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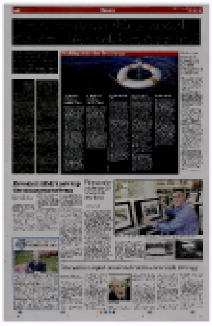

Are borrowers sinking beneath the raft of new debt rescue plans?

As the Central Bank prepares to launch a new multi-debt restructuring scheme, distressed borrowers may find themselves confused, writes **Emma Kennedy**, Personal Finance Correspondent

The Oireachtas finance committee is set to investigate the possibility that having multiple strategies for tackling personal debt is counter-productive and confusing for struggling borrowers.

Last week saw the Central Bank announce details of a pilot scheme for tackling various types of debts across multiple lenders. This plan will operate alongside the Central Bank's existing strategy for dealing with mortgage arrears, and is expected to act as a forerunner to the government's new personal insolvency regime.

Fianna Fáil finance spokesman Michael McGrath said there had been "a proliferation of measures" introduced for distressed borrowers. "While each of the initiatives has merit in its own right, I am concerned that they may now collectively amount to less than the sum of the parts, such is the level of confusion that is being created about the options open to a distressed borrower," he said.

Lorcan O'Connor, head of the newly-created Insolvency Service of Ireland, will shortly be appearing before the Oireachtas finance committee. McGrath said that he would be calling on O'Connor to "liaise closely with the Central Bank to ensure that a greater degree of cohesion is brought to the process".

McGrath said that access to clear information was key to minimising confusion for those in debt. "It is important that information is easily accessible, explaining to people the debt solution options open to them under the Personal Insolvency Act, but also what course they can follow should they not qualify," he said. "The banks also have an obligation to improve the quality of information on their websites, which could be best described currently as opaque."

A lack of consistency across the various debt relief measures is also an issue, according to DJ O'Donovan from the Association of Expert Mortgage Advisers, who said there was little consistency for those using the various pathways out of debt.

For example, O'Donovan said that, depending on the route chosen by struggling borrowers, they faced different rules in relation to living expenses.

"There are varying versions of living expenses and standards of living in circulation, including ones used by the banks and the recently published guidelines from the ISI," he said. " Now it appears that the Central Bank may be issuing its own version for the new multi-debt restructuring scheme."

He said the difference was "quite striking". "I can appreciate that they may be used for different purposes, but try explaining this to a person who is in financial distress and is trying to maintain some form of standard of living above one of poverty or comparable to receiving social welfare and still motivate oneself to go out to work," he said.

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Tackling debt: the five prongs

1) Mortgage arrears resolution process (Marp)

The Central Bank is currently reviewing its code of conduct on mortgage arrears. Under the code, lenders must use a standardised mortgage arrears resolution process (Marp) when dealing with customers in arrears, or pre-arrears cases. The Marp has five stages: effective communication; gathering financial information; assessment of the borrower's situation; finding a solution to the problem; and an appeal option for borrowers unhappy with the outcome of the process. Borrowers must fill in a detailed form, called a standard financial statement, and use this as the basis for negotiating a solution with their bank. The initial forbearance options are typically short-term solutions, such as a period of interest-only repayments, an extension of the mortgage term or a payment moratorium. However, last year banks piloted longer-term options, such as split mortgages, negative equity trade-downs and mortgage-to-rent schemes.

2) Mortgage arrears resolution targets (Mart)

Earlier this year, the Central Bank announced a new plan to tackle mortgage arrears. The Central Bank policy on mortgage arrears means lenders must meet strict targets in relation to the number of distressed mortgages that are renegotiated each quarter. The Central Bank has told the banks that 50 per cent of customers whose mortgages are in arrears must be offered sustainable solutions before the year is out. If the banks fail to meet the targets, they will face capital penalties. These targets don't change the menu of forbearance options on the table, but do force banks to commit to a specified level of restructuring.

3) Central Bank pilot

Just last week, the Central Bank announced another new plan to tackle debt. The pilot scheme is designed for people with secured and unsecured debts with multiple lenders. It is aimed at people who are not insolvent, but potentially on the brink of insolvency, and it is hoped that this new option could mean they avoid entering the full insolvency process. The plan hinges on cooperation between lenders, with a pilot of 750 borrowers kicking off next month and running for three months. Retail banks, credit card companies and credit unions are included in the pilot, but other sorts of debt, such as utility bills, fall outside it. Kevin Johnson, chief executive of the Credit Union Development Association, said that there was merit in the pilot study, as it "seeks to help those heavily indebted but technically still solvent and therefore not qualified to become personally insolvent".

4) New debt relief procedures

The new personal insolvency regime introduces three non-judicial debt resolution processes, which are managed by the Insolvency Service of Ireland, and allow for some level of debt write-off. It appears that the government's intention is for people in mortgage distress to exhaust the Marp system first, before they consider the new debt relief options. The three new structures are a debt relief notice (DRN), a debt settlement arrangement (DSA) and a personal insolvency arrangement (PIA).

- A DRN allows for the write-off of qualifying unsecured debt up to €20,000, subject to a three-year supervision period.
- A DSA provides for the agreed settlement of unsecured debt, with no limit involved, normally over five years.
- A PIA provides for the agreed settlement of secured debt up to €3 million and unsecured debt without limit, normally over six years. *This is suitable for those with different types of debt, such as an unsustainable mortgage.*

5) Bankruptcy

The Personal Insolvency Act, which was signed into law last December, amended the rules for bankruptcy. Under the new legislation, automatic discharge from bankruptcy will happen, subject to certain conditions, after three years. Previously, it was 12 years. The new law means that bankruptcy here is a less onerous process than it was, but still less attractive than the British option, which takes just one year. DJ O'Donovan from the Association of Expert Mortgage Advisers said there was a "view gathering momentum" that bankruptcy was a better option than "being tied to what people perceive as extremely low levels of living expenditure" under a PIA.