INSOLVENCY AND TRUSTEE SERVICE AUSTRALIA

ITSA

Profiles of Debtors

who became Bankrupt or entered into Debt Agreements in 1997

Results of a Study by the Bankruptcy Regulation and Policy Branch of the **Insolvency and Trustee Service Australia**

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July 1998

ITSA is a division of the Commonwealth Attorney-General's Department

ITSA acknowledges the efforts of all bankruptcy regulation staff in the collection of data, and especially recognises the contributions of Paul Turner and Arjuna Nadaraja in collating and analysing that data and in preparing the text and charts.

ISBN 0642209529

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Background

To assist its policy reform work the Bankruptcy Regulation and Policy Branch of the Insolvency and Trustee Service Australia (ITSA)[1] conducted a study into the socio-economic situation of those who become bankrupt or who enter into Debt Agreements[2].

Methodology

Bankruptcies

From a total population of 23,424 new bankruptcies in the calendar year of 1997 a sample of 2,500 (just over 10%) was included in the study. In order to ensure a true representation of the States/Territories, the sample was divided between States/Territories in proportion to the number of bankruptcies that occurred in those States/Territories during 1997. The sample was then divided to reflect the proportions received by Registered Trustees and the Official Trustee during the sample period.

Once the numbers relating to the different States/Territories were known, bankruptcies were randomly selected. Data was then extracted from Statements of Affairs[3] filed by bankrupts. The spreadsheets from the different States/Territories were then amalgamated and the data analysed.

Data was collected in relation to:

- Gender
- Year of birth
- Income
- Occupation
- Home ownership
- Debts (type and amount)
- Cause of bankruptcy
- Employment status
- Previous bankruptcy
- Family status (spouse, defacto spouse)

1 ITSA is a division of the Commonwealth Attorney-General's Department.

2 Debt Agreements are a new type of personal insolvency administration introduced through Part IX of the *Bankruptcy Act 1966* on 16 December 1996.

3 All bankrupts are required to file a Statement of Affairs with ITSA providing personal and financial information including details of income, assets, debts, business information etc.

Debt Agreements

All debt agreements proposed by debtors and subsequently accepted by creditors during the 1997 calendar year were included in the study. As in the case of bankruptcies, data was then extracted from Statements of Affairs filed by the debtors and the data analysed. The type of data extracted was similar to that collected for bankruptcies.

Summary Of Key Findings

Debtors who become bankrupt

- one fifth are in the 25 to 29 year age bracket with 62% being 39 years or younger;
- half had an income of less than $13,400 during the year leading up to bankruptcy;
- half expected to receive an income of less than $10,600 in the 12 month period immediately after becoming bankrupt;
- half are likely to owe unsecured creditors less than $14,000;
- only 9% owe more than $100,000 to their unsecured creditors;
- unemployment is the single largest attributed cause of bankruptcy;
- males are more likely to become bankrupt;
- there is an 8% chance of a bankrupt having been bankrupt before; and
- it is likely that the bankrupt would be eligible for an early discharge from bankruptcy.

Debtors who enter into Debt Agreements

- only 2% of debtors are below 29 years of age with 45% being 39 years or younger;
- half had an income of less than $17,750 during the year leading up to the debt agreement;
- half expected to receive an income of less than $20,250 in the 12 month period immediately after the debt agreement;
- fifty five per cent owed unsecured creditors less than $20,000, the greatest concentration (50%) is between the debt levels of $10,000 and $30,000[4]; and

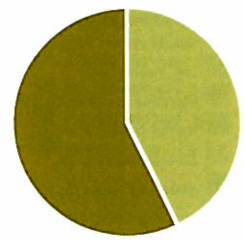
4 Note that there are limits placed on income, debt and asset levels for those entering into Debt Agreements. During the period of the study, a debtor with unsecured debts or assets higher than approximately $52,800 or with after tax income that exceeded approximately $26,400 was disqualified from entering into a Debt Agreement.

- the 'excessive use of credit' closely followed by 'failed business' are the main attributed causes of insolvency.

Characteristics of Those Who Become Bankrupt

Gender

In the Australian population 49.46% are male[5]. However, of those who have become bankrupt, the proportion is higher at 57%.

