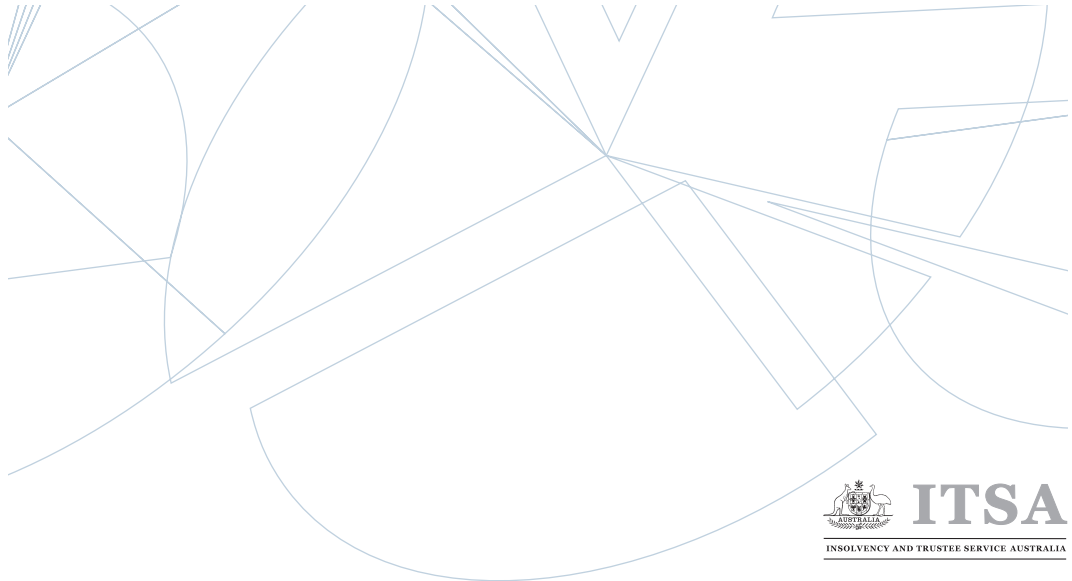




# PROFILES OF DEBTORS 2002

Who became bankrupt or entered into Debt Agreements in 2001/2002

Results of a Study by  
the Insolvency and Trustee  
Service Australia



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ITSA acknowledges the contribution of participating staff and especially recognises the contributions of Brian McGeown and Graeme Webster in collating and analysing data and in preparing the text and charts.

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## Introduction

In July 1998, the Insolvency and Trustee Service Australia ("ITSA") published a profile of debtors who became bankrupt or entered into debt agreements in the 1997 calendar year. This publication updates that profile using data from the 2001–2002 financial year.

The information in this publication relates, essentially, to the socio-economic circumstances of debtors. More general statistical information in relation to bankruptcy is contained in the Annual Report to Parliament by the Inspector-General on the operation of the Bankruptcy Act which can be found on ITSA's web site, [www.itsa.gov.au](http://www.itsa.gov.au).

A person can become bankrupt by filing their own debtor's petition with the Official Receiver at an ITSA office or by a creditor filing a petition at the Court and a sequestration order being made. In 2001–2002, 25,029 people became bankrupt. In approximately 90% of bankruptcies no dividend was paid to creditors. In those bankruptcies which paid a dividend, the average amount paid in dividends was approximately 20 cents in the dollar.

Debt Agreements are a relatively recent type of insolvency administration, introduced in mid December 1996. They were created for low income debtors to avoid bankruptcy by coming to a legally binding arrangement with their creditors for the settlement of debt.

A debtor can propose a debt agreement if unsecured debts and assets are less than \$64,082 and after tax income does not exceed \$32,041. A debtor who had become bankrupt or had entered an arrangement under the Bankruptcy Act 1966 in the preceding 10 years is also disqualified from entering into a debt agreement.

