



OUR RESEARCH

Our investigator posed as a school office manager, aged 33, owing more than £50,000 in unsecured debt on loans, credit cards and store cards. He takes home £1,500 a month, £1,000 of which goes to creditors. He has recently split from his partner and is struggling to meet these debt repayments, which they previously shared. He has no savings. We asked eight leading debt-management firms for advice. See panel, right.

Put to the test

You've probably seen TV ads from firms claiming to write off debts you can't afford. Do companies live up to their claims?

More and more of us are looking for advice on dealing with debt as banks start clamping down on lending, cheap mortgage deals end and household bills rise.

Citizens Advice said that it has dealt with far more debt-related problems in the past year. Those looking for help range from students to pensioners. Around 7,900 pensioners went bankrupt in 2007, compared with 900 in 2002.

Our investigation

Debt-management companies have grown in popularity among those struggling to repay debt. They charge a fee to negotiate lower monthly payments with those you owe money to (creditors).

But how good a service do they offer? We called six of the largest firms and two (Best Debt Solution and W3 Debt Solutions) whose adverts in the past year have caused us concern due to the amounts

Basic debt advice should be offered by all firms

they claimed customers can write off. We said we had debt problems (see 'Our research', above) and wanted advice.

What we found

■ Some firms seemed more interested in selling us one of their products rather than finding out fully about our finances. Accuma, Debt Matters and W3 Debt Solutions recommended an option before we felt they had full details of our case.

■ Most firms recommended we go for an IVA (see 'Jargon buster', opposite). These take six to eight weeks to set up. Freeman Jones was the only firm to advise us on how to survive financially in the meantime. Blair Endersby/Baines & Ernst did tell us to prioritise essential bills.

■ Not all companies gave even basic debt advice. Debt Free Direct and W3 Debt Solutions correctly suggested setting up a basic bank account. Freeman Jones did too, but then tried to sell us one costing £12.50 a month. That account ensures bills are paid, but you could do this yourself for nothing.

■ More than half of the firms didn't tell us their charges in our call, so it was difficult to compare products. Accuma told us what bankruptcy or a debt management plan cost, but not its favoured choice, an IVA.

■ Money, Debt and Credit told us we could write off up to three quarters of what we owed. This isn't true in most cases. Four firms were criticised by the Advertising Standards Authority for making this claim in TV ads last year.

WHERE DID MY MONEY GO?

Jane Smith

When Jane ended up £18,500 in debt, she went for help to debt-management firm White Water East, who put her on a debt management plan.

She paid the firm £285 a month, the firm taking £54.15 fees and distributing the rest to those she owed money to. Jane's plan was transferred to

Consilium Credit Consultant, but the same man dealt with her. He told Jane he had spoken to her creditors and she could make a final payment of £1,425. She paid and asked Consilium for written confirmation that her debt was settled. Her calls, letters and texts went

unanswered. She started getting letters from creditors saying she still owed them money. Consilium Credit Consultant failed to file accounts for three years and was liquidated.

Jane said: 'I paid the money to clear my debts. I want to know who's got it now.'

Jargon buster

What is a debt-management company and what options do they offer?

■ DEBT-MANAGEMENT COMPANIES (DMC)

These charge a fee to help people out of unaffordable debt by negotiating lower monthly repayments to creditors. They offer options such as debt management plans or an individual voluntary arrangement.

■ BANKRUPTCY

The Official Receiver takes control of your finances and deals with creditors. Once released from bankruptcy, generally after a year, you're usually free of outstanding debts detailed in the proceedings. You still have to pay debts such as child support and court

finances. Bankruptcy stays on your credit file for six years, making it difficult to get a credit card or mortgage. It's worth considering if you owe a lot, have few assets and no way of repaying debts. It's usually cheaper to arrange than an IVA. The Scottish equivalent is sequestration.

■ INDIVIDUAL VOLUNTARY ARRANGEMENT (IVA)

If you owe more than £15,000 but have a regular income, you can apply for a legally binding IVA to repay debts. It's usually done through a county court and lasts up to five

years. At least 25 per cent of what is owed must usually be paid back. Any debt at the end is written off. An IVA stays on your record for six years. The Scottish equivalent is a protected trust deed.

■ DEBT-MANAGEMENT PLAN (DMP)

An informal arrangement between you and creditors. You usually pay less a month, but for much longer than with bankruptcy or an IVA. Your credit rating is affected, but less than with bankruptcy or an IVA. The plan (not binding on either side) can be organised by a DMC, a debt charity, or yourself.

WHAT THEY TOLD US

You may have seen their ads, but how were they in practice?

Accuma

This firm's adviser was well informed and understanding over the phone. He was, in general, the best, though far from perfect.

He failed to find out what we spent and earned before leading our researcher towards an IVA. Our income wasn't enough to make this practical, so he suggested a debt-management plan for the short term. Bankruptcy was not seriously considered. We were advised to call a free advice service, but were then incorrectly told that Citizens Advice won't deal with creditors for you. It will.

Best Debt Solution

The assistant was helpful, but we felt pushed into considering one of its fee-paying schemes rather than being offered any free advice.

From the start she focused on making a single payment to the firm to reduce our spending, rather than consider other options.

We were concerned to be told that the friend who recommended the company would get a bonus if we took out a debt agreement.

This may encourage people to pressure friends to take out a plan that might be wrong for them.

Blair Endersby/ Baines & Ernst

This was one of the few firms to clearly outline its fees. It also correctly advised us to prioritise essential bills such as rent.

We were advised to go for an IVA and when we asked to see the proposal in writing, felt pressured into making a decision on the phone. The adviser sounded exasperated that we might not have enough money to apply for an IVA, but at that stage we hadn't applied for anything.

