Debt Awareness Week 2025

A guide to dealing with debt

In partnership with

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StepChange Debt Charity | citizens advice | BUSINESS DEBTLINE | NATIONAL DEBTLINE | Mental Health UK

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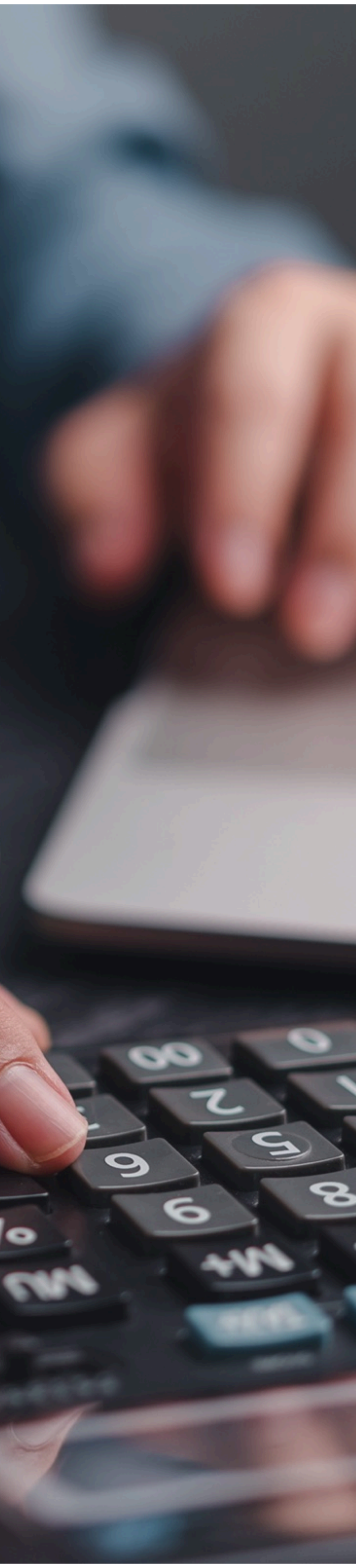
Contents:



Remember: you're not alone

If your debts feel overwhelming or you're struggling to keep up with loan or credit card payments, start by reading this guide.

Dealing with debt can feel isolating and can impact your mental health, but you're not alone and there is no need to be ashamed. Debt is more common than you think **- millions of people across the country face these financial challenges every day.**

Here are some recent facts on debt in the UK compiled by specialist debt charity, **StepChange** :

1. Debt affects **1 in 4** people, and the most common reason is the rising cost of living.
2. The average person seeking help owes £14,654 - an **8% increase** since 2022.
3. Credit cards are the most common type of debt, held by **66%** of those who need support.
4. Many people fall behind on payments like energy bills **(42%)** and council tax **(33%)**.
5. Approximately **46%** of individuals in problem debt report feeling a strain on their mental health.

There's **free support** available to help you get back on track

Get the right debt advice

Important:
Don't bury your head in the sand

Keeping financial worries to yourself can take a toll on your mental health. Reaching out for support and guidance is vital - not only for your finances but for your overall wellbeing.

Free, confidential support is available. You can:

- Speak to someone who understands your situation and won't judge
- Get advice tailored to your needs
- Take steps to reduce stress and regain control

Please note: Advice from online or sponsored advertisements may not be trustworthy.

The following organisations offer excellent support and can help you create a personalised plan to help you relieve your debt challenges.

Step Change

StepChange is a specialist debt charity providing expert debt advice and tailored debt solutions for people across the UK worried about money.

There is a focus on practical repayment plans and insolvency solutions.

These include structured solutions such as Debt Management Plans (DMPs), Debt Relief Orders (DROs), and Individual Voluntary Arrangements (IVAs). Advice is given via phone or online tools and you can be anonymous.

National Debtline

National Debtline is a charity offering free impartial advice to help people across the UK tackle their debts and manage their money with confidence.

They can support you over the phone, via webchat or through their online advice tool **My Money Steps**. The website hosts summaries and guides on a variety of topics related to debt and personal finances.

Business Debtline

Business Debtline is a charity offering free impartial advice to help self-employed people and small businesses across the UK tackle their debts and manage their money with confidence.

They can support you with business debt advice over the phone, via webchat or through the online advice tool **My Budget**.

Mental Health UK

Mental Health UK is a charity challenging the causes of poor mental health and giving people the tools they need to live their best possible life at home, school, and work.

They offer specialist support for mental health and money issues through the following programmes:

- **Mental Health & Money Advice** helps people understand, manage, and improve both their mental health and financial situations.
- **The Me & Money Programme** was created in response to the rise of money anxiety among young people. Fully co-produced with young people, Me & Money is a programme for 14-18-year-olds that explores the complex interplay between values, beliefs, attitudes, thoughts, and behaviours related to money.