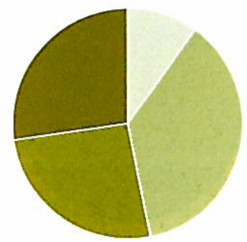


Bankrupts by Gender

Age

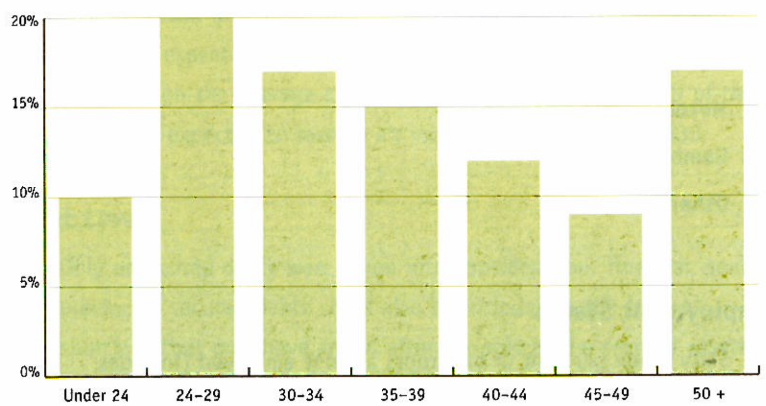
The five year age bracket from 25 to 29 years has the largest concentration of bankrupts representing a fifth of the sample. Thirty eight per cent are 40 years or older.

As compared to the general population, there is a disproportionately high percentage of bankrupts in the 18 to 34 age bracket — about a third of the general population is between 18 and 34, whilst nearly half (47%) of all bankrupts are within that group.

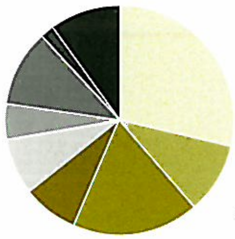


Percentage of bankrupts by age

Distribution of bankrupts by age

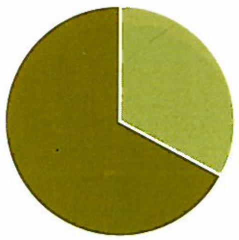


5 Throughout this booklet, there are references made to statistics applicable to the general Australian population. Those statistics were extracted from various publications of the Australian Bureau of Statistics, with particular reference to those publications that relate to 1996 Census data.



Primary cause of bankruptcy

- Unemployment 29%
- Low income 10%
- Excessive use of credit 18%
- Marital reasons 8%
- Illness/disability 8%
- Motor vehicle accident 5%
- Business failure 11%
- Gambling 1%
- Other 10%



Employment Status

- Employed 33%
- Not Employed 67%

Cause of Bankruptcy

Unemployment was identified by 29% of bankrupts as being the primary cause of their bankruptcy. Whilst that was the largest single category, it is reasonable to assume that most of those who identified "low income" (10%), and some of those who identified "excessive use of credit" (18%) as their primary cause of bankruptcy, are also unemployed. This could be the case particularly in relation to those who have been unemployed for long periods of time.

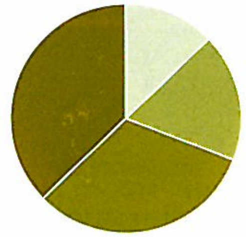
The causes disclosed by bankrupts in the category identified as 'other' would include, "failed court action", "death in the family", "tax debt" etc. Less than 1% of bankrupts attributed gambling as their primary cause of bankruptcy. However, others for whom gambling is the primary cause may be reluctant to disclose it as a cause due to the nature of the debt and the fact that it is an offence against bankruptcy laws.

The frequency of occurrence of each of the primary causes of bankruptcy as disclosed by bankrupts is as follows:

Unemployment	**29%**
Excessive use of credit	**18%**
Business failure	**11%**
Low income	**10%**
Illness or disability	**8%**
Marital reasons	**8%**
Motor vehicle accident	**5%**
Gambling	**1%**
Other reasons	**10%**

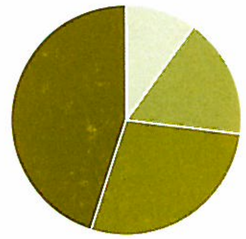
Employment Status

Sixty seven per cent of bankrupts are not employed (includes unemployed single parents, pensioners and those engaged in unpaid 'domestic duties'). The unemployment rate for Australia during 1997 hovered between 8% and 9%. Even though a little over a third of the adult population is not in the labour force, to have 67% of bankrupts as unemployed confirms that unemployment (see primary cause of bankruptcy above) is a major factor in bankruptcy. (Note that the unemployment rate, in broad terms, is calculated by representing the number unemployed as a percentage of the labour force rather than of the total population — the labour force comprises persons engaged in employment and those seeking employment).



Income received during year before bankruptcy

- $30,000 and over 13%
- $20,000-$29,999 18%
- $10,000-$19,999 32%
- $9,999 or less 37%



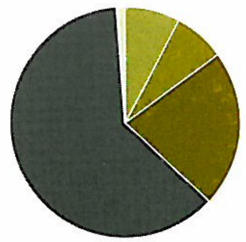
Expected income for the year immediately after becoming bankrupt

- $30,000 and over 10%
- $20,000-$29,999 17%
- $10,000-$19,999 28%
- $9,999 or less 45%

Income

Of those bankrupts for whom income details were known for the period immediately before bankruptcy, 69% had an income of less than $20,000, whilst only 13% had an income of $30,000 or higher. Thirty seven per cent were in receipt of an income of less than $10,000. Even though the average income for bankrupts was $17,250, half of them had an income of less than $13,400 immediately prior to bankruptcy. The corresponding median individual income in Australia for the same period was around $15,190 (ie, half of those individuals in the population who were in receipt of income, received less than $15,190). However, household income in the general population was higher, with half of households receiving more than $33,020. On these figures it is clear that a majority of those who become bankrupt are well inside the bottom half of the income distribution spectrum for Australia.

