

## A helping hand for those in debt

### News Story

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According to banks, those on the verge of bankruptcy trying to free themselves from debt may be thrown a lifeline.

There will be a change in the Individual Voluntary Arrangements (IVA) industry over the next few years. It will help those living on a tight budget to escape bankruptcy. IVAs are an alternative to bankruptcy and allow people with debts to agree a 5-year deal of fixed repayments with their creditors, in return for paying less than their original loans.

However, recently banks have been paying IVA providers lower fees for these arrangements, as they are keen to crack down on their bad debts following the recent turmoil in the finance markets.

Earlier this week, many debt management companies suffered a significant fall in their share prices after a major player in the industry said that it could not make enough money from IVAs to stay profitable.

Debtmatters saw its share price fall 73% at the beginning of the week following a profit warning. Consequently, Accuma and Debts.co.uk also fell 23% and 21% respectively.

Some of these providers have criticised banks for wrecking a valuable helping hand for those trying to avoid bankruptcy. However, banks have responded by saying the IVA industry has become inefficient and needs to refocus on those customers that have a chance of recovering at least some of their debts.

A spokesperson for the British Banking Association has remarked that these inefficient providers will be driven out of the market and be replaced by competitors that can survive on lower bank fees because they will only take on customers that are keen to work hard to reorganise their debt, instead of those who are reluctant to adhere to an IVA's 5-year budget.

Individual insolvencies have been on the increase over the last 12 months. Between April and June this year, there were nearly 27,000 insolvencies in England and Wales – a rise of 4.2% on the same period 12 months ago, this was made up of 16,000 bankruptcies and 11,000 IVAs.