



## DEBT RELIEF ORDERS

### What is a debt relief order (DRO)?

A DRO may be able to help you if you do not own your home, have few assets and little available income to pay your creditors. It is a cheaper option than bankruptcy. If your DRO application is successful, most creditors cannot take action to recover your debts for 12 months. The debts are then written off after the 12 months are up.

### How do I apply for a DRO?

You can only apply for a DRO through a special adviser called an 'approved intermediary'. It is not possible to apply directly to the Insolvency Service yourself. You must get advice from an approved intermediary first, and if they agree that a DRO is right for you, they will give you advice and make the application on your behalf. Applications are sent to the official receiver's office through a special on-line system. The official receiver is a government official who will deal with your application. There is no court hearing. National Debtline has approved intermediaries who can help you. See the section 'How can National Debtline help me to get a DRO?' or **phone us for advice**.



#### Information

This fact sheet explains the rules that the Insolvency Service has about applying for a DRO. If you apply for a DRO through National Debtline, we have some different rules about certain parts of the application process. Where there are differences, we have explained them in this fact sheet.

### Do I qualify for a DRO?

There are strict rules that you have to meet to qualify for a DRO. You must:

- be unable to pay your debts;
- have total debts under £15,000 at the date the application is approved by the official receiver;
- have assets below £300;
- not have a car or motor bike worth more than £1,000;
- have less than £50 a month spare income after normal household expenses are taken into account;
- live in England or Wales (or have lived or run a business in England or Wales in the last three years); **and**
- not have had a DRO in the last six years.



#### Warning

If you are already bankrupt or have an individual voluntary arrangement (IVA), then you will not be able to apply for a DRO. **Phone us for advice**.

### How can National Debtline help me to get a DRO?

If you qualify for a DRO, National Debtline's DRO team can help you to apply. An adviser will check that you meet the criteria and send you an application form. We will also send you a hold action letter which you can send to your creditors (the people you owe money to).

This will let them know that you are applying for a DRO through National Debtline. The hold

action letter is also attached to this fact sheet. Before sending it to your creditors, **phone us for advice**.

It may take several weeks for National Debtline to help you with your DRO application. However, this can change from time to time. Phone us for information about how long it is likely to take at the time you are considering applying for a DRO. Also, the Insolvency Service has a strict rule about your debt being under £15,000 when they consider your application. For these reasons, National Debtline has decided to build in some safeguards for our clients. These safeguards try to make sure that once we start a DRO application with you, your debts do not rise above the Insolvency Service's £15,000 limit before the full application procedure is finished. Therefore, if you decide to apply for a DRO through National Debtline, you will need to make sure that:

- your total debts are under £14,000 at the time you complete your National Debtline DRO application pack; **and**
- you pay the £90 fee in full within two months of us receiving your completed application.

## What debts can be included in my DRO?

You can include most types of debt in your application as long as your total debts are less than the £15,000 limit.

### Priority debts

You should include priority debts. Examples include:

- rent arrears;
- gas and electricity debts with your current supplier;
- arrears on your phone bill if you need to keep it as an essential service;

- council tax, business rates and community charge arrears; **and**
- income tax, VAT and National Insurance arrears.

### Warning

Even if you include rent arrears in your DRO, your landlord can still take court action to evict you. However, they cannot recover rent arrears you build up before your DRO.

### Advice

When you are working out how much you owe, make sure you include any arrears you have on priority debts. You will need to pay your ongoing rent, fuel, council tax bills and so on as normal.

### Credit debts

You must make sure you include all your credit debts in the application. **If you leave a debt out, it cannot be included later.** See the section 'What happens if a debt is left out?'

Examples of debts you should include are:

- water arrears;
- credit cards and store cards;
- bank overdrafts and bank loans;
- loans to finance companies;
- catalogues;
- home-collected credit;
- benefit overpayments;
- family or personal debts;
- hire purchase and conditional sale agreements if you are in arrears (if you are not in arrears you may be able to exclude this type of debt in certain circumstances);
- hire agreements;
- parking penalty charges; **and**
- mortgage shortfalls (money you owe if your house was sold for less than the outstanding mortgage).