There has been a marked increase in the number of debt agreements entered into since they were first introduced as the following shows:

1996–1997	48	1997–1998	354
1998–1999	507	1999–2000	801
2000–2001	1234	2000–2002	3294

Debt agreements commonly provide for fortnightly or monthly payments over a period of 2 to 3 years. The average rate of return to creditors proposed in debt agreements made during 2001–2002 was 77 cents in the dollar. However, it should be noted that not all agreements are fully complied with and around 40% are terminated before their term is completed.

### Methodology

Every person who becomes bankrupt or enters into a debt agreement is required to lodge a Statement of Affairs with ITSA. Information from the Statement of Affairs is recorded on ITSA's database and the data that is presented here represents a 100% sample of the bankrupts and debtors who entered into a debt agreement in 2001–2002.

Throughout the booklet there are references 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 that relate to the 2001 Census.

# Characteristics Of Those Who Become Bankrupt

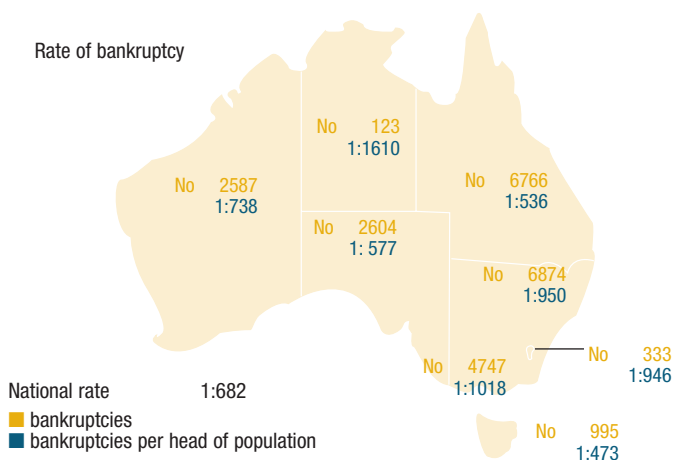
## Summary of key findings

### Of debtors who became bankrupt

- Half had an income of less than \$15,000 and 80% had an income of less than \$30,000 during the twelve months preceding their bankruptcy;
- 54% owed less than \$20,000 to their unsecured creditors and 80% owed less than \$50,000;
- unemployment was the single largest attributed cause of bankruptcy;
- more males became bankrupt than females; and
- 13% of the people who became bankrupt during 2001-2002 had been bankrupt before.

### Frequency of bankruptcy

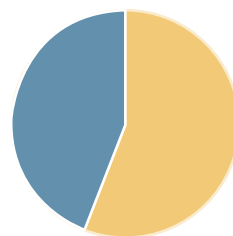
25,029 people became bankrupt in the period 1 July 2001 to 30 June 2002. Of these, New South Wales had the highest number.



The rate of bankruptcy varies between the states and territories, with Tasmania having the highest frequency and Northern Territory having the lowest. The national rate of bankruptcy is 1 bankruptcy per 682 people.

### Gender

49.3% of the Australian population is male. However, of those who became bankrupt last financial year, 56% were male.

