24% jump in applications by creditors to seize money before it hits debtors’ bank accounts

- Surge in use of ‘third party debt orders’
- 4,074 applications to the courts so far this year

Creditors are using more aggressive means to recover debts by seizing money owed by third parties before it even reaches debtors’ bank accounts, says Sweet & Maxwell, the legal information provider, in a new book titled ‘Debt Recovery through the Courts’.

According to data obtained by Sweet & Maxwell under the Freedom of Information Act, the number of applications by creditors to seize money owed to debtors before it reached their bank accounts has jumped 24% over the past year, from 3,288 in the first half of 2008 to 4,074 in the first half of this year.

Writing in ‘Debt Recovery through the Courts’, published by Sweet & Maxwell, author Claire Sandbrook says that ‘third party debt orders’ have become more popular during the recession as other means of recovering debts have become less effective.

She says that third party debt orders are increasingly being used by solicitors and credit professionals as an effective means of recovering debts from customers (often larger businesses) by collecting money directly from customers’ debtors.

According to Claire Sandbrook, creditors are becoming more reluctant to recover debts by obtaining security for payment against property owned by debtors, known as ‘charging orders.’ This is because falling residential and commercial property values have reduced the amount of equity debtors have in the property they own to the point where many are in negative equity.

Claire Sandbrook as author of ‘Debt Recovery through the Courts’, comments: “Over the past year we have seen creditors changing tactics and becoming more aggressive in their approach to debt recovery.”

“Enforcement procedures go in and out of favour, but we have seen a resurgence in the use of third party debt orders. The advantage of these orders is that it allows the recovery of debts relatively quickly, which can help improve cashflow. They can also be served against debtors without them being aware of it, so that they have less opportunity to squirrel money away.”

She adds: “One of the reasons why third party debt orders are being used more frequently is because charging orders are becoming less effective. Charging orders can
force a debtor to sell their property, but if that property has minimal equity, creditors may not recover all their debts.”

“The process of recovering the money via a charging order can also be quite longwinded, particularly with judges using their discretion on whether to allow an application to continue when the value of the judgment debt is on the low side. This has resulted in quite a sharp decline in the use of charging orders over the past year despite their huge popularity during the housing boom.”

She says: “If customers have cashflow problems, any cash which they receive from their creditors is often immediately absorbed, so third party debt orders can be a very useful way of overcoming this problem and reducing debtor days.”

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Notes to Editors:

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