Re Part IX Debt Agreements

Background:

I have been working with people in debt agreements for 15 years. These are my personal concerns.

These people should be applauded for their integrity and courage. Most people who do a Debt Agreement don't have to. They could pay nothing and go bankrupt but they choose to pay their debts to the best of their ability, reduced as it is at the time. The average return to creditors, I believe, is 70% but many pay higher. Despite this, **they are afforded very little credit for their sacrifice to do this.** It doesn't take much to derail their payments, the car needs new tyres, or the washing machine breaks down etc. however the agreements usually have a term of 5 years so they have a chance to catch up at a later time.

I believe that some of these changes should be opposed. Some are a risk to the debtor.

A Debt Agreement succeeds only by the debtor completing the payment arrangement on time. If they exceed the completion date by 6 months, the agreement is terminated. If they need to stop payments for 6 months due to sickness, losing their job etc the agreement is terminated.

Administrators currently put forward a variation to creditors to stop payments to give them time to find a new job or to get over the heart surgery, or to extend the agreement to give them time to finish.

- **Administrators should not have to certify a variation**
- Lost job
- Sickness

We hope the debtor will find work, or recover to his doctor's expectations. A new job may not pay as well. We hope the debtor will continue after the above but can't certify it. We currently do a variation to stop payments for perhaps 6 months and extend the term by the same. Many of these variations save the agreement.

- **A maximum term should have exceptions**
    - Similar to above, debtors often need to stop payments
    - There is a 6 month grace period to complete beyond the completion date however then the agreement terminates automatically.

        Many debtors currently can't finish in this time due to the various reasons they have had for not making payments and we currently extend the term in a variation to allow them to finish. When we are able to do a variation to extend the term we have a low rate of termination in these agreements.

- **Reporting of Debt Agreements on credit files should change**

People who do Debt Agreements should be reported differently. They may be paying 90 cents in the dollar. Their credit scores and a bankruptcy are both treated the same. A debt agreement may be on their credit file longer than a bankruptcy.

These changes are a gamble

- Limiting the term of an agreement to 3 years
- Limiting the offer as a percentage of after tax income

These limits will determine the best offer the debtor can put forward to his or her creditors. **Just because the proposal is the best offer possible under these restrictions doesn't mean that creditors will accept the offer** and the agreements may be rejected.

I can see the objective that agreements should be affordable for debtors however, not being able to enter an agreement because of the restriction of time or value may force debtors into lengthy payment arrangements with multiple creditors. I think that the current system works quite well and that you should be careful with changes to the system.

Regards

Janice Paris

DCS Group Aust Pty Ltd has put forward a submission but I wanted to put forward a personal view.