Of those bankrupts who had provided details of expected income for the twelve month period immediately after becoming bankrupt, 73% expected to receive an income of less than $20,000 whilst only 10% expected to receive an income of $30,000 or higher. Even though the average expected income was $15,045, half of the bankrupts expected to receive an income of less than $10,630.



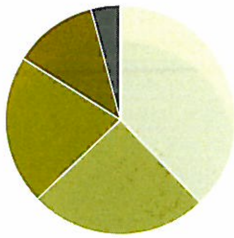
Amount owed per bankruptcy – distribution details above $20,000

- More than $500,000 1%
- $100,000-$499,999 8%
- $50,000-$99,999 7%
- $20,000-$49,999 22%
- $19,999 and less 62%

Debt Level

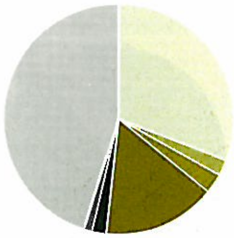
Only unsecured debts were taken into consideration. However, some previously secured debts could also be included in the form of shortfalls that may have arisen after the sale of the secured assets by secured creditors prior to bankruptcy.

It was found that 62% of bankrupts owe their creditors less than $20,000 with 84% owing less than $50,000. Only 9% of bankrupts owe more than $100,000 with less than 1% owing more than $500,000.



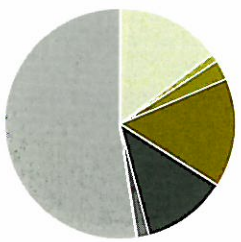
Amount owed per bankruptcy – distribution details below $20,000

- More than $20,000 38%
- $10,000–$19,999 25%
- $5,000–$9,999 21%
- $2,000–$4,999 12%
- $1,999 and less 4%



Percentage of amount owed per creditor category

- Banks 31.6%
- Building Societies 1.5%
- Credit Unions 2.5%
- Finance Co 16.3%
- Utilities 1.1%
- State Housing 0.3%
- Other 46.7%



Frequency of occurrence of creditor categories

- Banks 14.9%
- Building Societies 0.4%
- Credit Unions 2.6%
- Finance Co 15.5%
- Utilities 12.0%
- State Housing 1.3%
- Other 53.2%

A quarter of the bankrupts disclosed unsecured debts of between $10,000 and $20,000 representing the greatest concentration of bankrupts in any one debt category. Just over 4% owe their creditors less than $2,000. Even though the average amount owed per bankruptcy is $42,570, only half of the bankrupts owe more than $14,160 to their unsecured creditors.

Creditors

The study collected data in relation to banks, building societies, credit unions, finance companies, State housing and utilities (gas, electricity etc). All creditors who did not fall into any of these categories were identified as 'other' creditors and they include trade creditors and others in relation to amounts outstanding on store accounts, tax, professional fees and the like.

In dollar terms, banks (including credit card debt) are owed 32% of the total debt to unsecured creditors with finance companies coming next with 16% owed to them.

The average amount owed per unsecured creditor is $6,840 with an average of 6.22 creditors per estate (as stated under 'Debt Level', some previously secured creditors who may have realised their security prior to bankruptcy but have a shortfall would be included).

Statistical details of relationships between creditors and estates

	Banks	Building Societies	Credit Unions	Finance Co	Utilities	State Housing	Other	All Unsecured
Average debt per estate	$25,174	$31,236	$7,657	$11,708	$1,128	$1,949	$26,893	$42,597
Median amount owed per creditor category	$7,602	$7,330	$5,726	$6,094	$707	$760	$4,000	$14,161
Average amount owed per creditor	$14,609	$28,922	$6,528	$7,200	$609	$1,839	$6,024	$6,840
Average number of creditors per estate	1.72	1.08	1.17	1.63	1.85	1.06	4.46	6.22

When the average amount owed per creditor category is considered, building societies are owed the highest average amount ($28,920) per creditor with the lowest average amount per creditor of $610 being owed in relation to utilities.

The average amount owed per bank is $14,610 with finance companies and credit unions owed $7,200 and $6,530 respectively.

Instead of the dollar amounts owed, when the frequency of occurrence of each creditor category is compared with all other creditor categories, finance companies appear as creditors more often (15.5%) than any other category. Banks come next with 14.9% of the total creditors. It is also interesting to note that the creditor category of 'utilities' represents 12% of all creditors when it is only owed 1% of the total debt.

