



Warning about punitive personal insolvency rules

By Jon Ihle

Financial advisers have warned that over-indebted borrowers may opt for bankruptcy instead of entering into personal insolvency arrangements due to "over-punitive" personal income restrictions.

According to the Association of Expert Mortgage Advisors (AEMA), a professional debt management group, the personal insolvency regime needs to be less penal in terms of the minimum standard of living it allows, if borrowers in arrears are to be persuaded to endure its seven-year term rather than choose three years of bankruptcy instead.

They say that the guidelines for allowable disposable income that have been leaked to the media are a disincentive for debtors to avail of personal insolvency over bankruptcy – even at the expense of losing their homes.

"The answer we are getting is that if such guidelines are introduced, which no doubt the banks will also adopt for restructuring mortgages, then it will not be worth the sacrifice to keep the family home," said DJ O'Donovan, an insolvency expert with AEMA.

"To take away the benefit of what are deemed normal living expenses is pushing these people into making the ultimate decision to go bankrupt so that they can regain control of their lives," he said.

Following research from the Money Advice and Budgeting Service (Mabs) last week which showed that most people in mortgage arrears are in the 41-65 age group, AEMA said its clients are considering

whether it is worth it to stay outside the personal insolvency regime to avoid "a lifetime of tough financial restrictions".

As the bankruptcy period is being shortened to three years, distressed borrowers are considering going straight for that option rather than negotiating first with their lenders, according to O'Donovan.

He warned that unless changes were made to improve the living allowance under personal insolvency, banks could be forced to absorb higher losses.