You may also owe debts from your small business such as:

- money you owe to employees;
- debts to customers who have paid for goods or services that you were unable to supply; **and**
- debts to suppliers.

### Information

A recent Supreme Court case decided that benefit overpayments cannot be recovered by any method, including deductions from your ongoing benefits, if they are included in a DRO. The same applies to budgeting loans and crisis loans if your DRO application was made before **19 March 2012**. If you make a DRO application on or after **19 March 2012**, budgeting loans and crisis loans cannot be included in your DRO and you will still be liable to repay them.

If any deductions from your benefits have been incorrectly made, you should get a refund. If you receive a refund, your DRO will not be revoked. The rules about how other types of benefit lump sums, such as backdated payments, are treated are different. **Phone us for advice.**

### Advice

If you are not sure what debts you should include in the DRO application, **phone us for advice.**

## Which debts are excluded?

Some debts do not count towards the £15,000 limit, although you still have to list them in the DRO application. This means you are still liable to pay these debts in full. You cannot include:

- magistrates' court fines;
- maintenance and Child Support Agency (CSA) payments and arrears;
- student loans;

- budgeting loans and crisis loans if your DRO application is made on or after **19 March 2012**;
- money owed under a 'criminal confiscation order'; **and**
- debts resulting from certain personal injury claims against you.

You will need to make sure you pay ongoing payments on these debts and include them in your outgoings.

### Information

#### Hire purchase and conditional sale agreements

If you are not in arrears, you can choose to exclude hire purchase and conditional sale agreements from your DRO in certain circumstances. See the next section 'How is a hire purchase or conditional sale agreement dealt with in a DRO?'.

## How is a hire purchase or conditional sale agreement dealt with in a DRO?

If you are not in arrears with your hire purchase (HP) or conditional sale agreement, you can choose to exclude the debt from your DRO application. However, if you are in arrears, you must include it. Any further payments to the creditor must stop.

If you are not in arrears, you may decide to leave out your HP or conditional sale agreement from your DRO. If you do this, future payments towards the agreement will only be allowed if the item is necessary to satisfy the basic domestic needs of you and your family. Otherwise, if you want to keep the item, payments under the agreement would need to be made by a third party, such as a family member or friend.

If you have a vehicle on a HP or conditional sale agreement and it is worth more than £1,000, payments would not be an allowable expense in your DRO. Therefore, you would have to include the debt in your application unless a third party is willing to take over the agreement for you.

For more information on HP or conditional sale agreements and DROs, **phone us for advice**.



### Warning

Some hire purchase or conditional sale agreements may contain a clause which allows your creditor to end the agreement if you get a DRO. Check your agreement and **phone us for advice**.

## What if my debts are near the £15,000 limit?

Creditors can add interest and charges to your debts up until the date the official receiver approves your DRO. Therefore, if your debts are near the £15,000 limit when you start the application process, your debts could rise to above £15,000 by the time the official receiver considers your application. If this happens, the official receiver will not approve your DRO. You will not get the money you have paid in fees back if this happens.

You need to think about the following ideas and get further advice.

- Check what sort of debts you have. Some creditors may not be adding extra interest and charges. But you may have a credit card or a store card which has a high interest rate that is building up each month.
- Think realistically about how long it will take you to save up the money for the fee, as you may miss your chance to apply for a DRO if your debts grow to more than £15,000.
- Can you ask a charity to help with the fee to speed the process up?

- Can you persuade your creditors to freeze the interest? You can send your creditors the sample letter at the end of this fact sheet to help you do this. However, this letter should only be sent to your creditors when you are at the stage of completing your National Debtline DRO application pack.
- Can you make payments to your creditors to prevent the debts reaching the £15,000 limit? (You need to be careful to treat all your creditors fairly if you decide to do this.)
- Can anyone help you make the payments temporarily?
- Can you apply for a time order? This is a way of asking the court to give you more time to pay a particular type of debt. The court can also change some of the terms of the agreement, such as the rate of interest. This is complicated. **Phone us for advice**.



### Fact sheet

We have a fact sheet on 'Time orders' which may be of assistance to you. **Phone us for a copy**.

## What are my assets?

You can have assets worth up to £300 and still qualify for a DRO. Lots of basic household items such as cutlery, crockery, cookers, televisions, beds or furniture do not count as assets.

