

1Stop Money

IVA Factsheet



What is an IVA?

An 'IVA' or Individual Voluntary Arrangement is a formal agreement made between you and your creditors - the people you owe money to - where you agree to make reduced payments for a period of time towards your debt. This allows you to pay off a percentage of what you owe, with any remaining debt being classed as settled after 5 years - known as a 'composition of debts'. An IVA is different to a debt management plan, in that a debt management plan is not legally binding. IVAs are often the most beneficial debt solution for people with significant assets to protect, such as property or a business.

If our Insolvency Practitioner recommends that an IVA or Individual Voluntary Arrangement is the best choice for you, 1Stop Money searches presents your case to an IVA provider, who will then make the first steps towards entering you for an IVA. You will simply need to provide all essential information regarding your current financial situation, and based on that, a repayment amount will be agreed.

Most IVA's agree upon a monthly payment that is reasonably proportionate to the clients income, over a period of 60 months (5 years). The IVA proposal must be prepared by a fully licensed IP or Insolvency Practitioner who will present it on your behalf at the creditors meeting. If 75% (in value terms) of the creditors are in favour of the IVA, then it will become legally binding and all creditors must abide by it - whether they voted or not.

An Individual Voluntary Arrangement is legally binding. Providing you meet all repayments, you will be free from these debts when the term of your agreement is finished. Once an IVA proposal has been accepted the Insolvency Practitioner (IP) is responsible for monitoring the IVA's progress, ensuring that the agreed terms and conditions discussed at the creditors meeting are adhered to.

Once you have entered an IVA it is your responsibility to make the agreed payments to the IP, and to make them on time. The IP will then distribute the payments to your creditors on a pro-rata basis. Once the IVA is completed you will be considered debt free, even though you may still have debts remaining. These outstanding balances will be disregarded - known as a 'composition of debts'.

What will happen to my property?

If you do enter into an IVA and you have an endowment policy linked to your mortgage or equity in the property, then you may have to cash it in and pay the proceeds into the arrangement. This usually occurs at the end of an IVA term, and is a prerequisite of an IVA agreement - it can mean the difference between keeping your property or losing it to pay off debts.



The IVA Process

A brief overview of the IVA procedure.

- 1.** Our Insolvency Practitioner recommends that an IVA or Individual Voluntary Arrangement is the best choice for you.
- 2.** 1Stop Money presents your case to an IVA provider.
- 3.** A consultant will call to discuss your situation. You must provide all essential information regarding your current financial situation - including bank statements.
- 4.** Your appointed IVA Insolvency Practitioner will draw up the proposals based on that information, and a repayment amount will be agreed. You then read, sign and return them.
- 5.** Your Insolvency Practitioner or a professional associate will inform your creditors that they are now your legal representative.
- 6.** An application may be made to the court for an Interim Order, which halts bankruptcy and other legal proceedings for a short period - which means no creditors are able take legal action against you.
- 7.** A creditor meeting will be arranged which you will be need to attend. It is unlikely that your creditors will attend the meeting in person. **8.** Your creditors vote either for or against the arrangement. For an IVA to be approved 75% (in value) of those who vote must agree - even if that is just one creditor. If one creditor votes against the IVA and they represent less than 25% of your total debt, the meeting will be postponed until a later date, to allow any creditors who did not vote to do so.
- 8.** If the creditor who voted against the application for an IVA represents more than 25% of the total debt you owe, the application will not be approved. An IVA will only ever be approved if 75% of the creditors (in monetary value) votes 'for' the agreement. Any creditors who do not vote are automatically assumed as being 'for' the IVA.
- 9.** A statement is prepared to discuss whether the IVA offer is considered a viable option for retrieving monies owed from the individual.
- 10.** After the case has been deliberated and all votes have been cast, then a decision is made. If the IVA is approved you are legally bound to meeting the monthly repayments, and you will not be contacted further by your creditors - unless you cease payments. The monthly payment will be dependent on your disposable income. If the application is denied, then you will have to seek alternative routes of debt management - such as bankruptcy, debt management or debt consolidation.



Is IVA the Right Choice for Me?

If you are thinking about applying for an IVA, here are some important factors to consider.

- An IVA or Individual Voluntary Arrangement is often an ideal debt solution for people struggling with severe debt problems - this is generally classed as someone with debts in excess of £15,000 that are owed to at least 3 different creditors.
- Because an IVA involves making monthly repayments to your creditors, it is important that you see whether you will have sufficient income to regularly pay them. Even though the amount will be reduced, it can sometimes form a significant part of your income. For that reason you must ensure that you have a minimum of £200 that can go towards your repayments.
- When your IVA is calculated, the exact amount you will need to pay will be based on how much you can afford. An IVA usually will not be considered if your disposable income is less than £150 per month. The payments continue for an agreed period - usually for five years. After which your remaining debts will be cleared - known as a composition of debts. Failure to meet the payments of your IVA will result in failure of the agreement and the prospect of involuntary bankruptcy.
- An IVA is often a sensible debt solution for homeowners, as by undertaking an IVA you will be allowed to keep your home (although you will be expected to release some of your equity at the end of the IVA term). If you do not own your own home and have no significant assets, you may be better served by a bankruptcy petition.
- An IVA is best suited to people with significant debts that they feel would be impossible to repay otherwise.
- An IVA is legally binding, and as such demands commitment and discipline to paying off your debts. The amount you will be required to pay will be based on how much you can afford after deducting your essential household costs. You may be left with very little or no disposable income for the duration of your IVA term - between 5 and 6 years.

If you feel you will be unable to meet the strict regime of an IVA agreement, then it may be worth investigating other debt solutions, such as debt consolidation or bankruptcy.

