

Our Ref: DEMM/caw/173685

26 June 2013

The Rt Honorable Jo Swinson MP  
House of Commons  
LONDON  
SW1A 0AA

Nelson House  
Park Road  
Timperley  
Cheshire  
WA14 5BZ

FREEPHONE 0800 019 2095

T 0161 969 2030  
F 0161 969 2207

My Dear Minister

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**Proposals by Lloyds Banking Group (LBG) and The Insolvency Exchange (TIX) to reduce fees for low debt Individual Voluntary Arrangements (IVAs).**

I am writing to you about an urgent development that will stop many thousands of struggling UK consumers getting the debt help they deserve unless action is taken before 1 July – next Monday.

I am sure you will have shared my concern that, from 1 July 2013, LBG (who represent the largely publicly owned creditors Lloyds, TSB Halifax and Bank of Scotland) have announced, through their creditor representative, TIX, proposals that are likely to make IVAs almost impossible for at least 10,000 consumers a year (and possibly many more) – when previously these would have been seen as the fairest, most certain and most well run debt solutions – also representing the consumer’s best efforts.

Until now, licenced Insolvency Practitioners (IPs) have been able to rely on a minimum fee of £1,000 for the nominees’ stage of the IVA process. From 1 July, TIX have told IPs that LBG will modify all proposals, to reduce the fee to the equivalent of five monthly payments from the consumer (debtor). This means that nominee’s fees will be reduced from what is already a minimum that barely covers costs to a level where IPs, especially those in smaller firms, will not be able to offer the service because of the loss each case will create.

The likelihood of a substantial fall in the ability of IPs to arrange low value IVAs is made clear by TIX’s own figures – they say that more than 50% of IVAs that they see are now arranged at monthly contributions of less than £175 per month.

LBG’s proposal will not only immediately reduce by thousands the number of people who can be offered this debt remedy, it will also force a number of Insolvency Practitioners to exit the market, constraining supply and reducing the number of IVAs, at all debt levels, still further.

My company’s figures are likely to be typical of the marketplace as a whole. We have analysed all of our approved IVAs between 1 January and 31 May 2013. In short:

- There were 622 approved IVAs from 1 Jan to 31 May 2013;
- 333 (54%) had a Lloyds/HBOS creditor.
- 275 (83%) of those 333 had a contribution amount of less than £200.
- 146 (53%) of those 275 have a Lloyds/HBOS creditor share greater than or equal to 25%.



- Therefore 146 (24%) of the 622 approved IVAs in this period would have been rejected under LBG's proposal unless the nominee took a cut in his/her fee.

If you compare that with the Insolvency Service's figures for 2012, then 11,207 of the IVAs recorded in 2012 would have been denied. From the figures published for Q1 2013, this year's numbers could be even higher.

LBG is already severely tainted from its treatment of customers with PPI mis-selling claims. We can see no commercial validity for LBG and TIX's proposal and believe it treats customers unfairly and may simply be designed to keep more bad debts off their balance sheet. (If an IVA is passed the debt write-off must be shown; if a consumer continues to struggle with their debt or enters a debt management plan there is no impairment to LBG's accounts.)

The Office of Fair Trading's Debt Management Guidance (which applies to debt resolution providers and creditors) says this:

*"All advice given to consumers at any stage, and any action taken, should be appropriate to the consumer's individual circumstances. When advising consumers on how to deal with their debt problems and/or in considering taking a consumer on as a client, licensees should provide information and advice which is accurate, sufficiently clear and appropriate for the consumer."*

Then, of creditors, it says:

*"All creditors are expected to have regard to this guidance when providing their clients with debt advice and when discussing and/or agreeing an informal debt management plan and/or when dealing with third parties acting on behalf of clients".*

We think that rejecting an IVA purely on fee, where it is clearly the most appropriate solution for the consumer and where the fee proposed is clearly reasonable, might not be seen as treating customers fairly?

What is the difference between a debtor who has £50,000 worth of debts and a contribution of £500 per month and a debtor who has £5,000 worth of debts and a contribution of £50 per month?

LBG would accept the former (nominee's fee of £2,500: possibly capped at a lower amount) whilst the latter would now have a nominee's fee of £250 and be impossible for any IP to arrange. **LBG now say they would reject any fee that is above 5 times a debtor's monthly contribution.**

Both cases are achievable, affordable and, using expenditure guidelines that the banks themselves helped create, represent the debtors' best efforts.

From the time and effort you and your officials have recently put into the Debt Management Plan Protocol, you will be aware that for many debtors, their failure to enter an IVA will condemn them to a much longer period repaying debt (usually double the time and often

considerably more), at a level of monthly payment that won't differ much, if at all, from that they would be expected to pay in a five year IVA. Therefore, the effect of this will not just be to reduce the number of affordable IVAs but to push many into bankruptcy (as a DMP would not be allowed under the new protocol if the term of repayment was longer than 10 years) and increase the number of house repossessions besides.

LBG and TIX have acted unilaterally, with no attempt to consult the insolvency profession, to create a substantial new area of detriment for people who are struggling with their debts. Indeed I attempted (as Chairman of The Debt Resolution Forum (DRF)) to engage with the Head of Debt Recovery Services at LBG on the 17 June, to which I have not had any response or even any acknowledgement. Further, there is anecdotal evidence that LBG's agent TIX are allegedly attempting to utilise a new acquisition of theirs, a software supplier Sawfish, to the detriment of IPs. We have been promised email evidence of dubious practices of Sawfish in this arena which may or may not be known to LBG. This will be forwarded to you once made available.

I urge you, in the public interest and as the substantial shareholder (on behalf of the taxpayer), to ask LBG to stop this undeniable detriment to consumers.

Yours sincerely  
pp ClearDebt Limited



David E M Mond FCA FCCA  
Chief Executive Officer