The value of your assets is worked out using the resale value, not how much the item was worth when you bought it, unless it is brand new. Assets may include antiques, luxury items or valuable collections, stocks, shares, premium bonds and savings.

## Information

Recent changes to the DRO rules mean that for new applications, private pensions approved by Her Majesty's Revenue and Customs (HMRC) do not count towards your £300 asset limit. This means that most pensions will not affect your asset limit. A small number of private pensions not approved by HMRC will still count as assets. Any money you receive from a pension will be treated as income when deciding whether you qualify for a DRO.

## Warning

You need to discuss your assets with your adviser. It is important to be open about any assets you have. The official receiver could end your DRO and take further action against you if they find out that you have not told them about an asset that takes you over the £300 limit. You also have to tell them about any asset you gave away, or sold for less than it was worth, in the last two years.

If you own a car or motorbike, then your adviser will need to check the value using Parker's Guide (see the 'Useful addresses' section at the end of this fact sheet). If it is worth less than £1,000, then it will not be taken into account as an asset. If you have a specially adapted car because of a disability, **phone us for advice**.

## Advice

Don't include a car you have on a hire purchase or conditional sale agreement as an asset. The car belongs to the creditor until you have paid off the total debt. Don't forget to count the balance you owe in your list of debts.

## What should I do before applying for a DRO?

You will need to think about the following steps.

- Get advice about whether you may qualify.

- You can do a draft budget sheet to see how much money you have coming in and going out.
- Start collecting details about your debts and how much you owe each creditor.
- Check your credit reference file to make sure you haven't forgotten any debts.
- Start saving up money towards the application fee. See the section 'How much is the fee for a DRO?'.

## How much is the fee for a DRO?

The fee for a DRO is £90. There is no reduction if you are on benefits or a low income. You are allowed to pay in instalments. If you cannot pay the fee, you might be able to apply to a charity for help. **Phone us for advice**.

## How do I make payments?

- You can start saving up towards the £90 fee as soon as you like.
- When you have completed the application with your intermediary (who will be a member of the National Debtline DRO team if you apply through us), they will send you a copy of the application to read along with a special bar code. This bar code will enable you to make payments towards the £90 fee.
- You can make payments by cash only using your local Payzone. Payzone can be found in newsagents, petrol stations and corner shops.
- You can also pay in cash at your local post office. You can find your local branch by using the 'branch finder' service on the Post Office website, [www.postoffice.co.uk](http://www.postoffice.co.uk).
- You can pay the fee in as many instalments as you like, but there are strict time limits for you to do this. Under the DRO rules, you will be allowed a maximum of six months to pay your fee in full from when your online application began. However, if you apply for a DRO through National Debtline, we require you to pay your fee in full within two

months of us receiving your completed application pack. Other organisations may have different timescales. If you do not pay the full fee as required, your application will not be allowed to go ahead.

- You can ask the official receiver for a refund if you have made some payments towards your fee and then change your mind about applying for a DRO. You cannot get a refund once the application is sent in by your intermediary and you have paid the fee in full.



### Warning

You must have paid the full £90 fee before the official receiver will look at your application. You only have a maximum of 10 days after your intermediary has sent your online application to the official receiver to complete your payments towards the fee. To make sure that your payments are processed on time, you will usually need to have paid the full £90 before your intermediary sends in your application.

## What happens if a debt is left out?

If you forget about a debt and find out about it after the DRO has been agreed by the official receiver, the debt cannot be included in the DRO. The creditor can continue to take action against you to recover the debt. This means you will need to negotiate repayments separately with that creditor. If this happens to you, **phone us for advice.**

If this debt takes your total debts over £15,000, the official receiver will consider ending or 'revoking' your DRO.



### Warning

If you do not tell the official receiver about the extra debt, the official receiver may be able to take criminal or civil action against you. **Phone us for advice.**

## What if my debts are higher than the amounts I put on the form?

It is important that you put accurate amounts for what you owe on the application form. This is because the official receiver will only include the amount of debt that you have stated on the application form in the final DRO.

This means that if you use an out of date statement to find out how much you owe a creditor, or if a creditor adds on some interest or charges to a debt after you have completed the application form, you may find that the creditor asks you to pay the difference.