The percentages below represent the frequency of occurrence of each creditor category against all bankruptcies:

60% of bankruptcies had **finance companies** as a creditor

54% of bankruptcies had **banks** as a creditor

40% of bankruptcies had **utilities** as a creditor

14% of bankruptcies had **credit unions** as a creditor

8% of bankruptcies had **State housing** as a creditor

2% of bankruptcies had **building societies** as a creditor

74% of bankruptcies had creditors from the **'other'** category

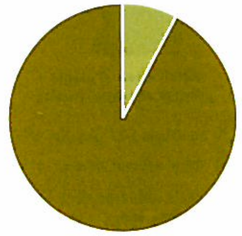
Repeat Bankruptcies

The sample indicated that 8% of persons who became bankrupt during 1997 had been bankrupt previously.

Early Discharge from Bankruptcy

Fifty nine per cent of bankrupts were considered eligible for early discharge from bankruptcy. Early discharges are not automatically obtained; bankrupts have to make a simple application to the trustee. Regarding bankruptcies that occurred during 1997, only 22% of bankrupts applied for, and 16% obtained, early discharges from bankruptcy. Bankrupts are considered ineligible to apply for an early discharge or disqualified from obtaining such a discharge for various specified reasons. Some specific reasons for not being eligible are:

- there are assets vested in the trustee to enable a distribution to creditors;

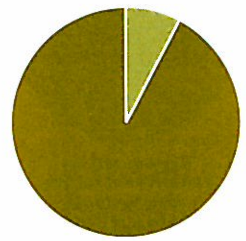


Repeat Bankruptcies

- Previously bankrupt 8%
- Not previously been bankrupt 92%

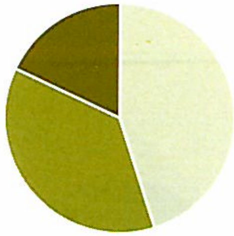
Early discharge from bankruptcy

- Eligible for an early discharge 59%
- Not eligible for an early discharge 41%



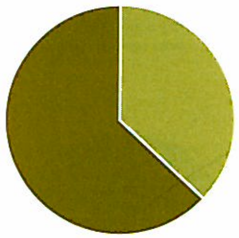
Home Ownership

- Home owners 8%
- Not home owners 92%



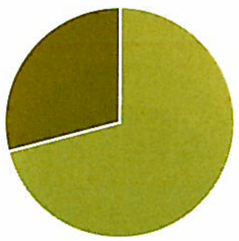
Distribution of single persons and family units

- Bankrupts with partners 45%
- Single without children 37%
- Single with dependent children 18%



Proportion of families compared to single persons

- Single persons with no dependents 37%
- Families (couples with or without children and single parents) 63%



Single parents as a proportion of families

- Bankrupts with partners (with or without children) 71%
- Single parents 29%

- the bankrupt had entered into a transfer of property that is void against the trustee;
- the bankrupt has to make compulsory contributions from income to the estate;
- the bankrupt has been bankrupt in the preceding ten years;
- unsecured debts exceed the bankrupt's income by 150%; and
- failure by the bankrupt to disclose to the trustee an interest in property etc.

Home Ownership

The study also found that 8% of bankrupts were either home owners or in the process of purchasing a home.

Single Persons and Single Parents

Thirty seven per cent of bankrupts are single with no dependants. In the Australian population 22% are single with no dependants. These figures indicate that single persons with no dependants have a 68% greater chance of being represented in the population of bankrupts than in the general population.

Of the 63% of bankrupts who live in family situations (couples; couples with dependent children; and singles with dependent children) 29% are single parents. However, in the Australian population the corresponding percentage of single parents is 14.5% of families. Therefore, twice as many single parents are represented in the population of bankrupts than in the general population.

Characteristics of Those Who Enter into Debt Agreements

Debt Agreements are a relatively recent type of insolvency administration introduced in mid December 1996. They were created for low income debtors to facilitate a simple form of administration that provides for debtors and creditors to come to a legally binding arrangement for the settlement of debt.

On the indexed threshold amounts applicable in 1997, a debtor with either unsecured debts less than, or assets higher than approximately $52,800, or with after tax income that exceeded approximately $26,400, was disqualified from entering into a debt agreement. A debtor who had become bankrupt or had been subject to an administration under the *Bankruptcy Act 1966* as a debtor in the preceding 10 years is also disqualified from entering into a debt agreement. Therefore, the results in relation to debt agreement debtors should be viewed in the context of these limits.

