



Full and final settlement offers

Fact sheet no. 24

August 2015

What are full and final settlement offers?

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.

How to make an offer

- You can use the **sample letter** at the end of this fact sheet 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 helps 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.



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- 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.

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 offers of payment in full and final settlement

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



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Formula

$$\begin{aligned} & \text{Lump sum available} \times \text{each debt} \\ & \div \text{the total amount you owe to your creditors} \\ & = \text{offer to the creditor} \end{aligned}$$

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) \times **£2,300** (debt to mastercard)
- \div **£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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Full and final settlement offer sample letter

Write your own letter

Use this letter to help you negotiate a full and final settlement offer with a creditor. This is a type of offer where you ask the creditor to accept part of the amount you owe and write off the rest.

(Your home address)

Date: _____

Dear Sir/Madam

Without Prejudice

Account No: _____

I/we write with reference to the money which you are claiming on the above account.

I/we can confirm that I am/we are unable to pay the money which I/we owe in full.

(Include a paragraph explaining your circumstances and details of your financial situation that you want the creditor to take into account.)

However, I/we can raise £_____ **(put the amount which you can afford to pay)** and I/we want to offer this as an ex-gratia payment in full and final settlement of the account. This offer is made on the clear understanding that, if accepted, neither you nor any associate company will take any other action to enforce or pursue this debt in any way whatsoever and that I/we will be released from any liability.

I/we also request that, if accepted, you make an entry on my/our credit reference agency files relating to the above account as having been paid and the account closed.

Payment can be made within **(put the number of days or weeks within which you will pay)** of receiving your written agreement of this offer and method of payment.

I/we look forward to hearing from you.

Yours faithfully

(Your signature)

Remember:

keep a copy

Keep a copy of all the letters you send to your creditors.



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