Citizens Advice

Citizens Advice is a charity giving free, impartial and confidential advice on a wide range of topics, including debt, housing or benefits, a consumer issue or energy bills. Citizens Advice has a network of local offices providing in-person support alongside digital and phone services.

They offer advice on managing debts, negotiating with creditors, and understanding rights around bailiffs and court action.
Find your local Citizens Advice branch here.

Speaking to a debt adviser

All of the organisations listed above can support you with free debt advice.

If you're feeling overwhelmed by debt, reaching out to a debt adviser **won't cost you anything and will not impact your credit score.** It could save you a lot of money in the long run. The sooner you have that conversation, the more options you may have for managing your debts.

4 Signs You Should Speak to a debt adviser

Don't wait for your debts to become overwhelming. If any of the following situations sound familiar, a conversation with a debt adviser can help you:

1. **You're constantly in your overdraft.**
If you're spending the whole month in your overdraft, and never quite managing to get out of it even after payday.

2. **You're relying on credit for priority debts.**
If you find yourself relying on credit to cover rent, mortgage payments, council tax, energy bills, or car finance.

3. **You're looking into 'debt solutions' that you've found online.**
Some companies promote options like Individual Voluntary Arrangements (IVAs) without fully explaining the risks. Speaking to a reputable debt adviser such as the ones listed above can help you make a well-informed decision.

4. **You're thinking about consolidating your debts.**
Taking out a loan to consolidate existing debts might seem like a good solution, but it's worth considering other options that could work out more affordably. Speak to a qualified debt adviser before making any decisions.

A debt adviser will have a clear, objective perspective on your situation and can suggest the best ways forward, whether it's negotiating with lenders or looking into the best solutions for you. Debt advisers are non-judgemental - they've helped many people in similar situations and are focused on finding **practical ways to support you.**

Understanding credit and interest

Understanding how credit and interest rates work is a good first step to understanding your financial situation and how to avoid financial traps. Here are a few key insights:

Tool: If you think you may be dealing with a loan shark, you can contact a confidential hotline for support from **National Debtline.**

Credit can feel like "free money", but it isn't

Using credit (this includes your overdraft) for everyday expenses can lead to a cycle of debt. Sticking to a budget and paying more than the minimum charge whenever possible can help to reduce interest costs.

Compound interest increases debt over time

Interest gets calculated on the current balance of the debt plus any previous interest, which makes the debt grow over time and harder to pay off. This is particularly severe when you only pay the minimum amount off a debt.

Interest free periods

If your credit card offers an interest free period, it's a good idea to plan your repayments to clear the full balance before the 0% period ends to avoid higher interest charges.

High interest rates on credit options

Buy Now, Pay Later (BNPL) schemes and credit cards may seem low-cost initially. But missed payments can occur high interest, charges and can impact your credit score. Because there are now so many providers of BNPL, you must be very careful to track what you owe where so that you can stay on top of it.

Look out for loan sharks

This is unregulated lending that usually happens when an individual or a group offers you a loan 'unofficially' in your community. These interactions are often friendly to begin with but can end in intimidation or even violence. All official lenders should be regulated by the Financial Conduct Authority (FCA).

How to start dealing with debt

Dealing with debt can be intimidating, but deciding to take action is an important first step.

Financial stress can create a cycle where money worries impact your mental health, making it harder to manage finances and leading to further difficulties. Breaking this cycle by addressing debt can ease financial pressure and support your overall wellbeing.

Here's a few ways to help you get started:

1 **Taking stock of your situation**
Writing down all your debts, bills and income can help you get a clear picture of where you stand. For example, this could include listing what you owe, who you owe it to, when it is due and how much you have left over to cover payments on your debts after paying bills.

2 **Getting expert support for free**
Exploring organisations like **StepChange**, **National Debtline**, **Business Debtline**, and **Citizens Advice** to find the most relevant and practical support for your situation.

All provide free, confidential help, assessing your circumstances and guiding you toward the best solution. It's a good idea to speak to a free adviser ahead of agreeing to payments.

3 **Things that can make debt challenges worse**

- Using credit cards to **pay off debt**, borrowing more or increasing your overdraft when you are already struggling with payments.
- Consolidating your debts into **one loan** secured against your home could increase the risk of you losing your home.
- Agreeing to payments you can't afford.

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Prioritising your debts

If you can't afford to pay your debts when they are due, this means you are **insolvent.**

If this applies to you there is **no need to panic**. Those who are insolvent are required to pay off priority debts first. Seeking free professional advice from **Citizens Advice**, **StepChange** or **National Debtline** can help you understand how to prioritise debts in line with your legal obligations.

If you are solvent and still able to pay your debts on time, it's important to consider prioritising payments that impact your home and health or the debts that are costing you the most.