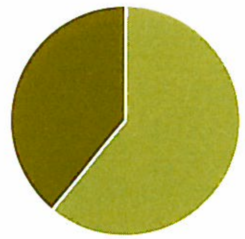
In 1997 224 debt agreements were accepted by creditors. The study found that the most common type of debt agreement provided for fortnightly or monthly payments over a period of two to three years. If the debtors comply with their obligations, most agreements should provide creditors with a distribution of anything between 35 and 100 cents in every dollar owed to them. When all debt agreements are considered, the average overall rate of distribution is estimated at around 50 cents in the dollar.

Gender

Sixty one per cent of those who entered into debt agreements are male while the corresponding figure for those who became bankrupt was 57%.

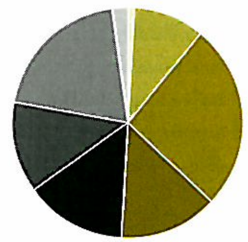
Age

Only 2% were in the 25 to 29 year age bracket, and none were below 24 years. Compare this to the situation of persons who became bankrupt where the 25 to 29 year age bracket has the largest concentration of bankrupts with 20% of all bankrupts. In relation to debt agreement debtors, 65% are 40 years or older whereas only



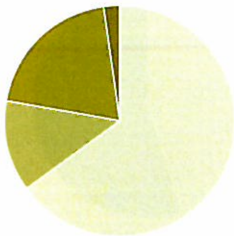
Distribution by gender

- Male 61%
- Female 39%



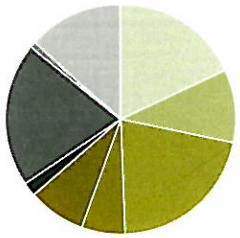
Distribution by age

- More than 70 (1%)
- 60-69 (10%)
- 50-59 (26%)
- 45-49 (14%)
- 40-44 (14%)
- 35-39 (13%)
- 30-34 (20%)
- Less than 29 (2%)



Distribution of debtors in age categories below 40 years

- More than 40 (65%)
- 35-39 (13%)
- 30-34 (20%)
- 29 and below (2%)



Primary cause of insolvency

- Unemployment (18.30%)
- Low income (10.27%)
- Excessive use of credit (21.88%)
- Marital reasons (6.25%)
- Illness/disability (8.48%)
- Motor Vehicle Accident (1.34%)
- Business failure (20.09%)
- Gambling (0.45%)
- Other (12.95%)

Employment Status

- Employed 63%
- Not Employed 37%

38% of bankrupts are 40 years or older. A fourth of those who have entered into debt agreements are between the ages of 50 and 59 with an additional 11% who are 60 years or older.

Of those who have entered into debt agreements, there is a much higher representation of those who are 35 years and older (78%) as compared to the Australian population (approximately 66%).

Cause of Insolvency

"Excessive use of credit" was the most often disclosed (22% of debtors) primary cause of insolvency for those entering into debt agreements, closely followed by "business failure" at 20%. Unemployment comes next with 18% disclosing it as their primary cause of insolvency whereas it was the most often disclosed cause of insolvency (29%) for those who became bankrupt.

The frequency of occurrence of each of the primary causes of insolvency as disclosed by debtors is as follows:

Excessive use of credit	**22%**
Business failure	**20%**
Unemployment	**18%**
Low income	**10.5%**
Illness or disability	**8.5%**
Marital reasons	**6%**
Motor vehicle accident	**1.5%**
Gambling	**0.5%**
Other reasons	**13%**

Employment Status

The nature of debt agreements is such that most debtors appear to negotiate with their creditors to make some form of periodic payment from income. Therefore, it is not surprising that 63% are employed, as opposed to the low corresponding proportion of 33% of bankrupts who are employed.

Income

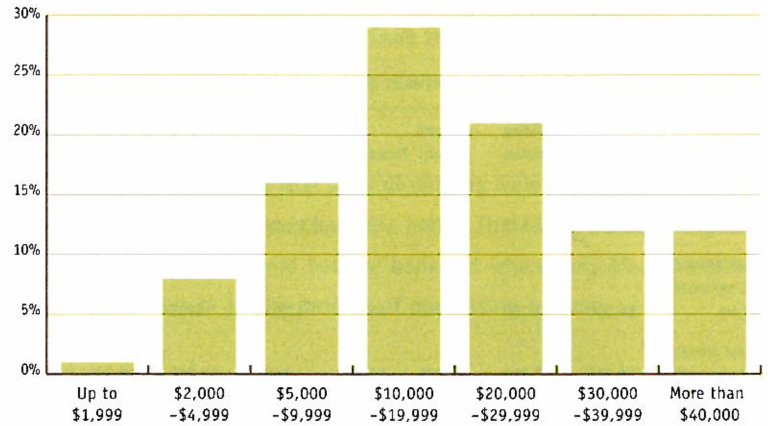
Even though the after tax income of those who enter into debt agreements has to be below $26,400, there were 45% of debtors who received an income of over $20,000 immediately preceding the debt agreement. Fifty two per cent of debtors expected a gross income of $20,000 or more immediately after the debt agreement.

