BANKRUPTCY, DEBT AGREEMENTS AND YOUR CREDIT REPORT

CREDITSMART®.ORG.AU
CLEARER CREDIT HISTORY

WHAT IS A DEBT AGREEMENT?

A debt agreement is a legally binding agreement between you and your credit provider/s that allows you to settle your debts without becoming bankrupt.

The agreement is facilitated through a debt agreement administrator, who you will pay a percentage of your combined debt to, over a period of time. The debt agreement administrator will help you prepare your debt agreement proposal and will then submit it to AFSA (Australian Financial Security Authority) on your behalf.

If your debt agreement proposal is accepted, you will make repayments to your debt agreement administrator, rather than make separate payments to your credit provider/s.

HOW LONG IS DEBT AGREEMENT INFORMATION SHOWN ON YOUR CREDIT REPORT?

Debt agreement information will be shown in your credit report for whichever of the following periods ends later:

- 5 years from the day the agreement was made;
- 2 years from the day:
    - o *the agreement is terminated*
    - o *the agreement ends under section 185N of the Bankruptcy Act 1966*
    - o *an order was made declaring the agreement void*

Be aware though, that there are limits to the types of debt, and to the amount of debt and income you need to be eligible for a debt agreement. There are also consequences from entering into this type of arrangement.

WHAT IS BANKRUPTCY?

When someone declares bankruptcy, it means they cannot afford to repay the money they owe. Bankruptcy is a legal process that an individual can enter into voluntarily or that someone they owe money to (a creditor) can seek to make them bankrupt through a court process. There is no minimum or maximum amount of debt or income you need to be eligible, and there is no fee to apply for bankruptcy.

Bankruptcy may have a serious impact so seek advice before going down that path. It may affect your ability to get credit, travel overseas or gain some types of employment, such as being a director of a company.

WHAT TYPES OF DEBT DOES BANKRUPTCY REMOVE?

Bankruptcy covers both unsecured and secured debts. If you cannot pay your debts, you may lose the assets and securities that you used to secure credit, because in some cases, these can be sold by a creditor or a Bankruptcy trustee to repay the debt. **For this reason, it's important to thoroughly consider the implications of bankruptcy and secured debt, as you could lose high-value assets.**

UNSECURED DEBT	SECURED DEBT
Unsecured debt refers to loans that are not backed by some sort of asset. If a borrower defaults on the loan, the lender may not be able to recover their investment because the borrower is not required to pledge any specific assets as security for the loan.	Secured debt is a type of loan that's backed by some form of asset. A secured debt is designed to provide the lender with added protection, and in the event of a default, the loan is secured by that asset.

For more information visit **www.creditsmart.org.au**

UNSECURED DEBTS include:

- credit and store cards
- unsecured personal loans and pay day loans
- gas, electricity, phone and internet bills
- overdrawn bank accounts and unpaid rent
- medical, legal and accounting fees

SECURED DEBTS include:

- mortgage (house is security)
- car loan (car is security)
- hire purchase or rent to buy (e.g. furniture or electronics is security)

Bankruptcy ***doesn't cover all debts***, including:

- *court imposed penalties and fines*
- *child support and maintenance*
- *government HELP student loans*
- *debts you incur after your bankruptcy begins*
- *unliquidated debts*

You are still liable for these debts. You need to contact your creditors directly to discuss payment options.

WHAT IS THE IMPACT OF BANKRUPTCY ON JOINT DEBTS?

A joint debt is a debt you **share** with another person. Normally if one person enters bankruptcy, the other person on the loan becomes 100% liable for the debt. If both people are bankrupt, they should include the debt in each bankruptcy. If you have a guarantor for a loan (e.g. your parent), normally the guarantor becomes 100% liable for that amount of the debt covered by the guarantee.

HOW LONG IS BANKRUPTCY SHOWN ON YOUR CREDIT REPORT?

Generally bankruptcy stays on your credit report for 7 years. The period of time that bankruptcy information will be shown in your credit report is whichever of the following periods ends later:

- 5 years starting on the day you became bankrupt, or
- 2 years starting on the day you were no longer bankrupt

WHAT IS THE IMPACT OF DECLARING BANKRUPTCY ON FUTURE CREDIT ACCESS?

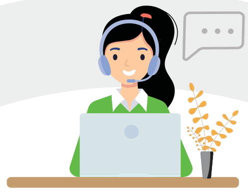
One of the reasons it's important to think about voluntarily declaring bankruptcy is because it can make certain things difficult in the future. For example, it will often be hard to get a home loan after declaring bankruptcy and it may be difficult to get certain types of jobs.

HELP IS AVAILABLE

Whatever the reason you are faced with financial challenges, help is usually at hand. It could be from your credit or service providers, free financial counselling, or community or government organisations. Banks, financial institutions, utility and phone companies are required to let you know what help is available if you ask them for help. Most have a dedicated hardship team who are there to assist.

Depending on the circumstances, a credit provider may, in some instances, agree to change your payment terms, for example by agreeing to give you more time to pay amounts that are already overdue. This may help to get your finances back on track.

You can find more information about debt agreements, bankruptcy, and support services at the Australian Government's Australian Financial Security Authority website: **www.afsa.gov.au**



You can request a **FREE copy of your credit report**, every 3 months, from each of the credit reporting bodies:

Equifax	Experian	illion
www.equifax.com.au	www.experian.com.au	www.illion.com.au