

BEST WAY TO PAY OFF YOUR DEBTS – SCOTLAND

If you're struggling to make repayments, a free debt adviser can help you find the best way to clear your debts. Find out the options available to you if you live in Scotland.

A debt adviser will:

- treat everything you say in confidence
- never judge you or make you feel bad about your situation
- suggest ways of dealing with debts that you might not know about
- check you've applied for all the benefits and entitlements available to you.

Three quarters of people who get debt advice feel more in control of their finances afterwards.

Options for clearing your debt

There are many ways to manage your debts – the one most suitable for you depends on your personal circumstances.

This guide gives an overview of what's out there – there might be some solutions you hadn't thought of before.

Instead of using a formal debt solution, you might be able to reach an informal arrangement with the people or organisations you owe money to (also known as your creditors). This might involve making payments based on what you can afford, after essential household outgoings.

Under this sort of arrangement, you would also ask them to freeze interest and charges

Your credit file will usually be negatively impacted

Be aware that most of the debt solutions listed below will have an impact on your credit score. This could make it harder in the future for you to:

- get a loan

- buy on credit
- open a new bank account.

Find out more in our guide [How improve your credit score](#).

The Debt Arrangement Scheme

The Debt Arrangement Scheme is a free debt management solution. It allows you to pay your debts in a manageable way:

- at a rate you can afford
- over time, through a debt payment programme (DPP).

You make one regular payment through your DPP, which is shared between your creditors.

While you're doing this, you'll be protected from creditors trying to recover their money.

All interest and charges will be frozen on the debts included in the DPP if you keep up with your payments.

A DPP is flexible and allows for payment holidays or crisis breaks if your circumstances change while you're on the programme.

Who qualifies?

To be able to apply for the Debt Arrangement Scheme, you must:

- have one or more debts
- normally, live or be based in Scotland
- have a reasonable amount of money left over after paying for basics such as household bills and food
- get advice from a qualified money adviser – they'll make the application if you decide to go ahead.

If you're a couple and have at least one debt in both your names, you're both liable for paying off the debt. You can

apply for a joint DPP to help manage the repayments.

Find out more in our guide [What you need to know about taking out a joint loan](#).

How to find an approved money adviser

A free debt advice service can assess if you qualify and will be able to register your intention to apply for a Debt Payment Programme (DPP). This notifies your creditors.

If your creditors don't reply within 21 days of receiving the DPP proposal, it will be assumed that they've accepted it.

The Debt Arrangement Scheme Administrator will decide whether it's fair and reasonable for a DPP to be approved.

If it's not disputed, the DPP is assumed as accepted.

Find out more about [Debt Arrangement Schemes](#) at National Debtline or at [Citizens Advice Scotland](#).

Debt Management Plan

Unlike a Debt Arrangement Scheme, a Debt Management Plan (DMP) is an informal arrangement set up between you and your creditors. It covers non-priority debts that are not secured against your home.

You pay back what you can afford, after taking into account of your household bills.

The DMP sets out how much you'll repay and when. If your creditors agree, you'll have to set up and manage the payments.

A DMP is usually arranged for you by a third party – many debt advice charities and organisations can arrange one for free.

Avoid Debt Management Plan providers that charge fees

As more people are facing financial difficulties, more companies have sprung up offering to help people out of their situation.

However, many charge a fee – yet provide the same service that you can get for free from a debt advice service.

Trust deeds

A trust deed is a voluntary agreement between you and your creditors to pay back part of what you owe.

You make monthly repayments against your unsecured debts, typically over four years.

The debt is then normally written off, provided you've stuck to the terms of agreement.

Creditors in the trust deed usually cannot add more interest to the money you owe or from taking further court action against you.

A trust deed can become 'protected' if the majority of your creditors are happy with the terms of the trust deed. This means that the trust deed is binding on all creditors and they cannot take any steps to recover the money owed to them.

If a trust deed is not 'protected', it's not binding and your creditors could still take action to recover the money you owe them.

You can apply for a trust deed if:

- you owe at least £5,000
- you live or are based in Scotland
- you have unsecured debts such as credit cards, loans and overdrafts
- you do not rely on benefits as your only income
- you do not have enough income to fully pay off your debts in less than four years.

Set-up and management costs

Did you know?

Trust deeds are usually set up by an insolvency practitioner who acts as the trustee. To help you decide what's the best option for you, get advice from an independent money adviser.