For example, if you have a credit card debt that was £3,200 when you completed the application form and some interest gets added on and it rises to £3,225, the creditor may ask you to pay the extra £25.

If there is a big delay between you filling in the application form and it being sent to the official receiver, you may find that you owe some more money to several of your creditors.

## What happens next?

- The official receiver will decide whether to grant your application for a DRO. They can ask you for more information and you must be as helpful as you can. You may want to seek more advice if this happens. **Phone us for advice.**
- The official receiver will also ask a credit reference agency for information about your credit file. This will help them to check the details that you have provided in your application.
- If the official receiver approves your application, they will send you a letter to confirm that you have been given a DRO. The official receiver will also send the order to all the creditors listed in your application.

- Your creditors may object to the DRO being made. They can also object to being included in the DRO or to the details of their debt as listed in the DRO. They can only make such objections on certain grounds, for example that you are not eligible for a DRO. It is not a valid ground for a creditor to object just because they don't want to be included in the order.
- If your DRO stands, all the debts that are included in the order are put on hold for 12 months. This is called the 'moratorium period'.
- You should not usually make any more payments on your debts. There are some exceptions to this rule (for example in some situations if you have rent arrears). **Phone us for advice.**
- Your creditors that are included in the order are not usually allowed to ask you to make any more payments. If this happens, tell the creditors about your DRO and let the official receiver know. **Phone us for advice.**
- If your application is rejected, the official receiver will tell you and your intermediary the reasons.



#### Information

Under the rules in the **Consumer Credit Act 1974**, your creditors will usually have to keep sending you annual statements, as well as arrears and default notices in a set format. This will happen even when you are in the 12 month moratorium period under your DRO but should stop after that. Don't worry. This does not mean that there is a problem with your DRO. If you receive other letters demanding payment, **phone us for advice.**

## Cooperating with the official receiver

It is very important that you cooperate with the official receiver throughout your DRO application.

- You must tell the official receiver about any changes in your circumstances after you apply for a DRO.
- You must give information about your finances to the official receiver if they ask.
- Make sure you have given the official receiver a full list of your debts and assets.
- Tell the official receiver if your income increases, or if you come into any property or a lump sum whilst you have a DRO.



#### Warning

If the official receiver finds out that you have not given them accurate information about your income, assets or debts, they can end or 'revoke' your DRO and even take further criminal or civil action against you. You must also tell the Insolvency Service about changes in your circumstances, including any increase in your income, a change of address, or if you come into money. If your circumstances change so much during the moratorium period that you no longer meet the criteria, your DRO may be revoked.

## What are the effects of having a DRO?

If your DRO application is approved, it can affect you in the following ways.

- Certain restrictions will be placed on you for 12 months from when the DRO is approved. See the section 'What restrictions will be placed on me?'.
- In certain circumstances a 'debt relief restrictions order' can be placed on you. See the section 'Debt relief restrictions orders'.
- Your bank account may be frozen. See the section 'What will happen to my bank account?'.
- The DRO will be recorded on your credit reference file. See the section 'How will a DRO affect my credit rating?'.

- The DRO will be recorded on a public register called the ‘Individual Insolvency Register’. See the section ‘How long will my DRO be on the Individual Insolvency Register?’.
- Your job could be affected. This is only likely to be the case where your contract of employment states that you are not allowed to have a DRO.
- If you rent your home, your tenancy could be affected. Check your tenancy agreement to see if it states that you are not allowed to have a DRO and **phone us for advice**.

### What restrictions will be placed on me?

The main restrictions are as follows.

- You must not take out credit of £500 or more without telling the lender that you have a DRO.
- You cannot run a business in a different name without telling everyone you do business with the name you used for your DRO.
- You cannot be involved with the promotion, management or formation of a limited company, or become a company director without getting permission from the court.
- You may not hold certain public offices.
- You cannot apply for a DRO again for six years.

### Debt relief restrictions orders

If the official receiver finds that you have not been honest and open about your finances either before or during the DRO, or they decide that you have behaved irresponsibly, they may ask you to agree to a ‘debt relief restrictions undertaking’. If you refuse, they may apply to the court for a ‘debt relief restrictions order’. This means that you will still have certain restrictions on you for between 2 and 15 years after the date of the DRO. Your details will also be kept on the Individual Insolvency Register for the lifetime of the order plus an extra three months.

