

Alternative to bankruptcy

DEBTORS can choose to take out an Individual Voluntary Arrangement (IVA) as an alternative to bankruptcy.

It is a legal repayment agreement between a debtor and creditors, usually done via an insolvency practitioner and allows a debtor to avoid bankruptcy by paying a portion of debts over a given period.

The debtor will generally pay a lump sum up front to the creditors and the insolvency practitioner, followed by a series of monthly payments. But IVAs only go ahead if creditors owed more than 75% of a debt, agree to the deal.

While taking out an IVA, a debtor can apply to the court for an interim order that prevents creditors proceeding with a bankruptcy petition.

But creditors can still force the debtor into bankruptcy if all requirements of the deal are not met.

A report shows that 70% of insolvency practitioners expect the number of people unable to keep up with their debts to rise during this year.

A third of those questioned said they had already seen a jump in the number of people unable to keep up with their debts in the past three months, according to the trade body for insolvency professionals R3.

Nottingham debt management firm TDX Group recently predicted the number of people taking out debt management plans (DMPs) would double this year to 320,000 nationally.

But it warned the debt management industry was not in a state to cope with the huge rise in demand, adding that a lack of standards relating to the plans, meant many people who took one out never completed it.

Mark Onyett, chief executive of TDX Group, said: "Demand for DMPs has grown exponentially over the past few years. But our concern is that it is still acting as a disparate industry.

"High breakage rates don't benefit anyone. Debtors often end up back at square one – or worse. Creditors miss out on potential returns on their debt, and debt management companies lose their ongoing management fees."