Keeping these priorities in mind, two common strategies are:

The snowball method:
Focusing on paying off your smallest debt first, while making minimum payments on the rest. Once the smallest debt is paid off, moving to the next smallest debt, and so on. The idea is to gain momentum by eliminating smaller debts.

The avalanche method:
Focusing on paying off the debt with the highest interest rate first. This method can save you more money in the long run as it reduces the amount of interest you pay.

You decide which method suits you best, but either method can help reduce your debt load effectively.

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Reduce interest rates where possible

If you have high-interest debts (such as credit cards), reducing the interest rate using the methods listed below might help to free up more of your monthly payment for the original debt.

If you are **insolvent and unable to pay debts owed:**

Try negotiating with creditors

Sometimes creditors may be willing to lower your interest rate, especially if you've been a good customer. It's worth contacting them to negotiate better terms. For example, creditors may agree to freeze interest if you demonstrate you cannot afford the contractual payments. If they agree, this might be a cheaper method than debt consolidation but may negatively affect your credit rating.

Tool: Here is some advice from **StepChange on how to negotiate with creditors.**

If you are **solvent and still able to pay debts owed:**

Explore balance transfer credit cards

If you have credit card debt, you may be eligible for a balance transfer card with 0% interest for an introductory period (usually 12-24 months). You may have to pay a small fee, but it could save you a lot of interest if you can clear the balance before the introductory period ends.

Remember: applying for many cards can affect your credit rating negatively.

Tool: Try using the balance transfer calculator on the **Which? website** to see if you could save by switching to a different credit card.

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Managing the pressure

Remember: owing money isn't a crime. If court action starts, don't panic, there are services you can use to get help. Court is the last resort, and can often be avoided with support and negotiation. Start with the organisations listed at the start of this guide.

If you're finding calls from creditors stressful, **remember you don't have to speak to them on the phone.** Ask them to contact you in writing instead. It's a small move but it can make things feel more manageable.

It's okay to ask for **mental health support.** Organisations like Mental Health UK are there to offer specific Money and Mental Health tools to help you.

Apply for Breathing Space. This is a government scheme which gives you a break from interest, fees, and court action for up to 60 days. Find out more on StepChange's website.

What is debt consolidation and what are the risks?

Debt consolidation loans combine multiple debts into a single loan, using new credit to pay off what you owe. If you have multiple debts with high interest, consolidating them into one loan with a lower overall interest rate could help reduce the interest rate on debt, reduce payment amounts and the number of companies you need to interact with.

However, debt consolidation isn't the right solution for everyone and, in some cases, may worsen your financial situation. Speaking to a debt adviser first is crucial to understand all your options before proceeding.

If you are insolvent it is worth keeping in mind:

- If you have already been missing payments on existing loans, your credit rating is likely to have been affected, and you may not get the best deals.
- You will be liable for repaying both the borrowed amount and the interest over the loan term, which increases your overall debt. This can become a problem if you struggle to keep up with the new loan repayments.

Tool: It's important to seek free debt advice before taking out a consolidation loan. You can find more information and a debt consolidation calculator on StepChange's website here. This will help you assess whether consolidation could be a suitable option for you.

What debt management options are available?

There are formal agreements and debt management options out there that could be right for you. **StepChange's debt advice** guide can offer detailed information about what different plans exist. StepChange can help you with any of these options and does not charge for arranging and managing your plan for you.

To give you an idea of what they are, how they work and any risks to watch out for, look at the table below:

Debt Solution	Who is it for?	How does it work?	What do I need to know?
Debt Management Plan (DMP)	For people with some money left over each month but not enough to cover all their debts.	A third party negotiates with creditors so you pay one affordable monthly amount, which is divided between them. Creditors may agree to freeze interest and charges.	-Not legally binding; can be cancelled anytime. -Uses free services like StepChange or National Debtline -avoids fee-charging companies. -May impact your credit file negatively. -Helps simplify payments and manage debts effectively.

Debt Relief Order (DRO)	For people with debts under £50,000, with £75 or less left after essentials, and assets worth under £2,000 (you are allowed to have a car worth less than £4,000).	If approved, debts are frozen for 12 months and written off if your financial situation doesn't improve.	-Free to apply for; must apply through an intermediary like StepChange, Citizens Advice or National Debtline. -Negatively affects your credit rating for at least six years.
Individual Voluntary Arrangement (IVA)	For people who can make regular payments, but need a formal agreement to manage debts.	An insolvency practitioner (IP) sets up a plan with creditors. You make monthly payments for five years, after which the remaining debt is written off. For homeowners an IVA can put your home at risk.	-Legally binding; creditors can't chase payments. -Missing payments can lead to bankruptcy. -Find an IP via StepChange, National Debtline, or the Insolvency Service's register. -Be cautious of private firms charging high fees. -Negatively affects credit rating.

