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Newman & Partners

Licensed Insolvency Practitioners

RECOVERY & REVIVAL BULLETIN

Welcome to the latest issue of our Recovery and Revival Bulletin, designed to keep you up-to-date on insolvency matters that may be of interest to you. If you have any feedback on this bulletin, or would like to know more about our services or how we can help you, please contact us on **020 8357 2727** or at **insolvency@newmanandpartners.co.uk**

One in three people have defaulted on debts in the last year

Recent research has indicated that more than one third of UK adults have defaulted on a personal credit agreement during the last 12 months.

A Debt Advisory Centre (DAC) survey conducted at the start of July found that 38 per cent of the 2,000 respondents had failed to pay creditors on time in the last year for a range of goods and services, with unpaid gas and electricity demands accounting for ten per cent of debtor defaults and credit cards for the same proportion.

Credit providers issue defaults to borrowers who have breached a credit agreement and are unlikely to be able to settle their debts. A series of late, missed, or incomplete payments, usually over three to six repayment periods, will trigger a default issue.

Defaults on accounts appear on borrowers' personal credit files for six years and seriously damage credit ratings. Defaults greatly reduce the chances of being granted mortgages or personal loans. Applications for personal loans, payday loans, credit cards and deferred payment agreements are also unlikely to be approved.

A creditor will issue a default notice to warn a debtor that an account is in danger of defaulting. Default notices only apply to Consumer Credit Act-regulated debts. They must legally allow a debtor at least two weeks to repay any outstanding sum due to the creditor before a default is registered on the account.

All credit agreement terms continue to apply following the issue of a default notice, so instalments remain due, in addition to outstanding repayment amounts.

A default notice is commonly issued as precursor to legal action to recover the sum owing, which invariably leads to a County Court judgment (CCJ) against the debtor for repayment of the full sum due. The CCJ will include costs and court fees, and the creditor has a range of debt recovery options to enforce the judgment, including Attachment of Earnings and Charging Orders over property.

A DAC spokesperson described default notices as 'a wake-up call' alerting borrowers that personal finances are getting out of control. The spokesperson strongly recommended that defaulting debtors seek professional advice to prevent – or prepare – for legal action, minimise additional financial problems and to avoid further prejudicing an already precarious personal credit position.

Debt purchaser Arrow Global predicts that consumer debt default increases of 17 per cent during the next five years will leave 4.7 million households in arrears by 2020.

Newman and Partners can help any of your clients who are facing debt recovery action from creditors. Please ask about our debt management services today.

Late payments are the primary cause of more than one in five insolvencies

The Association of Business Recovery Professionals, R3, has recently issued a report that reveals the damage that small firms suffer as the result of late payments by their customers.

R3's most recent insolvency profession survey shows that late payments were the primary factor in 23 per cent of insolvencies during the last 12 months, with 3,670 businesses of the 15,958 corporate insolvencies ceasing business due to their impact.

Supplier or customer closure was the major cause in 20 per cent (3,192) of insolvency cases during the same period.

Late payments have increased since 2014, when they were the main reason for 20 per cent of corporate insolvencies.

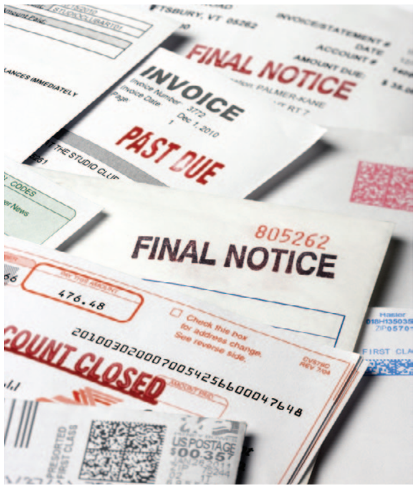
Mobile payments firm Paym's own study indicates that Britain's 3.3 million sole traders lose approximately £8.1 billion a year from late, delayed or incomplete payments, an average of £2,472 per business.

R3's President, Andrew Tate, said: "A business can have a great product and great staff, but if it doesn't get paid for what it sells, or is over-reliant on one supplier or a major customer, things can go wrong very quickly, and commercial partners will inevitably be affected."

The Department for Business, Innovation and Skills' planned appointment of a small business commissioner to tackle late payments is now uncertain following former Business Secretary Sajid Javid's recent departure.

Andrew Tate added: "Unfortunately, government promises and other initiatives don't appear to have made any real impact.

"The failure of one company can have a serious knock-on effect. Both late payment and its domino effect have been identified as leading causes of insolvency by the profession, so more needs to be done to address them."



If your clients are in financial difficulty, we can offer swift and effective intervention that will protect their income, assets and workforce and recover debts due. To find out more, please contact us.

UK personal debt increases by £40 billion in one year

The Money Charity's recently released statistics showing that personal debt in the UK totalled £1,484 trillion by the end of June 2016 – a rise of nearly three per cent from the £1,444 trillion recorded last June.

The UK's personal debt levels have increased gradually since 2011, with sums owed currently averaging £54,900 per UK household, or £29,379 per UK adult.

Much personal debt is secured, predominantly through mortgages, but consumer credit borrowings account for £186 billion of the aggregated debt (£11 billion above June 2015's figures), of which £65.2 billion is credit card-related.

The Association of Chartered Certified Accountants (ACCA) noted in a report predating the Money Charity's findings that, since the 2007-8 financial crisis, indebtedness has been rising among individuals with little 'financial resilience in the form of adequate savings insurance and responsible credit access'. ACCA found that lower income households, which are more likely to take on 'problem debt' in response to unexpected expenses and income, suffer poor resilience levels, which their circumstances make difficult to improve.

The Money Advice Service estimates that nearly one sixth of UK adults – 8.8 million – currently experience 'problem debt', which is defined as 'being at least three months behind with bills in the last six months, or feeling debts to be a heavy burden'. While the debtor's own view of the burden must be taken into account, the jump from Step Change's 2013 estimate of 2.9 million 'problem debtors' since 2013 to nearly 9 million indicates the seriousness of the UK's personal debt crisis.

Relatively cheap credit deals have fuelled ongoing personal loan increases, with the Money Charity reporting a daily rise of £173 million in borrowings during June.

However, higher debt often leads to higher default: during 2016's first quarter, debt write offs were £624 million, and nearly 250 individuals declare insolvency or bankruptcy every day in the UK.

Personal financial management is critically important. We can help your clients who are struggling with personal debt issues and take action to resolve them in the most appropriate way. To find out more, please contact us.

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