GOOD NEWS FOR 'HONOURABLE' BORROWERS

Clean Credit's John Dickinson says debt agreements unduly punish people trying to honour their commitments, but that new credit proposals could change this

It is widely accepted that the Australian credit reporting platform is far from perfect. In fact, the CRAA (Credit Reference Association of Australia) has described credit reporting in Australia as the most restrictive in the western world. I, for one, would not argue with this viewpoint.

The good news is there are significant steps being taken to improve things and although there are no firm policy changes as yet, there are a number of positive reforms currently under consideration.

While there are many recommendations under consideration, I would like to reflect on debt agreements.

Given the right circumstances, a debt agreement can be a good solution for people in financial difficulty as they can help protect secured assets such as a home while alleviating the need to deal directly with credit providers trying to recover money from them.

While a generalisation, a person entering into a debt agreement may be seen as attempting to do the right thing by their creditors and while they may be experiencing challenging times, it is their intention to honour their debts as best they can. This can be quite different to someone who attempts to evade their responsibilities and uses bankruptcy as a vehicle to achieve this.

I'm not suggesting that all people who enter into a debt agreement are honourable and all people who enter a bankruptcy aren't; however, I feel there should be a clear distinction between the two. Unfortunately, Australia's current credit reporting system does not allow for this distinction as both a debt agreement and a bankruptcy are recorded for a seven-year period and both are deemed equally serious by credit providers.

There is currently a significant mismatch between the term of a typical debt agreement (being five years) and the time the listing is recorded on a credit file (being seven years) which is the same recording period as a bankruptcy. Even after the debt agreement has ended and the creditors have been paid, the listing will continue to severely inhibit the person's ability to secure credit for a further two years. This provides little motivation to choose to honour commitments as opposed to walking away from them.

One of the suggested changes is to reduce the recording period of a debt agreement to five years in order to line up with a typical administration period, while a bankruptcy listing would remain as a seven-year recording.

For a person in or about to enter into a debt agreement, these changes could be life changing and a genuine incentive to enter a debt agreement over a bankruptcy, as following a five-year administration period the debt agreement listing would be removed from the credit file which would assist with the individual's financial recovery. AB

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