### What will happen to my bank account?

If your DRO application is successful, your bank account will not necessarily be frozen. It will be up to your bank or building society to decide if you are allowed to keep the account open. If you have a debt with your bank or building society, it is likely that your account will be frozen after your DRO is approved. Even if you do not have any debts with your current bank, your account may still be at risk. Check the terms and conditions of your account and **phone us for advice**.

There is nothing to stop you applying to open a new bank or building society account when you have a DRO, but the bank or building society may ask you if you have a DRO. It is then up to the bank or building society to decide whether they will let you open an account with them. You may be able to open a basic bank account instead. It is a good idea to open a basic bank account after your DRO is approved to try to avoid any problems.

#### Information

We have a list of basic bank accounts that may be of help to you. **Phone us for a copy.**

### How will a DRO affect my credit rating?

Credit reference agencies keep information on DRO’s for six years in the same way as they do for most other information.

Even after six years, your ability to get a mortgage could be affected. This is because some lenders may ask if you have ever been made bankrupt or had a DRO.

#### Fact sheet

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

## How long will my DRO be on the Individual Insolvency Register?

- Your DRO will be displayed on the Individual Insolvency Register in the same way as a bankruptcy order.
- Your details will be held on the Individual Insolvency Register for the 12 months your DRO lasts, plus an extra 3 months. This means 15 months in total.

## What other options are there?

If you do not qualify for a DRO, there may be other options for dealing with your debts such as bankruptcy, a debt management plan or an IVA. National Debtline can advise you on the options available to you in your circumstances. **Phone us for advice.**



My Money Steps is a secure, confidential, online debt advice service, available from National Debtline's website [www.nationaldebtline.co.uk](http://www.nationaldebtline.co.uk).

If you would like to use My Money Steps you will need to enter some details about your circumstances, including your income and expenditure. My Money Steps can help you to work out a budget and give you personalised advice about what options you might want to consider to help you deal with your debts.

Please be aware My Money Steps does not help you complete a business budget sheet. If you are self-employed please contact Business Debtline for advice on **0800 197 6026**.

## Useful addresses

### Individual Insolvency Register

<http://www.insolvencydirect.bis.gov.uk/eiir/>

### The Insolvency Service

**Insolvency enquiry line 0845 602 9848**

**Email:**

[insolvency.enquiryline@insolvency.gsi.gov.uk](mailto:insolvency.enquiryline@insolvency.gsi.gov.uk)

### The Debt Relief Order Unit

Insolvency Service

1st Floor Cobourg House

Mayflower Street

Plymouth

PL1 1DJ

**Tel: 01752 635 200**

**Email:** [DRO.Unit@insolvency.gsi.gov.uk](mailto:DRO.Unit@insolvency.gsi.gov.uk)

### Payzone UK Ltd

Davidson House

Gadbrook Park

Northwich

Cheshire

CW9 7TW

**Tel: 0844 2090 555**

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

### The Post Office

**Te: 08457 22 33 44**

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

### Parkers Guide

[www.parkers.co.uk/cars/prices/](http://www.parkers.co.uk/cars/prices/)

**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](http://www.nationaldebtline.co.uk)**

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## Debt Relief Order (DRO)

### Hold action on your account – sample letter

Use this letter to ask your creditors to hold action on your account whilst you apply for a debt relief order.

(Your home address)

\_\_\_\_\_  
\_\_\_\_\_  
Date: \_\_\_\_\_

To: \_\_\_\_\_  
\_\_\_\_\_

Dear Sir/Madam

**Account No:** \_\_\_\_\_

I am/we are writing to inform you that I am/we are in the process of setting up a debt relief order (DRO) with the assistance of National Debtline.

I/we have been informed that it may take several weeks for the DRO to be set up and approved so I/we would like to request that you hold action on the above account. Also, during this period, could you please freeze interest and/or any other charges accruing on the above account.

You will be sent further details from the Insolvency Service once the DRO has been approved.

Thank you for your understanding in this matter.

I/we look forward to hearing from you.

Yours faithfully

(Your signature)



#### Remember

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