

The so called 'Stigma of Bankruptcy'

If you're in debt in Australia and are considering bankruptcy, then a concern might be the so called 'Stigma of Bankruptcy'. These days it's really hardly an issue.

Also, bankruptcy is not a last resort, to be avoided at all costs.

If a person's got what to them is overwhelming debt, and they've tried to get on top of it, but can't, then declaring themselves bankrupt is a very practicable and sensible step to take. Mostly, it enables a person to get out of debt and so give themselves the chance to start again, to get back on their feet, and so be able to get on with their lives.

The 'Stigma of Bankruptcy' is an old fashioned term. It probably was to be avoided at all costs back in days gone by, but its rarely an issue today.

Back in the 'Stigma of Bankruptcy' days banks in Australia were strict and conservative with their lending practices. You at least had to have a face to face interview with a Loans Officer.

In those days people who went bankrupt were mostly in business. It was pretty obvious when a business suddenly closed down that something had happened. Everybody knew, people talked, the shame of the 'Stigma of Bankruptcy' hung low in the air.

These days the banks have changed things. Loans are made over the internet and telephone. Pre approved offers of loans come in the post. The lenders have simply changed the rules and the risks.

Ordinary people now go bankrupt. In the year ended 30th June 2007 there were 25,242 bankruptcies in Australia, and of that number only 4,821 of them were business related bankruptcies. The rest were ordinary people.

Over the last 5 years to 30th June 2007 111,176 people have gone bankrupt (www.itsa.gov.au and there click About us, then click Statistics)

Some of these 111,176 people may live in your street. They may sit next to on the bus or tram or train going to work, they may be some of the people that you know at work, and through work. If you knew, you'd be surprised to find who has gone bankrupt.

Chances are that you'd know more than one of them. Did you first suspect that they may have gone bankrupt because you noticed the 'Stigma of Bankruptcy'?

Also, of these 111,176 who were declared bankrupt in those 5 years, did you read about any of them in the newspapers? Every day now just check the Public Notices section and you'll see what I mean. Bankruptcy is very private, the newspapers will not be the source of a person's 'Stigma of Bankruptcy' fears.

You wont have seen it on television either, unless it was somebody high profile, and newsworthy.

The people who will know that you've gone bankrupt are the people that you owe the money too. Your bankruptcy trustee will tell them, you don't have to.

Your local bank may not be told. The return address for credit card statements are a GPO box somewhere?

If a person goes bankrupt I think that the real 'Stigma of Bankruptcy' is with the people owed the money. It now seems that its the banks etc who don't want to be caught with the stigma of having to report to their shareholders and so to the public at large, including their competitors and peers, that the management has lost some of it's shareholders' money by lending it to people who couldn't pay it back.

If a person goes bankrupt, then unless they've got something of value that their bankruptcy trustee would be allowed to sell (and there are some restrictions on a trustee here as there are a lot of things that he can't touch) then the creditors mostly won't get paid much, if anything.

If a person goes bankrupt, then for the next 3 years they can earn a minimum weekly net take home pay of \$758.80 (current at 1st January 2008) that's after tax and child support, and if applicable, business expenses, before the trustee can claim any of this income.

The \$758.80 base figure increases is adjusted twice a year and is more if the bankrupt has dependants. If the bankrupt earns more than the base amounts, (known as the Threshold) , then they can keep half of whatever amount goes over the Threshold amount, as well as the minimum \$758.80 or whatever it is that applies to them.

A bankrupt's weekly allowable income is not likely to cause any stress or stigma during the (usual) 3 years of bankruptcy.

The 'Stigma of Bankruptcy' will be felt by a bankrupt's creditors, the banks and others.

As a person falls behind in paying their loans and credit cards and other debts, after a few months they start to look a bit shaky from a debt collection point of view.

A widespread practice now is that some cases the creditors on-sell these possible bad debts to companies willing to buy them, at a big big discount on what is owed. Its then up to the buyer to collect payment, and as far as I am aware, when they do they keep it all.

In this way it seems that the banks etc don't have to report the sale of these debts at a loss as bad debts. Saves face, saves a bit of Stigma.

It's the buyers of these debts, who are now second hand debt salesmen, who have to cope with a loss if they don't get paid because the debtor goes bankrupt.

So that they don't lose of their money, and carry the stigma associated with knowing that their gamble has lost, the debt collection tactics of these second hand debt salesmen can be very aggressive.

They wrongly claim that bankruptcy is the last resort, and they seem to rabbit on and on a bit about at the 'Stigma of Bankruptcy'. But it's hardly an issue.

A person is generally bankrupt for 3 years, and their credit rating is damaged for 7 years. Overwhelmingly, for most people, going bankrupt does not affect their employment in any way.

Overwhelmingly, being bankrupt does not mean that you cannot travel overseas in the 3 year period of your bankruptcy. You simply have to seek the written permission of your bankruptcy trustee. Again, in modern times, very little stigma is suffered by the bankrupt.

If you've tried and tried but for some reason you just can't pay your debts, then through bankruptcy, the government has given everybody the chance to get out of debt, to start again, to get back on their feet, and so be able to get on with their lives.

The 'Stigma of Bankruptcy' is hardly an issue.