Half of the debtors received an income of more than $17,750 prior to the Debt Agreement. Unlike the situation with bankrupts, for the period immediately after entering into an agreement, at least half of the debtors expected to receive an income of $20,250 or more. The corresponding pre- and post-bankruptcy incomes were $13,400 and $10,600 respectively.

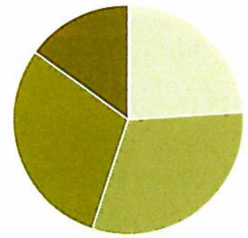
Debt level

Considering there was a cap of $52,800 on the maximum that can be owed to creditors under a debt agreement, it is interesting to note that at least half of the debtors owed creditors more than $18,120. Whereas in relation to bankrupts, where there is no limit placed on the amount that could be owed, the corresponding halfway point was $14,160.

Distribution of debt agreements based on total owed per debtor

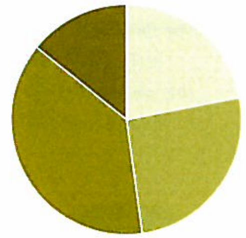


Only 1% of debtors owed less than $2,000 with another 8% owing between $2,000 and $5,000. The corresponding proportions for bankrupts were 4% and 12% respectively.



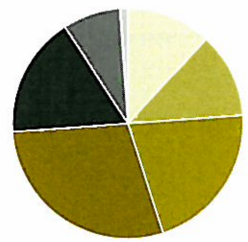
Income received in year prior to debt agreement

- Less than $9,999 (24%)
- $10,000-$19,999 (31%)
- $20,000-29,999 (30%)
- $30,000 and over (15%)



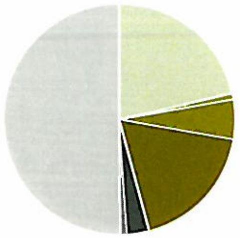
Expected income for the year immediately after the debt agreement

- Less than $9,999 (22%)
- $10,000-$19,999 (26%)
- $20,000-29,999 (38%)
- $30,000 and over (14%)



Distribution of debt agreements based on amount owed per debtor

- $40,000 or more (12%)
- $30,000-$39,999 (12%)
- $20,000-$29,999 (21%)
- $10,000-$19,999 (29%)
- $5,000-$9,999 (17%)
- $2,000-$4,999 (8%)
- $1,999 or less (1%)



Percentage of amount owed per creditor category

- Banks (21.67%)
- Building Societies (0.61%)
- Credit Unions (5.59%)
- Finance Co (18.04%)
- Utilities (3.02%)
- State Housing (0.74%)
- Other (50.34%)

The above chart and the fact that the closeness of the median ($18,120) and the average ($20,650) of total debts suggest that the debt levels of those who have entered into debt agreements are concentrated between $10,000 and $30,000. The extremes outside that range are evenly spread with a slightly greater proportion of debtors existing at the higher debt levels rather than at the extreme low levels below $5,000.

Creditors

In a similar method to that used for those who had become bankrupt, data was collected in relation to banks, building societies, credit unions, finance companies, State housing and utilities (gas, electricity etc). All creditors who did not fall into any of these categories were identified as 'other' creditors and they include trade creditors and others in relation to amounts outstanding on store accounts, or for tax, professional fees and the like.

In dollar terms, banks are owed 22% of the total unsecured debt with finance companies coming next with 18% owing to them.

The average amount owed per unsecured creditor is $2,900 with an average of seven creditors per estate (the amounts owed per creditor and the total amount owing etc should be considered in the context that debt agreements place a cap of $52,800 on what can be owed in total to unsecured creditors).

Statistical details of relationships between creditors and estates

	Banks	Building Societies	Credit Unions	Finance Co	Utilities	State Housing	Other	All Unsecured
Average debt per estate	$7,320	$3,478	$8,791	$7,093	$1,547	$2,800	$12,272	$20,361
Median amount owed per creditor category	$4,530	$3,150	$4,500	$5,413	$1,045	$505	$7,626	$18,121
Average amount owed per creditor	$4,170	$2,782	$7,725	$3,863	$824	$2,800	$2,551	$2,901
Average number of creditors per estate	1.76	1.25	1.14	1.84	1.88	1.00	4.81	7.02

When the average amount owed per creditor category is considered, credit unions are owed the highest average amount per creditor with $7,725 with the lowest average amount per creditor of $825 owed in relation to utilities. The average amount owed per bank is $4,170 with finance companies and building societies owed $3,860 and $2,780 respectively.

Instead of the dollar amounts owed, when the frequency of occurrence of each creditor category is compared with all other creditor categories, banks appear as creditors more often (15%) than any other creditor. Finance companies come next representing 14% of the total creditors. As in the bankruptcy situation, it is also interesting to note that the creditor category of 'utilities' represents 11% of all creditors when it is only owed 3% of the total debt.

