

# What is bankruptcy?

**When someone declares bankruptcy, it means they cannot afford to repay the money they owe. Bankruptcy can affect other parts of life, so it's important to learn about it and seek advice before going down that path.**

Sometimes people find themselves in a situation where they owe a lot of money that they cannot repay. When this happens, declaring bankruptcy is one option. Other options include coming to an arrangement to pay off the money over time.

## WHAT IS BANKRUPTCY?



Bankruptcy is a legal way of saying that you cannot repay your debt. As a result, people who declare bankruptcy are released from some, but often not all of the money they owe.

Some people voluntarily declare bankruptcy, while others are declared bankrupt through a court process, which is sometimes brought about by the person or company they owe money to.

It's important to get advice (free phone numbers below) before going down the bankruptcy path for several reasons. Firstly, if you declare bankruptcy, you often won't be excused from all debts. Also, there may be certain things you cannot do if you've declared bankruptcy. This may include buying a property in the future because it's more difficult to get a loan later on.

## WHAT DEBT DO YOU STILL HAVE TO PAY?



As mentioned, there are certain things you'll still have to pay down the track if you declare bankruptcy. Here are the things bankruptcy does not cover:

- Court-imposed penalties and fines
- Child support and maintenance
- HECS and HELP debts (government student loans)
- VET-Fee help or VET student loans debts
- Any debts you obtain after you declare bankruptcy.

It's important to find out if bankruptcy covers Centrelink debt, Australian Taxation Office and victims of crime debts and toll fines. Some debts are covered when you declare bankruptcy, while other debts may be able to be paid off over time under a payment plan.

### **You can get free bankruptcy advice from:**

Mob Strong Debt Help on **1800 808 488**, which tackles credit, debt and insurance matters for our peoples. Contact them Monday to Friday 9.30am-4.30pm; Open Christmas and New Year (except public holidays).

The National Debt Helpline: **1800 007 007**

## WHICH TYPES OF DEBT DOES BANKRUPTCY REMOVE?

Generally speaking, bankruptcy often removes **unsecured debt**. This can include credit and store cards, unsecured personal loans (loans not tied to an asset like a home), pay day loans, gas, electricity, phone and internet bills, overdrawn bank accounts and unpaid rent, medical, legal and accounting fees.

## WHAT IF YOU OWN A HOUSE OR CAR?

There's another type of debt called **secured debt**, which is tied to an asset like a home. If you want to keep that item, for example a car under finance, you will still have to pay that debt. If you are unable to pay your secured debts, you must surrender the secured items back to the creditor (someone/a company you owe money to).

## HOW LONG DOES BANKRUPTCY LAST?

Bankruptcy normally lasts for **three years and one day**.

## WHAT WILL DECLARING BANKRUPTCY MEAN IN THE FUTURE?

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 hard to get certain types of jobs.

However, after a few years, bankruptcy is removed from your credit record. Generally, bankruptcy stays on your record for seven years.

## Other options

### A debt agreement

A debt agreement is an alternative to bankruptcy, which can allow you to manage your debt with the people or companies you owe money to. A debt agreement lets you to reduce the amount you repay to a level you can afford. Under this arrangement, the interest may be removed and part of your debt written off. Also, your debt may be removed from your file after a few years.

### An information agreement

An information agreement, that allows you to "informally" come to an arrangement with each of your creditors (someone/company you owe money to e.g., home loan, banks, etc based on your financial situation). Under this arrangement, you can come to an agreement to pay off your debt over time.

### Free advice on debt and bankruptcy

Before you consider bankruptcy, you may wish to speak to:

- A financial counsellor through the National Debt Helpline: **1800 007 007**
- Mob Strong Debt Help: **1800 808 488**