

MEDIA RELEASE

Sunday, 12 October 2008

TIME FOR GOVERNMENT TO PUT HOME EQUITY OUT OF RISK OVER SMALL DEBTS

Consumer Action Law Centre has today called on the Federal Government to make the simple law change needed to put a stop to unfair bankruptcy actions that strip home equity.

Gerard Brody, Deputy Director – Policy & Campaigns at Consumer Action, said that out-of-date bankruptcy laws allowed a person to be made bankrupt for as little as \$2,000, putting people's homes at risk for what often start off as small debts the person may not even be aware of.

"The threshold for sending someone bankrupt has not been increased since 1996," said Mr Brody.

"A small debt of about \$1,000 can quickly become \$2,000 once amounts like interest and late fees are added – and once bankrupt this amount can increase by trustees' fees of tens of thousands of dollars."

Consumer debt in Australia has sky-rocketed since 1996, from \$242 billion to \$1.1 trillion. The debt threshold over which a person can be sent bankrupt under section 44 of the *Bankruptcy Act 1966* has remained at \$2,000.

There are a number of ways in which debts can be recovered through the courts without resorting to bankruptcy action, including judgment recovery enforcement proceedings, accepting payment by instalments or the sale of the debtor's home by the Sheriff. While legal costs would increase the debt, these costs are nowhere near the amount of bankruptcy trustees' fees if the debtor is sent bankrupt.

"Bankruptcy is clearly intended for larger debts and the consequences of being made bankrupt over a small debt can be disastrous for consumers, who are at the mercy of the bankruptcy trustee appointed to their case," said Mr Brody.

"There are some bankruptcy trustees that rack up fees many times the value of the original debt, knowing they can recover their fees when assets are liquidated.

"We have seen cases where a trustee has incurred fees of over \$100,000 to administer a debt of less than \$10,000. While this is out of all proportion, if there is an underlying asset like someone's home, the trustee knows their fees will be paid."

Mr Brody said it was time for the Government to raise the threshold over which creditors can use bankruptcy to collect debts to \$10,000 to keep pace with inflation and changes in consumer debt levels.

"Increasing the threshold over which a consumer can be made bankrupt is a simple, effective way to prevent the most unethical insolvency trustees from using bankruptcy to strip equity in people's homes."

Media Contact: Gerard Brody, Deputy Director–Policy & Campaigns 0415 223 211

Consumer Action Law Centre
Level 7, 459 Little Collins Street
Melbourne Victoria 3000

Telephone 03 9670 5088
Facsimile 03 9629 6898

info@consumeraction.org.au
www.consumeraction.org.au