This fact sheet explains how to make offers in 'full and final settlement' to your creditors. This means that you ask the creditors to let you pay a lump sum which is less than the full balance you owe on the debt. In return for having a lump sum payment the creditor agrees to write off the rest of the debt.

You may be able to do this because you have come in to some money or have some savings you can use. Sometimes a friend or relative offers to put forward a lump sum to help you pay off the creditors. Your circumstances may be very unlikely to change for the better in the future. It is very important that you explain to the creditors that the money will not be available forever and the friend or relative will not make the payments unless the offer is accepted.

i INFORMATION

If you have already entered into a debt payment programme (DPP) under the Debt Arrangement Scheme (DAS) you will need to contact your approved money adviser to discuss the possibility of making an offer in full and final settlement to creditors participating in the DPP. The money adviser may be able to ask the creditors to agree to a composition (i.e. a partial write off of the debt). If this is accepted, the money adviser will contact the Office of the Accountant in Bankruptcy (who administers the scheme) to seek an early end to your DPP.

≡ FACT SHEET

We have a fact sheet on the 'Debt arrangement scheme' which may be of assistance to you. **Phone us for a copy.**

HOW TO MAKE AN OFFER

- You can use the sample letter attached to make full and final settlement offers to your creditors.

REMEMBER

Make sure you keep copies of any letters you send.

- It is very important to make sure the creditor accepts your full and final settlement offer in writing. Make sure you keep a copy in case there is a dispute which can happen years later.
- Never send a lump sum payment before the offer is accepted.
- It is a good idea to get a third party to send the money on your behalf. This helps your agreement to be more legally binding, if the creditor accepts the money via a third party.
- If you are settling a debt that is large or particularly important, you could have a formal agreement drawn up by a solicitor and signed by you and the creditor. This is not normally necessary.

“” ADVICE

Make sure the creditor agrees in writing to change your credit reference file details to show the balance is 'satisfied' and gives the date. Check this has been done by asking the credit reference agencies for a copy of your credit file.

≡ FACT SHEET

We have a fact sheet on 'Credit reference agencies, which may be of assistance to you. **Phone us for a copy.**

HOW TO WORK OUT OFFERS OF PAYMENT IN FULL AND FINAL SETTLEMENT

You may have a lump sum that you need to divide up amongst several creditors. The usual way of doing this is to make 'pro-rata' offers. This means that each creditor gets a fair share of the money available. The creditor you owe the most to will get the biggest share of the money and the creditor you owe the least to will get the smallest share.

- Find out the exact outstanding balance you owe to each creditor.
- Use the formula to work out how much to offer each creditor.
- Use the following example on page three to help you.
- Send offers to all your creditors along with a table like the one shown on page three. It is helpful if creditors can see that they are all receiving an offer of a pro-rata settlement; then they know they are all being treated fairly.
- If some of the creditors refuse, then write to them again and ask them to reconsider. Point out if any of your other creditors have accepted the offer and explain your circumstances again. If your creditors still refuse **phone us for advice** and see what other options you may have.

Remember: You can always contact us for advice about any difficulty you have in dealing with your debts.

Freephone 0808 808 4000 Website www.nationaldebtline.co.uk

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FORMULA

$$\begin{aligned} & \text{LUMP SUM AVAILABLE} \times \text{EACH DEBT} \\ & \div \text{THE TOTAL AMOUNT YOU OWE TO YOUR CREDITORS} \\ & = \text{OFFER TO THE CREDITOR} \end{aligned}$$

EXAMPLE

You may have £10,000 owing to four creditors. You can raise a lump sum of £4,000.

You owe:

- £2,300 to Mastercard
- £1,200 to a catalogue company
- £4,500 to a loan company
- £2,200 to the bank

Use the formula:

$$\begin{aligned} & \text{£4,000 (LUMP SUM AVAILABLE)} \times \text{£2,300 (DEBT TO MASTERCARD)} \\ & \div \text{£10,000 (THE TOTAL AMOUNT YOU OWE TO YOUR CREDITORS)} \\ & = \text{£920 (OFFER TO MASTERCARD)} \end{aligned}$$

Your offer to Mastercard is £920. You then do the same calculation for each creditor, using each individual debt in the calculation.

Your offers to your creditors should look something like this:

OFFERS TO CREDITORS BASED ON A FULL AND FINAL SETTLEMENT OF £4,000		
Creditor	Debt	Full and final settlement offer
Mastercard	£2,300	£920
Catalogue	£1,200	£480
Loans	£4,500	£1,800
Bank	£2,000	£800
Total	£10,000	£4,000



REMEMBER

Do not pay the lump sum to any creditor that does not agree your offer in writing.

SAMPLE LETTER

THIS LETTER IS DESIGNED TO HELP YOU NEGOTIATE A FULL AND FINAL SETTLEMENT OFFER WITH A CREDITOR. THIS IS A TYPE OF OFFER WHERE YOU ASK THE CREDITOR TO ACCEPT PART OF THE AMOUNT YOU OWE AND WRITE OFF THE REST.

(Your home address)

Date: _____

To: _____

Without Prejudice

Dear Sir/Madam

Account No: _____

I/we write with reference to the money which you are claiming on the above account.

I/we can confirm that I am/we are unable to offer to pay the money which I/we owe in full (**add details of your circumstances and financial situation**). However, I/we can raise £ (**put the amount which you can afford to pay**) and I/we want to offer this as an ex-gratia payment in full and final settlement of the account. This offer is made on the clear understanding that, if accepted, neither you nor any associate company will take any other action to enforce or pursue this in debt in any way whatsoever and that I/we will be released from any liability.

I/we also request that, if accepted, you will make an entry on any credit reference agency file relating to the above account as 'satisfied' in full.

Payment can be made within (**put the number of days or weeks within which you will pay**) of receiving your written agreement of this offer and method of payment.

I/we look forward to receiving your reply.

Yours faithfully

(Your signature)



REMEMBER

To keep a copy of all letters you send to your creditors.