

Debt Relief Orders

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6 April 2009 brings the introduction of the **Debt Relief Order (DRO)**. The DRO is an alternative to bankruptcy for people who have a low level of liabilities, low income and few assets. It allows for a 12 month moratorium on enforcement action and at the end of that period, provided all elements have been complied with, the outstanding debts are discharged.

In this update we examine the DRO in more detail.

Who can apply for a Debt Relief Order?

The DRO is specifically designed for individuals who have no ability to pay their debts in a reasonable time period and who are therefore insolvent. The low income/assets of this group mean that the cost of filing for bankruptcy is prohibitive and the DRO is therefore a cost-effective option to resolving their situation.

What are the criteria for someone applying for a Debt Relief Order?

- Must be resident in England or Wales
- Low level of liabilities - debts not exceeding £15,000
- Low income - less than £50 per month disposable income
- Few assets - less than £300

There are a range of additional criteria with which the individual must comply - for example they are not allowed

to be subject to any other form of insolvency procedure, are not allowed to have had a DRO within the last 6 years and must be unable to pay their debts. Restrictions placed upon an individual subject to a DRO are similar to those of a bankrupt.

More information on the criteria and restrictions can be found on the link below.

www.insolvency.gov.uk/bankruptcy/alternativestobankruptcy.htm

Can creditors object to a DRO?

To apply for a DRO a debtor must have the support of an approved intermediary who assists in the submission to the Insolvency Service. A fee of £90 is payable for the application which is completed online. If it appears that the debtor meets the criteria then the Official Receiver is able to make the order without resorting to the Courts. The insolvency service notifies all creditors of the Order. Any creditor wishing to object may do so if they have evidence that the debtor does not meet the requirements and is seeking to evade his/her liabilities.

What is the likely impact?

The DRO is designed to help those debtors who can't pay rather than those who won't. The low level of income and assets means these cases would not be appropriate for litigation action. However, we have put in place systems to identify any notifications we receive to ensure that clients are provided with the opportunity to consider the circumstances of these and file any objections accordingly.