The percentages below represent the frequency of occurrence of each creditor category against all debt agreements:

60% of debtors had **banks** as a creditor

52% of debtors had **finance companies** as a creditor

40% of debtors had **utilities** as a creditor

13% of debtors had **credit unions** as a creditor

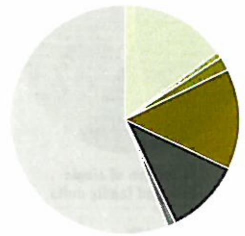
5% of debtors had **State housing** as a creditor

4% of debtors had **building societies** as a creditor

83% of debtors had creditors from the **'other'** category

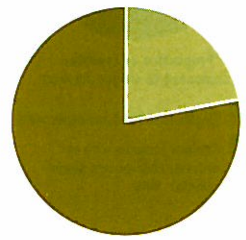
Home Ownership

The study also found that 22% of debtors were either home owners or in the process of purchasing a home. This is significantly higher compared to those who became bankrupt where only 8% were either home owners or in the process of purchasing a home.



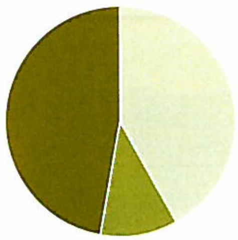
Frequency of occurence of creditor categories

- Banks (15%)
- Building Societies (1%)
- Credit Unions (2%)
- Finance Companies (14%)
- Utilities (11%)
- State Housing (1%)
- Other (56%)



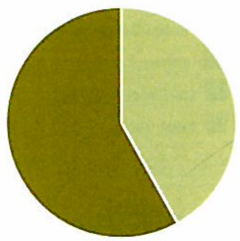
Home ownership

- Home owners 22%
- Not home owners 78%



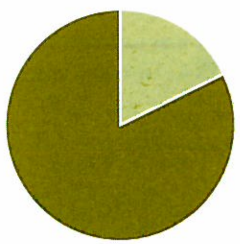
Distribution of single persons and family units

- Singles 42%
- Single parents with dependent children 11%
- Debtors with partners 47%



Proportion of families compared to single persons

- Singles with no dependents 42%
- Families (couples with or without children and single parents) 58%



Single parents as compared to families

- Single parents 18%
- Debtors with partners (with or without children) 82%

Single Persons and Single Parents

Forty two per cent of debtors are single with no dependants. In the Australian population 22% are single with no dependants. Therefore, single persons with no dependants have a 91% greater chance of being represented in the population of debt agreement debtors than in the general population.

Of the 58% of debtors who live in family situations (couples; couples with dependent children; and singles with dependent children), 18% are single parents. However, in the Australian population the corresponding percentage of single parents is 14.5%. Therefore, single parents have a 24% greater chance of being represented in the population of debt agreement debtors than in the general population.

Comparison Between Bankrupts and Debt Agreement Debtors

Clearly, those who enter into debt agreements are from an older age group as compared to those who become bankrupt. The significance of the difference is such that 65% of debt agreement debtors are 40 years or older whereas only 38% of bankrupts fall into that category. Whilst 30% of bankrupts are 29 years or younger, less than 3% of those who have entered into debt agreements are in that age bracket.

Seventy eight per cent of debt agreement debtors are 35 years or older, an age group in which approximately half of the Australian population and about two thirds of those above 18 years are represented. In relation to those who have become bankrupt, nearly half (47%) are represented in the younger one third of the population, that is between 18 and 34 years of age. While only 17% of bankrupts are 50 years or older, more than double that percentage (36%) of debt agreement debtors are in that age group.

It is also clear that those who had entered into debt agreements, as compared to those who had become bankrupt, appear to have a more optimistic outlook as they expect their immediate future income to be higher than that received for the period preceding the agreement. At least half of them received an annual income of $17,750 or more for the period preceding the agreement whilst at least half expected to receive an annual income of more than $20,250 for the period immediately after the debt agreement.

In contrast to the debt agreement situation, at least half of the bankrupts received an income of less than $13,400 for the period immediately prior to bankruptcy, with that dropping further to an expected annual income of less than $10,600 for at least half of the bankrupts for the period immediately after bankruptcy. This expected income approximates to the maximum social security benefit that was payable during 1997 to a single unemployed adult.

Census data of 1996 indicated that in the Australian population, at least half had an individual annual income of less than $15,200 (at least half of the households had an annual income of more than about $33,000). These amounts indicate that a majority of debtors who entered into debt agreements are from the top half, albeit at the very low end of the top half, of the income distribution spectrum for individuals in Australia. In contrast, a majority of those who become bankrupt come from the lower half of the Australian income distribution spectrum.

The percentage of people who are employed is also significantly higher amongst those who have entered into debt agreements (63%) as compared to those who have become bankrupt (33%).