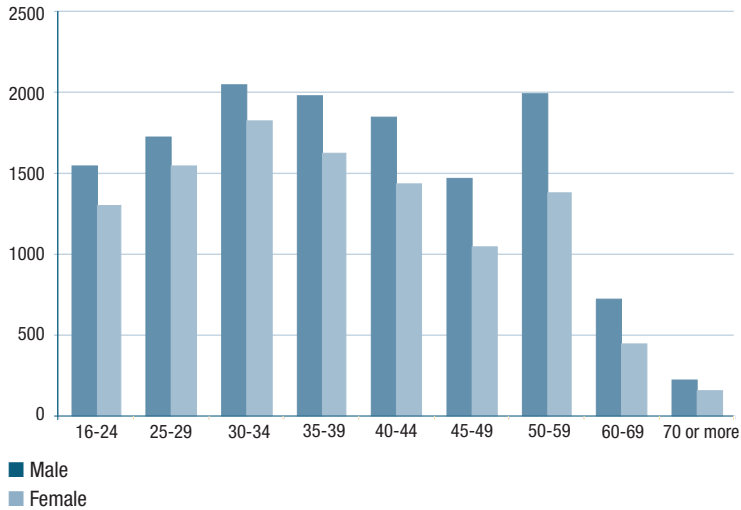


Bankrupt: Gender  
■ Male 56%  
■ Female 44%

## Age

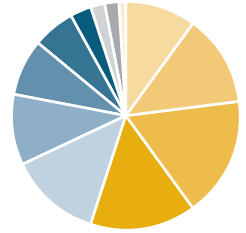
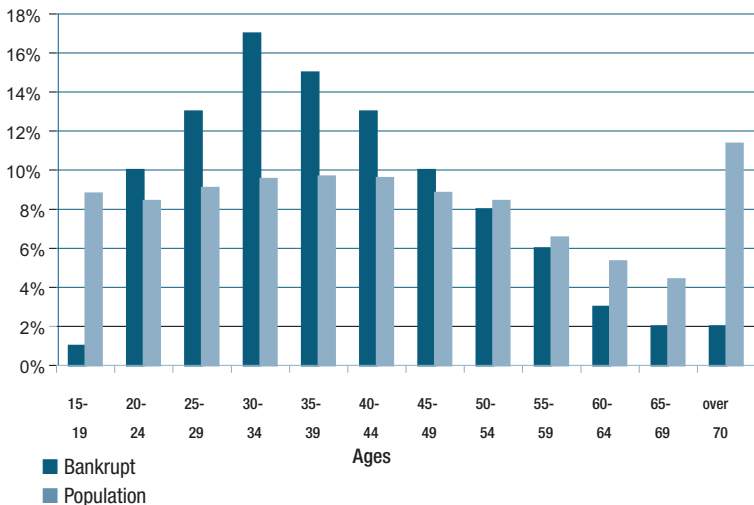
The adjacent chart shows the age distribution of bankrupts. The higher proportion of male to female bankrupts occurs across all age groups, as indicated in the following graph.

Bankrupts: Ages Male/Female



The following graph shows the age distribution of bankrupts and the comparable age distribution of the general population. Of the total number of bankrupts in 2001-2002, 24% were under the age of 30, 32% were between the ages of 30 and 39 and 44% were over 40. The corresponding population ratios were 26%, 19% and 55%.

Bankrupts: Age comparison bankrupts/general population over 15



Bankrupts: Ages

15-19	1%
20-24	10%
25-29	13%
30-34	17%
35-39	15%
40-44	13%
45-49	10%
50-54	8%
55-59	6%
60-64	3%
65-69	2%
70 or more	2%



### Sources of information about bankruptcy and its alternatives

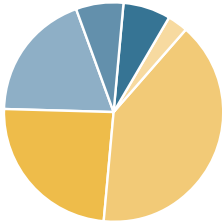
In the Statement of Affairs a bankrupt indicates where he or she obtained information about insolvency.

57% of bankrupts obtained advice from professional sources (ie. financial counsellors, solicitors, accountants or registered trustees) with the main source being financial counsellors (40%). These sources are described as 'professional' as they provide advice on bankruptcy and its alternatives as well as assistance to debtors in reorganising their affairs to help prevent financial difficulty in the future.

24% of bankrupts advised they obtained information from ITSA. ITSA explains bankruptcy, its consequences and alternatives to debtors but does not provide any financial counselling or information about budgeting, debt management etc.

19% of bankrupts advised that they did not obtain advice from either of these sources.

Victoria had the highest proportion of bankrupts who sought professional advice (75%) while South Australia recorded the lowest (44%). The variations between States may depend on the availability of professional services.



Bankrupts:  
Sources of information

Registered trustee	3%
Financial counsellor	40%
ITSA	24%
Other	19%
Solicitor	7%
Accountant	7%

## Repeat bankruptcies

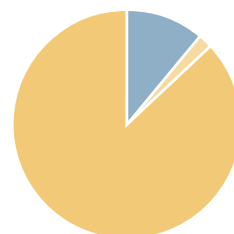
Of those who became bankrupt in 2001–2002, 13% had been bankrupt before and 2% had been bankrupt more than twice before.

