This fact sheet tells you when a debt relief order (DRO) may be a good option for you to deal with your debts. A DRO stops most creditors from taking further action against you and can help you to get a fresh start. The law about DROs can be complicated, but this fact sheet explains what you need to know step by step.

Use this fact sheet to:

- find out if you qualify for a DRO and how to apply to help you deal with your debts;
- find out which debts can be included in a DRO; and
- understand the effects of a DRO on you.

This fact sheet includes some useful contacts and links for you to get further help.

The sample letters mentioned in this fact sheet can be filled in on our website.

How to apply

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 we can help or contact us for advice.

Information:

applying for a DRO

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.

My Money Steps is our free, independent and confidential online debt advice service. My Money Steps will help you work out a budget and give you a personalised action plan setting out practical steps to deal with your debts.

www.mymoneysteps.org
Do I qualify?

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 of £20,000 or less at the date the application is approved by the official receiver;
- have assets worth a total of £1,000 or less;
- not have a car or motor bike worth £1,000 or more;
- have £50 a month or less 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:

no joint applications

You cannot apply for a DRO jointly with another person. If you and your partner both want a DRO, you each have to apply separately. This means you each have to pay a £90 application fee.

Contact us for advice.

Warning:

when can't you apply

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

How we can help

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. See the sample letter Ask your creditors to hold action on your account whilst you apply for a debt relief order. Before sending it to your creditors, contact 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. Contact 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 total debt being £20,000 or less 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 £20,000 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 £19,000 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.
Debts that are included

You can include most types of debt in your application as long as your total debts are no more than the £20,000 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:

rent arrears

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.

Extra advice:

priority debts

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, energy, 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 later section Listing debts.

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);
Information:

- 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 a small business such as:

- money owed employees;
- debts to customers who have paid for goods or services that were unable to be supplied; and
- debts to suppliers.

Excluded debts

Some debts do not count towards the £20,000 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, Child Support Agency (CSA) and Child Maintenance Service (CMS) payments and arrears;
- student loans;
- budgeting loans and crisis loans;
- 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.

Hire purchase and conditional sale

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, contact us for advice

What if my debts are near the £20,000 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 £20,000 limit when you start the application process, your debts could rise to above £20,000 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 £20,000.
- 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 Ask creditors to hold action on your account whilst you apply for a debt relief order 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 £20,000 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 debt, which may help to prevent the debts reaching the £20,000 limit.
- The court can also change some of the terms of the agreement, such as the rate of interest. This is complicated. Contact us for advice.

See our fact sheet:
Time order on an unsecured credit agreement

Warning: creditor ends the agreement

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 contact us for advice.

My Money Steps is our free, independent and confidential online debt advice service. My Money Steps will help you work out a budget and give you a personalised action plan setting out practical steps to deal with your debts.

www.mymoneysteps.org

Freephone 0808 808 4000
www.nationaldebtline.org
Assets

You can have assets worth up to £1,000 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.

If you own a car or motorbike, then your adviser will need to check the value using Parker’s Guide. See Useful contacts towards 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, contact us for advice.

Extra advice:
cars on hire purchase or conditional sale agreements

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.

Information:
pensions

Private pensions approved by Her Majesty’s Revenue & Customs (HMRC) do not count towards your £1,000 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:
be honest about your assets

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 £1,000 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.
Before I apply

You will need to think about the following steps.

- Get advice about whether you may qualify.
- You can do a personal budget 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.

DRO fee

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. Contact 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.
- 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:
when you should pay the fee

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.
Listing debts

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, contact us for advice. If this debt takes your total debts over £20,000, the official receiver will consider ending or 'revoking' your DRO.

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. Contact 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). Contact 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 using our sample letter Creditors asking for payments after debt relief order approved. You should also let the official receiver know. Contact us for advice.

- If your application is rejected, the official receiver will tell you and your intermediary the reasons.

Information:

future statements from creditors

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, contact us for advice.
The official receiver

It is very important that you co-operate 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:
changes in your circumstances

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.

Effects of 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.
- In certain circumstances a ‘debt relief restrictions order’ can be placed on you.
- Your bank account may be frozen.
- The DRO will be recorded on your credit reference file.
- The DRO will be recorded on a public register called 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 contact 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, you account may still be at risk. Check the terms and conditions of your account and contact 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.

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.

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. Contact us for advice.

Useful contacts

Individual Insolvency Register
http://www.insolvencydirect.bis.gov.uk/eiir/

The Insolvency Service
Insolvency enquiry line 0300 678 0015
Email: insolvency.enquiryline@insolvency.gov.uk

The Debt Relief Order Unit
Insolvency Service
1st Floor Cobourg House
Mayflower Street
Plymouth
PL1 1DJ
Phone: 0300 678 0015
Email: DRO.Unit@insolvency.gov.uk

Payzone UK Ltd
Davidson House
Gadbrook Park
Northwich
Cheshire
CW9 7TW
Phone: 0844 2090 555
www.payzone.co.uk

The Post Office
Phone: 08456 11 29 70
www.postoffice.co.uk

Parkers Guide
www.parkers.co.uk/cars/prices/

National Debtline endeavour to keep our fact sheets as up-to-date as possible, however, we cannot be held responsible for changes in legislation or for developments in case law since this edition of the fact sheet was issued.