When the common creditor categories are compared, 40% of bankrupts as well as debt agreement debtors disclosed utilities (gas, electricity etc) as a creditor. However, 60% of debt agreements had banks as a creditor followed by finance companies at 52% with that order reversed for bankrupts who had 60% of estates with finance companies as a creditor followed by banks at 54%.

Even though at least half of those who became bankrupt owed their unsecured creditors less than $14,160, only 4% owed $2,000 or less. Only 9% owed creditors more than $100,000 with less than 1% owing more than $500,000. The average amount owed per creditor was $6,840 with an average of 6.22 creditors per bankruptcy.

Only 1% of debt agreement debtors owed less than $2,000 with another 8% owing between $2,000 and $5,000. Twenty nine per cent of the debtors owed creditors between $10,000 and $20,000 each while another 21% owed creditors between $10,000 and $30,000. The average amount owed per creditor is $2,900 with an average of 7 creditors per debt agreement debtor.

Considering there was a limit of approximately $52,800 on the maximum that could be owed to creditors under debt agreements, it is interesting to note that at least half of the debtors owed creditors more than $18,120 whereas, in relation to bankrupts, where there is no limit placed on the amount that could be owed, the corresponding halfway point was $14,160. The halfway point for debt agreement debtors is approximately 28% higher than the corresponding halfway point for bankrupts.

Unemployment is the most often (29%) disclosed cause of insolvency for those who have become bankrupt. Excessive use of credit (18%), business failure (11%) and low income (10%) are the other

significant categories. However, in relation to those who have entered into debt agreements, excessive use of credit (22%), closely followed by business failure (20%) and unemployment (18%) are the significant categories.

It appears that debtors who have entered into debt agreements are twice as likely to have engaged in running a business prior to their insolvency as compared to those who have become bankrupt. This is evident because a fifth of all debt agreement debtors as opposed to just over a tenth of bankrupts have attributed "business failure" as their primary cause of insolvency.

Single persons with no dependants and single parents have a higher than expected representation amongst those who have become bankrupt or have entered into debt agreements when compared to the Australian population. In the general population, 22% are single persons with no dependants whilst amongst bankrupts, 37% are single persons with no dependants with an even higher proportion of single persons (42%) represented amongst those who have entered into debt agreements.

In the general population 14.5% of families comprise single parent families. Families are defined as couples with children; couples without children and single parent families. However, the occurrence of single parents in the population of those who had become bankrupt is 28%, which is equal to double the proportion of single parents in the general population. Even though single parents form a smaller proportion of families in the population of debt agreement debtors at 18%, that proportion is still higher than the corresponding figure of 14.5% in the general population.

General Comments

When it is considered that 67% of those who became bankrupt are unemployed with at least half of all bankrupts expecting to receive an annual income of less than $10,600 and that approximately 68% owe their creditors between $5,000 and $50,000, it is clear that the vast majority of bankrupts are in genuine financially distressed circumstances.

It is also evident that many bankrupts will live on incomes that are below the Henderson poverty line as at least half of those who have become bankrupt expect to receive an income of less than $10,600 for the 12 month period immediately after becoming bankrupt. For example, during 1997 the Henderson poverty line income level for single unemployed adults with no dependants was approximately $10,100 rising to $13,600 for a single parent with one dependent child[6].

Based on the number of bankruptcies that occurred during 1997, it is estimated that approximately 2,600 of the total 23,424 bankruptcies occurred directly as a result of business failure. However, it is noted that this category is only a subset of those who may have had a proprietary interest in a business immediately prior to bankruptcy. For example, bankrupts with a proprietary interest in a business immediately prior to bankruptcy might have attributed other causes such as 'excessive use of credit', 'illness', 'marital or domestic discord' as their *primary* cause of bankruptcy.

Whilst there may not be any one individual with all of the common attributes discussed throughout this paper, the identification of a hypothetical individual — a "typical bankrupt" or a "typical debt agreement debtor" — with all of the dominant attributes provides a good picture of the combination of factors that appear to generate the greatest 'risk' of personal insolvency.

6 POVERTY LINES: AUSTRALIA, September QUARTER 1997 published by the Melbourne Institute of Applied Economics and Social Research.

The **typical bankrupt** would be:

- male;
- single (including single parents);
- under 40 years of age;
- unemployed;
- owe creditors approximately $14,150;
- would have received a pre-bankruptcy annual income of $13,400 dropping to $10,600 after becoming bankrupt; and
- would have also had an 8% chance of being bankrupt before.

The **typical debt agreement debtor** would be:

- male;
- single (including single parents);
- over 40 years of age;
- employed;
- owe creditors approximately $18,100; and
- would have received a pre-debt agreement annual income of $17,750 rising to $20,250 for the period immediately after the agreement with creditors.