The fees to set up and manage the trust deed on your behalf usually range from £5,000 to £7,500. But they could be a lot more if your trust deed is complex.

All fees and costs will be deducted from either; the monthly payments you make from the sale of your assets (things you own, such as your house or car).

Beware of companies that charge fees for a trust deed

You might be approached by fee-charging debt management companies who claim they're able to help with your debts.

These firms might recommend a trust deed, even if it's not the best option for you. They'll also charge you high fees.

It's important to speak to a free debt advice service before taking out a trust deed. If the adviser thinks it's the right option for you, they'll refer you to an insolvency practitioner. The insolvency practitioner will set up the trust deed for you without charging an advance fee.

Bankruptcy

Bankruptcy (known legally as 'sequestration' in Scotland) is a formal way of dealing with debts that you cannot pay.

While you're bankrupt, any assets you have might be used to pay off your debts.

After a period of time (usually one year), most of your outstanding debts are written off and you can make a fresh start.

Applying for bankruptcy

You must get debt advice from a qualified money adviser before you can apply for bankruptcy in Scotland.

If the adviser thinks bankruptcy is suitable for you and your circumstances, they'll apply for bankruptcy on your behalf.

You can apply for your own bankruptcy if you:

- owe more than £3,000 and cannot apply for a Minimal Asset Process (MAP) bankruptcy
- have not been sequestrated in the past five years or been through MAP in the last ten years
- live in Scotland, or have lived there sometime during the past year.

In Scotland, you must get debt advice from a qualified money adviser before you can apply for bankruptcy. The money adviser, if they assess you are eligible and a bankruptcy is suitable for you and your circumstances, will apply for bankruptcy on your behalf.

There are three routes to bankruptcy in Scotland:

- You've been given a formal 'certificate for sequestration' by an approved person, such as an insolvency practitioner or money adviser. This states that you can't pay your debts as they become due.
- You qualify for a Minimal Asset Process (MAP) bankruptcy.
- You're in 'apparent insolvency'. This means you can't pay your debts when they're due. To prove apparent insolvency, a creditor must have gone to court and obtained a ruling that you owe the debt to the creditor.

Your bankruptcy generally ends when you're 'discharged' – usually 12 months after you're made bankrupt. But it can be extended if you don't cooperate with the person who administers your bankruptcy, called a trustee.

The trustee will produce a report to confirm whether you should be discharged.

Eligibility for Minimal Asset Process (MAP) bankruptcy

You could be eligible for MAP bankruptcy if:

- you owe less than £25,000 – there is no minimum debt level
- your car is worth £3,000 or less (and is reasonably required, such as to get you to work)
- your total assets aren't worth more than £2,000 in total

- you don't own or jointly own a house or any other property or land
- your only income is benefits or you have no money left after all your essential house bills are paid.

How much does bankruptcy cost?

You must pay a fee of £150 to apply for bankruptcy, unless:

- your only income is certain benefits or
- you're assessed as having no surplus income.

You might be able to pay the fee in instalments before you can apply.

Who is bankruptcy suitable for?

If you have no real way of paying off your debts, bankruptcy could be a suitable option. But, you must get debt advice before you apply for bankruptcy.

Talk to a free debt advice service such as Citizens Advice Scotland first. This is because they might be able to suggest solutions you didn't know about.

If someone applies to make you bankrupt

Be aware that most companies you owe money to will only make you bankrupt as a last resort. They'll look for alternative ways for you to pay before applying to the court to make you bankrupt.

Before your creditor makes your petition for bankruptcy, they must:

- send you a copy of the Scottish Government's Debt Advice and Information Package – between 2 and 12 weeks ahead
- prove you've gone into apparent insolvency within the last four months.

This normally means proving you've been served with either:

- a charge for payment, or
- a statutory demand – a formal warning of bankruptcy if you do not repay the debt or make an offer to the creditor.

If a creditor applies to make you bankrupt, it's important to get free debt advice. An alternative solution may be available for you.

Offer in full or final settlement

If you have a lump sum that would cover part of your debts, you could ask your creditors if they would let you:

- make a part payment and write the rest of the debt off
- make monthly payments for an agreed period, then write the rest of the debt off.

Write-offs

If you have no available income, savings or assets, it might be possible to ask your creditors to write off your debts in full.

But, you must be able to show your creditors that your circumstances are unlikely to ever improve. For example, if you're severely ill.

To find out if this solution could be suitable for you, talk to a free debt advice service.

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