

1Stop Money

Bankruptcy Factsheet



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What is Bankruptcy?

Bankruptcy is a legally declared inability or impairment of ability, of an individual or organization to pay its creditors. Creditors may file a bankruptcy petition against a debtor owing over £750 - known as involuntary bankruptcy - to try and retrieve a percentage of what they are owed. Although bankruptcy has accrued many negative connotations, it is still an important option to consider when an individual is 'insolvent' - the term for someone unable to pay their debts as they fall due, and who is unlikely to be able to pay them in the future. Filing for bankruptcy effectively releases you from the pressures of creditors you have no way of paying in order to make a new financial start, with any assets being shared equally amongst your creditors.

A person going bankrupt for the first time will usually receive their discharge from bankruptcy one year after the date of the bankruptcy order, and in many cases this is considerably less. Bankruptcy should always be considered when examining insolvency cases.

What happens when I go bankrupt?

- You will lose all control of your assets. These fall under control of a Trustee - either the Official Receiver - a civil servant and officer of the court - or a licensed Insolvency Practitioner.
- All assets will be divided equally between creditors.
- You are released from the worry of debt. NO further action can be taken against you.
- You will be unable to obtain credit for over £500 without permission from the lender.

Anyone can go bankrupt, but certain professions will be adversely affected, or are prohibited from continuing to practice, for the duration of your bankruptcy term.

For details of these professions, please see our Website www.1stopmoney.com and the section "Is bankruptcy right for me?"



The Stages of Filing for Bankruptcy

Here is a brief overview of the bankruptcy process.

1. Our Insolvency Professional recommends that filing for bankruptcy is the best choice for you.
2. We refer your case to an independent insolvency practitioner (IP) who will then aid you with the bankruptcy procedure.
3. The IP contacts you for information concerning your finances. He then helps you prepare your 'Statement of Affairs' - a calculation of your income and outgoings. This represents your bankruptcy petition.
4. Your IP files for a Debtor's Petition at your local court. This is your bankruptcy petition, once your petition has been received, a date will be assigned for the court appointment.
5. On the day of your appointment you attend in person and you are required to pay your court fees to the cashier.
6. The bankruptcy petition is checked and sworn in by a court official, on a holy book or civil affirmation.
7. The petition is taken away and assessed by a court registrar or judge. And if approved the bankruptcy term then begins. The companies and individuals who are owed money by you are then prevented from contacting you and attempting to bring legal action against you.
8. The task of examining your finances begins. This is conducted by your official receiver.
9. You may be required to participate in a telephone interview with an insolvency official alternatively you may be asked to see a case worker, an examiner or more rarely, an official receiver at the Insolvency Services Office for a face to face interview.
10. After the trustee or official receiver has fully investigated your case, you may be eligible for an early discharge from bankruptcy, or you may be required to serve the full 12 month term.

Once you are formally discharged from bankruptcy, you can then make a fresh financial start.

Is Bankruptcy Right for Me?

An important fact to remember when considering going bankrupt is you lose control of all assets that you may have. This includes your home, particularly if there is equity in it, and your car if it is worth more than £2500. These assets will be seized by the court and shared between your creditors. In essence, if you do not own your own home and have no other valuable assets, then it is generally a better option to go bankrupt, as the restricted term is far less than an IVA - one year as opposed to five - and you will also pay far less to your creditors in the long run.



Advantages of bankruptcy

- Once you are declared Bankrupt, the responsibility for repaying your debts is removed by the Court.
- No further credit action is allowed to be taken against you BY LAW. Creditors are not permitted to contact you or demand repayment of money. They are not permitted to add further interest or charges and can take no further action against you, BY LAW.
- Reduction of stress by the cessation of calls and demands from creditors.
- All debts will be written off by the Court (there are a few exceptions please see www.1stopmoney.com – on the page “Will Bankruptcy remove ALL of my debts?”)
- The term for bankruptcy is usually 12 months, although in many cases this can be less. This is a significantly shorter period of time than an IVA or Individual Voluntary Arrangement, which generally lasts for at least 5 years.

Disadvantages of bankruptcy

- On certain occasions, your bankruptcy order can be accompanied by an ‘Income Payment Order’. This essentially means that you may have to make payments to the court over a period of 3 years - if you can afford to do so.
- Your home, car (if it is worth more than £2500) and belongings of value – i.e. assets - will be sold to pay off your creditors.
- You may lose assets of value such as pension or life insurance.
- Your credit rating will be damaged, but as most people in significant debt have damaged credit scores anyway, this of little consequence.
- You may also lose any assets acquired during your bankruptcy term, such as an inheritance or growth of value on your home.
- Similarly you will be required to surrender any insurance claims that may settle during that term.

Remember - for the hundreds of thousands of people in severe debt WITHOUT SIGNIFICANT ASSETS, who do NOT work in one of the prohibited professions - bankruptcy is a more favourable option than an IVA.

IVAs are beneficial to people who do own significant assets or who work in one of the professions affected by Bankruptcy.