## Primary cause of bankruptcy

Bankruptcies are categorised as either business or non-business related, based on whether or not the bankruptcy arose from the failure of a business in which the debtor had a proprietary interest. Business bankruptcies represented 17% and non-business 83% of total bankruptcies in 2001–2002.

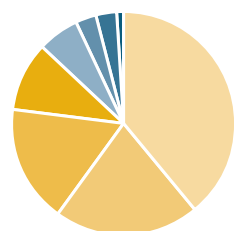
When completing their Statement of Affairs, bankrupts are asked to select the primary cause of their bankruptcy, and this is reflected in the adjacent charts.

Unemployment was stated as the most common cause for non-business bankruptcies and economic conditions was stated as the most common cause for business bankruptcies.



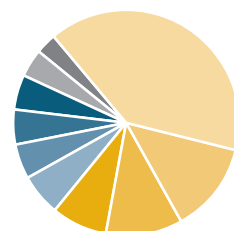
Incidence of Bankruptcy

1 bankruptcy	87%
2 bankruptcies	11%
3 or more b'cies	2%



Bankrupts: Causes (Non Business)

Unemployment	39%
Excessive use of credit	21%
Domestic discord	17%
Ill health	10%
Adverse litigation	6%
Gambling or speculation	3%
Liabilities incurred on guarantees	3%
Other	1%



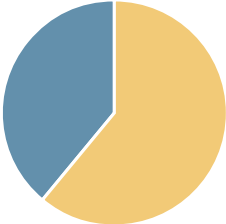
Bankrupts: Causes (Business)

Economic conditions affecting industry	40%
Insufficient initial capital	13%
Lack of business ability	11%
Personal reasons	8%
Gambling or speculation	6%
Other	5%
Excessive drawings	5%
Inability to collect debts	5%
Excessive interest	4%
Failure to keep proper books	3%

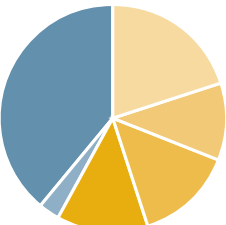
**Employment Status**

61% of bankrupts were not employed at the date of bankruptcy (includes unemployed, pensioners, self-funded retirees and those engaged in unpaid domestic duties). For male bankrupts, the rate not employed was 58% while for females the rate was 69%. Of those not employed 39% indicated that they had not been employed for two years or more.

The seasonally adjusted unemployment rate for Australia for June 2002 was 6.5%. However, a more relevant comparison is that 40.4% of the adult population is not in the labour force.



**Bankrupts: Employment Status**  
Not employed 61%  
Employed 39%



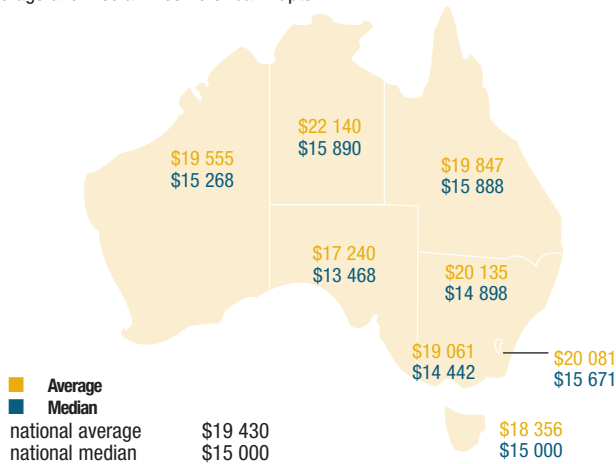
**Bankrupts: Periods Not Employed**  
3 months 20%  
3-5 months 11%  
6-11 months 14%  
12-17 months 13%  
18-24 months 3%  
24 months or more 39%

## Income

In the 12 month period immediately before bankruptcy 27% had an income of less than \$10,000, 61% had an income of less than \$20,000 and 81% less than \$30,000.

