

FINAL SETTLEMENT OFFERS

A final settlement means making an offer to repay a percentage of your debt with a lump sum payment, on condition that your creditor agrees to write off the remaining amount.

If you have (or can get hold of) a lump sum amount, and you want to use it to make a settlement offer to your creditors, you'll need to work out proposals to offer each of your creditors a fair share of the money available, on a pro-rata basis.

HOW TO WORK OUT YOUR PRO-RATA PAYMENTS OFFERS

Before you can work out your pro-rata payment offers, you'll need to find out the exact outstanding balance you owe to each creditor (including any interest and charges). To do this, look at your most recent account statements, or contact your creditors and ask them.

Then, for each creditor, do the following sum to work out how much to offer them:

$(\text{Total lump sum available} \times \text{Amount owed to this creditor}) \div \text{Total amount owed to all your creditors} = \text{Lump sum amount to offer to this creditor}$

Here's an example:

- You owe a total of £10,000 to 4 creditors
- This is made up of £2,300 owed to XYZ Credit Card, £1,200 owed to ABC Catalogues, £4,500 owed to LL Loans, and £2,000 owed to BB Bank
- You have a total lump sum of £4,000 available
- Do the sum as above for each creditor – e.g. for XYZ Credit Card, the sum would be:

$(£4,000 \times £2,300) \div £10,000 = £920$ (lump sum offer to XYZ Credit Card)

Once you've done the sums for each of your creditors, you'll know how much to offer each of them as a lump sum. And if you add up all the offers, it should match the total lump sum you have available.

Contact your creditors

Write to each creditor – (see below for an example letter):

- Offer them the lump sum amount – ask if they will accept this as a final settlement and write off the remainder of what you owe them
- Consider including your calculations and letting them know what you are offering to all your other creditors – this will show that they aren't your only creditor, and they are being treated on a fair pro-rata basis
- Enclose a copy of your completed Income & Expenditure budget – this will show them how long it will take you to repay the outstanding amount to them in full if they don't agree to your final settlement proposal

If your creditor accepts your final settlement offer

They should write to you to confirm this, letting you know how to send the payment and when they want it by. Check that their letter specifically confirms that they are accepting your offer as a final settlement of your debts to them. Send the payment to them as soon as possible, making sure it reaches them before the deadline (if given). They should write to you again on receipt of your payment, confirming that any outstanding debt has been written off.

Always ensure that the creditor has accepted your offer in writing before you send any money and keep a copy of that letter.

If your creditor doesn't accept your final settlement offer

It is always worth contacting them again, asking them to reconsider this, especially if your other creditors have accepted your proposal.

Important Note: If you make a lump sum payment to a creditor who hasn't confirmed in writing that they will accept it as a final settlement of your debts, they may simply credit it to your account as a partial settlement. In this case, you will still be liable to repay the remaining outstanding debt to them.

Please see below example letter to creditors

Here is a guide on wording to include in the letters to your creditors:

<your name>
<your address>

<creditor name>
<creditor address>

Re: Reference/Account Number: <insert the creditor reference/account number here>

Dear Sir/Madam,

I am writing about the outstanding balance on my above account.

I am unable to make full payment on the account due to <add in details of your financial situation/ circumstances here>. However, I do have a total lump sum available of £<insert total lump sum £ amount here>.

I have divided this lump sum amongst all my unsecured creditors on a pro-rata basis, as detailed on the enclosed list <enclose a list showing your pro-rata calculations with this letter>, so I am able to offer you £<insert pro-rata £ amount available to offer this creditor here> in final settlement of this account.

I have also enclosed for your information a copy of my current Income & Expenditure calculation.
<enclose a copy of your Income & Expenditure calculation with this letter>

This offer is made on the clear understanding that if accepted, you (and/or any associated company) will not take any further action to enforce or pursue this debt any further, and I will be released from any liability to you for the outstanding amount.

I also request that – if accepted – you mark any entry on a credit reference agency file relating to the above account as 'satisfied in full'.

I can make this final settlement payment to you within <insert number of days here> of receiving your written acceptance of this offer and confirmation of the required method of payment.

I look forward to hearing from you.

Yours faithfully

<your signature>
<your name>

Enclosures:
Creditor List
Income & Expenditure List

For more information about Final Settlement Offers, please contact your local Citizens Advice Bureau (CAB).

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