

Stop debts clouding your future

If you are one of the thousands of people struggling to pay off loans and credit card bills, ask for help, advises **Kathy Foley**

Another demand letter on the doormat. Another aggressive phone call from a creditor. Another home visit from threatening debt collectors.

This is reality today for thousands of vulnerable, worried Irish people who cannot meet their debt repayments.

It can happen to anybody. The average level of unsecured debt held by customers of Debt Plan Ireland, a debt manager, is less than €50,000.

At the other end of the scale, the most severe case seen by Eugene McDarby of MoneyVillage, who is the chairman of the Debt Management Association of Ireland (DMAI), involved an individual with €250,000 of unsecured debt.

"All it takes is one income shock," he said. "Maybe someone gets made redundant, separates from their spouse or falls ill. One of those events can cause financial pressure. It's not that people don't want to pay off their debts, but they can't afford to."

Afraid of ending up in court or losing their home, many panic and do nothing. Others who decide to act are not sure where to turn.

This is often where debt management companies enter the picture. Unfortunately for Irish consumers, the number of unscrupulous debt managers operating here has mushroomed in recent years.

DODGY DEBT MANAGERS

Debt management companies are unregulated, meaning anyone can set up such a company, and rip-off merchants are plentiful. Some English companies purport to operate an Irish service, for example,

but their websites offer information on "solutions" that are not feasible in Ireland.

Others promise to have debts written down by 75% to 95%, but such pledges are groundless. "Only three or four debt management companies have the proper systems in place to manage money, using separate accounts and dispersing the funds electronically to creditors," said McDarby.

CREDIBLE COMPANIES

Debt Plan Ireland and MoneyVillage set up the DMAI in an effort to distinguish the reputable firms from the others. Felix O'Regan of the Irish Banking Federation describes the move as "a significant step in the right direction".

The DMAI, supported by the federation, is lobbying hard for regulation of the industry, as recommended last year by the Law Reform Commission.

According to the Department of Finance, it is in discussions with the Attorney-General's office and the Financial Regulator, and provision for regulating debt management companies should be made in the second Central Bank bill due for publication in the autumn.

BE CAUTIOUS

Until the sector is regulated, consumers need to be wary. The Money Advice and Budgeting Service (Mabs) advises those researching debt managers to ask how much the total fees are, when they have to be paid and what services will be provided.

Find out if the company will address all of your outstanding debts and if it is linked to any other business that is selling financial products.

Be wary of any company that promises to solve all your problems immediately. "All good debt managers will say, 'We do not get rid of debt. We get rid of the stress of debt'. We cannot wave a magic wand," said McDarby.

A reputable company will not charge for an initial consultation and may even direct potential customers not to take its services.

THE COSTS

MoneyVillage charges an initial set-up fee of €495, paid in three monthly instalments, plus a fixed monthly fee of €35, €40 or €50, depending on how many creditors are involved. Debt Plan Ireland's fees vary, but are never more than €800 for the initial fee and €70 a month thereafter.

For these fees, the companies will take over management of all debts, review the debtor's finances, deal with creditors and come up with a structured repayment plan. The debtor makes one payment a month to the debt manager, who distributes it to creditors after deducting its fee.

"We make sure the mortgage is paid first — that is crucial," said McDarby. "Other creditors are paid pro rata after that."

IS IT WORTH IT?

It makes sense for every cent that can be used to pay off debt to be put towards that cause. Paying a debt manager means creditors will receive markedly less in a year than they would have if the debtor dealt with them. For those who can no longer cope with the stress of debt, however, debt management fees can seem like money well spent.

FREE ALTERNATIVE

For those who prefer not to pay a debt manager, there is Mabs, a free, confidential service with more than 60 offices nationwide. Mabs, which is independent and state-funded, provides the same services as the



McDarby, of MoneyVillage, says good debt managers will not promise an instant fix: 'We do not get rid of debt. We get rid of the stress of debt.'

commercial debt managers. It offers help with budgeting and debt repayment plans, and negotiates with creditors.

"Mabs is the best regarded and most widely known third-party debt agency, with which our members would be most familiar," said O'Regan.

There is a waiting list of four weeks on average to see a Mabs adviser, although anyone in trouble with debt can call its helpline (1890 283438) for assistance from Monday to Friday between 9am and 8pm.

Mabs has been in operation since 1992 and financial institutions are used to dealing with it, often advising their own customers to use the service.

DO IT YOURSELF

People who don't feel overwhelmed by their debts can take the DIY approach. Keep a spending diary for a month, noting every cent spent. Then make a monthly budget. There is a detailed budget planner on itsyourmoney.ie.

Mabs also provides a huge amount of information on debt

management and budgeting on its website at mabs.ie. More help and advice is available at askaboutmoney.com and keepingyourhome.ie.

Once you have calculated your income and outgoings, it should be clear how much is left each month to pay down debts. Secured debt, such as a mortgage tied to your home, should always be paid first.

Unsecured debt, such as personal loans, credit cards, store cards and so on, should be paid on a pro rata basis, with the focus on those with the highest interest rates.

If you are having any difficulty meeting repayments, contact the creditors concerned immediately. They may be willing to lower repayments, freeze interest or otherwise negotiate the terms of the debt, says Michael Culloty of Mabs.

"There are solutions to most over-indebtedness problems," he said. "They may not be the solutions we would choose, but they will work. It is crucial that people work at their situation. By ignoring it, it will not go away. It will get worse."

'It's a stomach-churning experience'

MARGARET O'TOOLE (not her real name) has a sorry tale to tell, one all too familiar to those struggling with mountainous debt. Her troubles started when she took out a €40,000 top-up on her €200,000 mortgage and switched to interest-only repayments for a year.

She says she did not realise, and was not told, that her restructured mortgage had a new term of seven years rather than 15.

When the interest-only period ended, her monthly repayments rocketed to €4,000, which she could not afford. She offered the building society €2,000 a month. It refused and she quickly slid into arrears.

Despite contacting

the lender and offering to make some payments, she was eventually taken to court.

Compounding the problem was the impact of the recession on her business. Her income fell to nothing and she was left with numerous bad debts. She had to let five staff go and at times had no money to buy food for her family.

O'Toole began to struggle to make payments on two personal loans, credit cards and a car leasing agreement.

She was inundated with threatening letters and aggressive phone calls from creditors, and was horrified one day to find a tow truck outside her house.

there to repossess her car without warning.

"It's been a disgusting, stomach-churning experience," she said.

A friend told her about MoneyVillage, which is now managing her debts. "I feel I am getting out of it now. I see the light at the end of the tunnel and I feel a sense of relief," she said.

She adds that she is happy to pay the fees involved.

"It's so tiny in the greater scheme of things. It means I am able to pay something off my debts every month. It means I have some cash flow and I have professional negotiators who talk the same language as the bank."

Kathy Foley