



Full and final settlement offers

Fact sheet no. BDL30 EW Full and final settlement offers

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Use this fact sheet to:

- find out how to make settlement offer to creditors;
- understand how your credit reference file will be affected;
- work out suitable offers to your creditors; and
- help you to write a letter making the offer.

This sample letter mentioned in this fact sheet can be filled in on our [website](#).

Making settlement offers to creditors

This fact sheet explains how to make offers in 'full and final settlement' to your creditors. This means that you ask the creditors to let you pay a lump sum instead of the full balance you owe on the debt. In return for having a lump-sum payment, the creditor agrees to write off the rest of the debt.

You may be able to do this because you have come into some money or have some savings you can use. Sometimes a friend or relative offers to put forward a lump sum to help you pay off the creditors. Your circumstances may be very unlikely to change for the better in the future. It is very important that you explain to the creditors that the money will not be available forever and the friend or relative will not make the payments unless the offer is accepted.

Preferential payments

You need to be careful about what you do next if not all of your creditors agree to a full and final settlement offer. Think about whether other debt solutions may be better before you make a payment.

If you pay the creditors that have agreed to your full and final offer but you are still left with a large amount of debt because others haven't, you may need to consider another debt solution.

If you decide to use an insolvency solution, such as a debt relief order (DRO), individual voluntary arrangement (IVA) or bankruptcy, any previous payments you have made to creditors will be looked at. If you have made full and final payments to only some of your creditors, it may be argued that this is a preferential payment and you have not dealt with your debts fairly.



If you apply for a DRO, it is possible that the DRO application will be refused or you may receive a debt relief restrictions order.

See our fact sheet:
Debt relief orders.



If you were to apply for an IVA, it may affect whether a creditor agrees to the IVA proposal that would be put forward.

See our fact sheet:
Individual voluntary
arrangements (IVAs).



If you were to go bankrupt, it may be possible for the official receiver who handles the bankruptcy to reverse the full and final payment that you made and you may also receive a bankruptcy restriction order.

See our fact sheet:
Bankruptcy.



If a friend or relative agrees and pays the settlement for you using their own money, this would not normally be classed as a preferential payment

If you are worried that a payment you are going to make could be a preferential payment, or think that a payment you have already made was preferential and want to apply for insolvency, **contact us for advice.**



How to make a settlement offer

- You can use the [Full and final settlement offer sample letter](#) to make full and final offers to your creditors.
- It is very important to make sure the creditor accepts your full and final settlement offer in writing. Make sure you keep a copy in case there is a dispute. This could happen years later and you may need the letter as proof.
- Never send a lump-sum payment before the offer is accepted.
- A friend or relative may be able to give you the money to make the payment. This help your agreement to be more legally binding if the creditor accepts the money from a third party.
- If you are settling a debt that is large or particularly important, you could have a formal agreement drawn up by a solicitor and signed by you and the creditor. This is not normally necessary.

Remember:



keep copies

Make sure you keep copies of any letters you send and receive.

What happens to my credit reference file?

Make sure the creditor agrees in writing to change your credit reference file details to show that the balance has been paid and the date this happened.

- Check this has been done by asking the credit reference agencies for a copy of your credit file.
- You can expect to see your account showing as having been closed.
- Your balance should change to 'zero' to show that there is no more money due.
- Credit reference agencies will mark the account with a 'P flag' for 'partial settlement' which means that you have made a part-payment and not paid the balance in full.
- The debt and the 'p flag' will remain on your file for **6 years** from the date that the account originally defaulted.

See our fact sheet:



Credit reference agencies and credit reports.

Should I use my pension to pay my debts?

Since **April 2015**, if you are **55 or over**, you may be able to take money from your pension fund to pay your debts. Creditors shouldn't pressurise you to do this. Taking money from your pension fund early can have a big effect on your financial future. You may also have to pay tax on some of the money that you take. Your entitlement to benefits could change, both now and in the future.

If you are thinking about taking money from your pension, **contact us for advice.**



How to work out settlement offers

You may have a lump sum that you need to divide up amongst several creditors. The usual way of doing this is to make 'pro-rata' offers.

This means that each creditor gets a fair share of the money you have available. The creditor you owe the most to will get the biggest share of the money and the creditor you owe the least to will get the smallest share.

- Find out the exact balance you owe to each creditor.
- Use the formula to work out how much to offer to each creditor.
- Use the **example** later in this fact sheet to help you.
- Send the offers to all your creditors along with a table setting out how you have worked the offers out. It is helpful if creditors can see that they are all receiving an offer of a pro-rata settlement; then they know they are all being treated fairly.
- If some of the creditors refuse, then write to them again and ask them to reconsider. Tell them if any of your other creditors have accepted the offer and explain your circumstances again. If your creditors still refuse, **contact us for advice** to see what other options you may have.

Information:

INFO

creditors must treat you fairly

The [Financial Conduct Authority \(FCA\)](#) has issued rules and guidance in its [Consumers Credit sourcebook \(CONC\)](#) about settlement offers.

The FCA says:

"If a firm accepts a customer's offer to settle a debt, it must communicate formally and unequivocally that the offer accompanied by the relevant payment has been accepted as settlement of the customer's liability."

Consumer Credit sourcebook (CONC) 7.14.14



Formula

Lump sum available X each debt

÷ the total amount you owe to your creditors

= offer to the creditor

Example

You may have **£10,000** owing to four creditors. You can raise a lump sum of **£4,000**. You owe:

- £2,300 to Mastercard
- £1,200 to a catalogue company
- £4,500 to a loan company
- £2,000 to the bank

Use the formula

- **£4,000** (lump sum available) X **£2,300** (debt to Mastercard)
- ÷ **£10,000** (the total amount you owe to your creditors)
- = **£920** (offer to Mastercard)

Your offer to Mastercard is **£920**. You then do the same calculation for each creditor, using each individual debt in the calculation.

Your offers to your creditors should look something like this:

Offers to creditors based on a full and final settlement of £4,000

Creditor	Debt	Full and final settlement offer
Mastercard	£2,300	£920
Catalogue	£1,200	£480
Loans	£4,500	£1,800
Bank	£2,000	£800
Total	£10,000	£4,000



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