Debt Free Direct

The adviser seemed interested in our situation and thorough in going through our debts. However, he soon asked whether we had heard of IVAs. Once this was mentioned, we felt other options weren't fully explored. Our investigator felt pressured to sign up to avoid the possibility of debt collection



firms ringing us 'five or six times a day, saying we want more money'.



Debt Matters

This firm loved IVAs. It went down this route from the start. The advice was accurate, but it just didn't match our circumstances.

If an IVA proved unsuitable, we were told the company would then explore other routes.

Freeman Jones

The major flaw here was that the adviser failed to look at all our spending. He restricted several of our expenses to what would be allowable for an IVA application. We were advised to look for an IVA first and only look at other options if there was a problem.

We felt pressured to agree to a plan the same day.

Just before the call ended, we were told our monthly payments

would have to increase from £265 to £275, even though the first figure had supposedly been based on our circumstances.

Money, Debt and Credit

Our investigator felt as though the adviser had a script and wasn't listening to personal details. The IVA route was discussed and no alternatives suggested. A specialist called back later and sighed audibly when an IVA looked unlikely.

When we did discuss a debt management plan, we were asked whether we had a card to make a payment that day.

W3 Debt Solutions

Options were suggested before our finances were discussed. Once they established that an IVA was 'out of the question', based on what we could afford to repay, there was still no discussion of bankruptcy until we raised it. Even then we were told a debt-management plan would probably be best.



WHICH? SAYS

Our verdict on what our investigation has uncovered

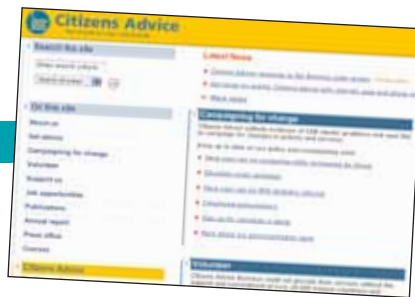
Some or all of the companies we spoke to on the phone failed to fulfil what we would have expected.

We should have been offered free basic debt advice, all options should have been thoroughly considered and we would have liked to see their charges clearly outlined so we had all the information necessary to make our decision.

In our investigation, the companies most often recommended IVAs. IVAs are legally binding, so the companies are guaranteed fees for up to five years.

Anyone who cannot be offered a solution by a debt-management company should be referred to a free debt-advice organisation. See 'Checklist', right.

We think, anyway, that if you are struggling with debt, your first port of call for free and independent advice should be your local Citizens Advice Bureau, the Consumer Credit Counselling Service (CCCS), National Debtline or Payplan.



Moir Haynes of Citizens Advice said: 'We have had serious concerns in the past about the level of fees charged and quality of advice provided by commercial debt-management companies.'

Frances Walker of CCCS said: 'It makes no sense to pay for something which is available better and free elsewhere.'

Becky Boden-Wilks of National Debtline added: 'Debt-management companies are selling financial products. It is therefore important that anyone seeking impartial debt advice seeks it from the free sector.'

It should be noted that an IVA proposal must be agreed by a regulated insolvency practitioner before being put forward.

However, we are concerned about the advice given by call-centre staff before this stage. We have passed our findings to the Financial Services Authority.

'If you are struggling with debt, one of these companies should not be the first place you go for help'

Checklist

Use free advice first

- Don't use a debt-management company as a first port of call. There is plenty of free and independent advice for people struggling with debt.
- Mainly telephone-based free advice is offered by National Debtline and Payplan. Face-to-face advice is provided by Citizens Advice and Citizens Advice Scotland. Money Advice Scotland is an umbrella group representing debt-advice agencies across Scotland.
- The Consumer Credit Counselling Service offers advice face to face in ten regional centres, as well as by telephone and online. It also now offers IVAs through a sister company.
- To complain about a debt-management company, check whether it is a member of a trade association. For disputes arising since April 2007, the Financial Ombudsman Service (FOS) may be able to help, as it covers credit agreements.
- On a more general note, be wary of consolidating existing debt in one new loan. It can help your cashflow, but interest rates can be high. The debts are sometimes secured against your home, meaning you could lose it if you fail to keep up payments.
- For more advice on debt, see *Which?*, June 2007, p40.

Who checks they're doing it right?

Advice group calls for rules to be reviewed

Debt management companies must hold a Consumer Credit Licence and work within Office of Fair Trading guidelines.

There are trade bodies (the Debt Managers Standards Association and the Debt Resolution Forum), but membership is voluntary.

Moir Haynes of Citizens Advice said that the guidelines introduced in 2001 had improved things, but a review is needed as the market has changed since. Many more companies are offering IVAs as well as the debt-management plans that they

have traditionally offered.

Legislation was introduced by the government in July to offer an alternative to debt-management plans.

Consultations are also under way on introducing a possible new simplified version of the IVA.

Contacts

Citizens Advice
Number in local phone books
www.adviceguide.org.uk
Citizens Advice Scotland
Number in local phone books
www.cas.org.uk
Consumer Credit Counselling Service
0800 138 1111
www.cccs.co.uk
Debt Managers Standards Association
0113 277 7610; www.demsa.co.uk

Debt Resolution Forum
www.debtresolutionforum.org.uk
Financial Ombudsman Service
0845 080 1800
www.financial-ombudsman.org.uk
Money Advice Scotland
0141 572 0237
www.moneyadvicescotland.org.uk
National Debtline
0808 808 4000
www.nationaldebtline.co.uk
Payplan 0800 917 7823
www.payplan.com

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