Early exit loans for people in IVAs: Who benefits?

IVA providers have been offering clients the chance to exit their IVA early – by converting it into a loan and repaying over a period of time. MARCEL LE GOUAIS investigates, and asks if it's always in the debtors' best interest

It's a practice that comes littered with all sorts of ethical questions about what's in debtors' best interests – and who takes the money and runs.

During the course of an IVA, individuals are being offered the chance to convert the remaining balance into a loan, thereby exiting the IVA early and, (theoretically at best), being enabled to start rebuilding their credit score sooner.

CreditFix, probably the largest IVA provider, has been offering this option to customers who meet certain criteria for about a year.

The company has been picking out clients who, as a generic example, have been repaying their creditors regularly for about two and a half years but may still face a few more years in their IVA. During that time they'll still carry a very poor credit rating – as those offering early exit loans will emphasise.

So CreditFix, along with others, offers some clients an option to clear their IVA early by converting it to a loan. CreditFix argues that creditors get paid earlier, and the client is offered a chance to rebuild their credit reference information and extract money from their house if they're a home owner. CreditFix says this means they can move on without a charge on their property and benefit from access to more affordable credit.

CreditFix refers clients who meet the criteria to a lender, Perinta, which is regulated by the Financial Conduct Authority (FCA). Now, here's where it gets complicated.

Who are Perinta?

The owner and chief executive of CreditFix, Pearse Flynn, also has a 25 percent stake in Perinta – which actually lends the money to clients exiting their IVA. The remaining 75 percent stake in Perinta is owned by Balbec Capital, a global private investment firm that funds businesses helping debtors in insolvency procedures. Just to make it more colourful, Perinta used to be called Heligan Investments – a private detective agency.

Speaking to *Credit Strategy*, Flynn said insolvency practitioners working for CreditFix don't receive a fee for referring clients to Perinta, though they do receive a fee for arranging and managing the IVA as standard.

Flynn also pointed out that in order to convert the IVA, clients still need approval from creditors (which could include debt purchasers) that hold 75 percent of the value of the debt. He said it was "very unfair" that good, paying clients in IVAs remain restricted throughout the IVA and that "nobody will lend to them, and if they do, it will be at extortionate rates."

Flynn also mentioned that he had engaged with creditors to explain the product, but had found a mixed reaction. Of those creditors who reject the loans, he said: "Why punish the client when you're getting your money two or three years early?"

The failure rate of Perinta's early exit loans, which have been taken up by about 1,000 CreditFix clients, has been "less than one percent," Flynn adds.

CreditFix is not the only IVA provider offering this option. Aperture has been referring clients for early exit loans to Sprout Loans – a brand name of Asgard Financial Services, also authorised by the FCA.

The regulatory dynamic here is that insolvency practitioners working for IVA providers like CreditFix are most commonly regulated by The Insolvency Practitioners Association (The IPA), which regulates individual practitioners rather than firms. Perinta, on the other hand, is regulated by the FCA and its conduct oversight sits squarely with the financial watchdog.

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For its part, The IPA has been making inquiries into what the insolvency practitioner's role is in this process, to see if it stands up to scrutiny, as well as the transparency of the arrangements and ethical questions around that.

The Debt Camel blogger, Sara Williams, has written extensively about early exit loans and on her website, says: "Ending your IVA early will not delete it from your credit record – it will stay there for six years. This early exit loan will not start to improve your credit record until after the six-year point."

Peter Tutton, head of policy at StepChange Debt Charity, said: "This type of loan raises a number of questions, crucially it raises the fundamental question of what the purpose of an IVA is. By taking such a loan the person exits the IVA but remains in debt. This would seem to undermine the purpose of the IVA which is to help a borrower regain a financial footing and eventually to become debt free.

"There are potential issues regarding the flexibility of the loan if anything goes wrong. IVAs provide a degree of flexibility through payment holidays; would borrowers have the same protections under such a loan?

"Other concerns include how such a product is marketed. If the purpose of such loans is credit rehabilitation, it is very difficult for borrowers to assess the potential benefits against the cost and risk of the loan."

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What do borrowers reckon?

The way in which loans are offered to debtors in IVAs is easy to find. On the forum iva.co.uk one user, 'UpToMyNeckInIt', states the following:

"Had an interesting email from CF a few days ago ... they state 'If you have been in your IVA for more than 30 months, you may be eligible for an early exit loan from our appointed representative. Exiting your IVA early will allow you to start rebuilding your credit score much earlier.'"

A fellow user, 'Foggy', replies: "For some people, especially those looking at an extra year for equity release, the figures could work out. However, you will, in the long run, end up paying more over 10 or 15 years. Also, it will not improve your credit rating any earlier, as the IVA will sit there for the standard six years regardless of when it is completed. That statement alone would ring alarm bells with me but, ask yourself ...who really benefits? The IP (insolvency practitioner) will get his fee anyway."

The FCA has not indicated it will look into early exit loans but this practice is still new; watch this space. CS

MR X: A CASE STUDY FOR AN 'EARLY IVA' EXIT LOAN

Perinta, which lends to people in IVAs, has put case studies on its website explaining how the conversion to a loan from an IVA can help individuals. Here's one:

Mr X was in an IVA that was due to run for 60 months, paying £410 each month. He was granted an early exit loan in January 2017 after paying 37 months successfully into his IVA. His loan was for £9,430 which was the amount of the 23 months' contributions he had left in the IVA.

His interest rate was 33.50 percent with an APR of 41.30 percent, paying £408.38 per month over 39 months with the total amount repayable being £15,926.82. Mr X was keen to repair his credit rating post insolvency and felt this loan was a good fit for him, as he got to successfully close his IVA and start demonstrating that he could manage credit again.

After going into an IVA a default will be registered and last six years, and it is extremely difficult to get credit or improve a credit rating during this time.

Mr X will have exited his IVA and paid a 39-month loan off in full within 76 months of his default being registered at the start of his IVA. This means when the insolvency default falls off at month 72, his credit profile should significantly improve immediately due to the settled IVA and loan history.

All going according to plan three months after the default is removed, Mr X will have settled his loan and his credit profile is completely rehabilitated, versus leaving the IVA through the traditional method at month 60 and spending the next 12 months trying to get credit to start his credit repair journey.

Mr X received a completion certificate for his IVA in February 2017.