Bankruptcy	Bankruptcy is a way of having your debts written off. Whether it is cheaper and quicker than the other options will depend on your personal circumstances. It is less likely to be suitable if you have valuable assets that you want to keep.	Clears most debts, but assets (e.g. house, car) may be sold to repay creditors. You can apply online to be declared bankrupt. An adjudicator (rather than a court) decides whether you meet the legal criteria and this is the right option for. Restrictions last typically 12 months. Costs £680. Creditors can apply to have you declared bankrupt.	-Comes with restrictions (e.g. limits on taking credit, running a business, or acting as a company director). -Affects credit rating negatively for six years and can exclude you from jobs in law, finance, or roles requiring security clearance. -Seek advice from StepChange, National Debtline, or Citizens Advice before proceeding.

How to manage your finances going forward

Good financial habits can help you avoid debt and achieve long-term security. Here are some practical steps that may help you organise your finances, plan for the unexpected, and set yourself up for success.

Start with a budget

A good first step is understanding where your money is going. Creating a clear budget to track your income and expenses can help you do this.

How to create your budget:

- **Income:** Write down all sources of income, such as salary, benefits, or any additional side income.
- **Essential expenses:** List out all the essential monthly expenses like rent/mortgage, utilities (gas, electricity, water), council tax, food and transport.
- **Non-essential expenses:** Identify and review your discretionary spending, including entertainment, subscriptions, dining out and shopping.

Once you see where your money goes, you can adjust your spending if needed. It's a good idea to put essentials like rent and food before non-essentials like takeaways or streaming services.

A few things to keep in mind when creating your budget:

- **Prepare for one-off expenses**
  Some expenses don’t occur monthly but can catch you off guard if you're not prepared. Examples can include annual bills, holiday costs, or even buying new appliances.

- **Plan and save for essentials**
  Budgeting for recurring essential costs - like school uniforms, work clothing, or other regular purchases - can help prevent overspending later on.
  Set aside a small amount each month, so these costs don't come as a shock.

Example of how to prepare for expenses:

Estimate the cost of these expenses for the year
For instance, if you know your car insurance will be £600 in 12 months, divide that by 12 (£50 per month).

Set aside that amount each month
into a separate savings account or a digital "pot". Many high street banks now offer "savings pots" or sub-accounts that allow you to ring-fence money for specific purposes.

Life happens!

Unexpected costs – car repairs, broken appliances, health expenses –are inevitable. Building a financial cushion can reduce the need to rely on credit cards or loans. A common goal is to save enough to cover at least three months’ worth of living expenses.

Peace of mind
A solid budget and emergency fund can bring peace of mind and give you the confidence to handle life’s unexpected events.

How to build an emergency fund:

Start small
saving £5-£10 per week can add up over time. For example, a standing order can be set up to transfer a small amount each payday into your emergency fund account. You can also explore **round-up savings**. Some banks offer round-ups which round up your purchases to the nearest pound and save the difference automatically.

Look into using an instant-access, high-interest savings account to keep your emergency fund accessible but growing.

Other tips:

Review and adjust your budget regularly
It's useful to review your budget every 3 to 6 months or whenever your financial situation changes.

Set daily spending limits
Setting a daily spending limit on your debit card can be an effective method of budgeting. There are several apps (listed below) and bank features that allow you to set specific spending caps which can help you stay within budget.

Embrace cash spending
Using cash can help you be more mindful of how much you're spending when you physically hand over money.

Shop consciously
Charity shops and online marketplaces can help save money and reduce waste.

Try to avoid impulse purchases
Mental Health UK advises that debt can affect your mood, which may in turn make you more inclined to emotional spending. Giving yourself time to consider purchases, and sticking to a shopping list may be helpful approaches.

Tool: Use <u>**MoneyHelper**</u> to find the best savings account for you

Helpful resources:

Budgeting tools

MoneyHelper provides free online tools and resources to help you set up and manage a budget.

Free apps
Apps like Yolt or Money Dashboard can help track your spending and highlight areas where you can save.

Government support
If you receive a Working Tax Credit or Universal Credit, you may qualify for the **Help to Save scheme**.

- **How it works:** For every £1 you save, the government will boost your savings by 50p, up to a maximum of £1,200 over four years.
- **How to apply:** You can apply via the gov.uk website or through your Universal Credit account.

Managing your finances is an ongoing process. Taking control of your finances will give you peace of mind for years to come.

And always remember - you are not alone and there are expert advisers available to give you free confidential guidance.

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Thank you to our charity partners - **National Debtline, Mental Health UK, Citizens Advice, and StepChange** - for sharing their expert input to help shape this guide.