The average income for bankrupts was \$19,430 and the median income was \$15,000. The following map shows the average and median income of bankrupts by State and Territory. The highest median income was in the Northern Territory and the lowest in South Australia.

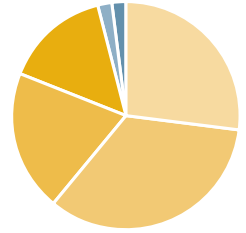
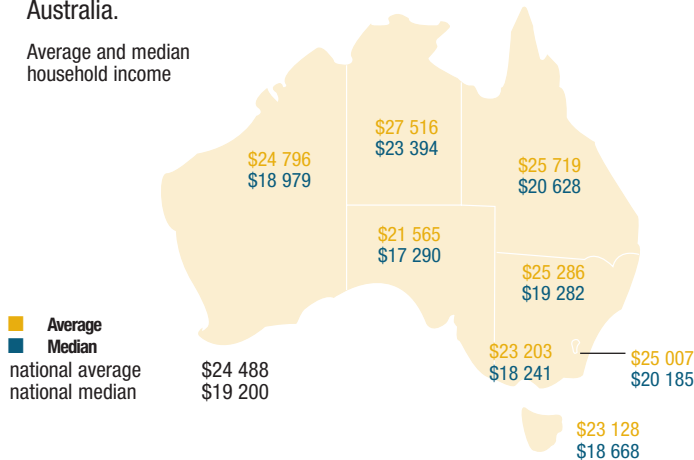
Average and median income of bankrupts



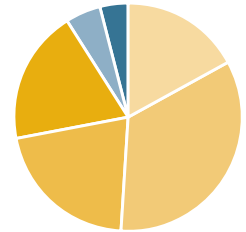
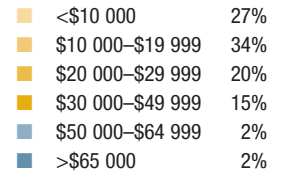
Information is also collected on household income. 17% of households of the bankrupt earned less than \$10,000, 51% less than \$20,000 and 72% less than \$30,000.

The average household income for bankrupts in Australia was \$24,488 and the median level was \$19,200. The following map shows the levels across Australia.

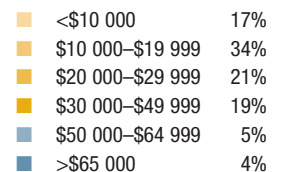
Average and median household income



Bankrupts: Income in 12 months prior to Bankruptcy



Bankrupts: Household Income



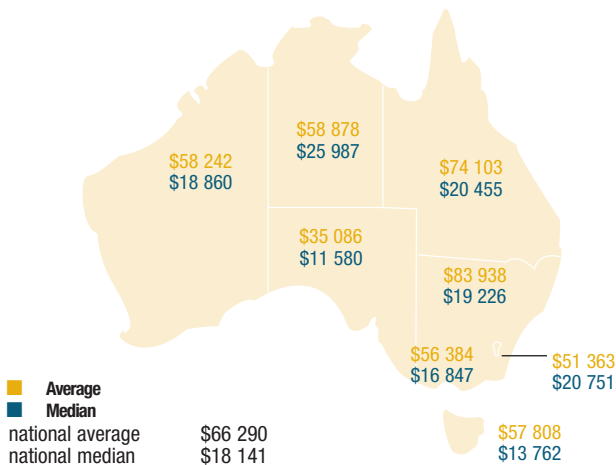
## Debt Level

Only unsecured debts were taken into consideration. Where a bankrupt listed a secured debt only that amount owing above the estimated value of the security was included.

It was found that 30% of bankrupts owed creditors less than \$10,000, 54% owed less than \$20,000 with 80% owing less than \$50,000. 5% owed their creditors less than \$2,000. 11% of bankrupts owed more than \$100,000 with 2% owing more than \$500,000.

The average amount owed per bankruptcy was \$66,290 and the median amount owed was \$18,141. The breakdown by State and Territory is shown in the following map.

Average and median debt level



Bankrupts: Liabilities		
<\$2000	5%	
\$2000-\$4999	9%	
\$5000-\$9999	16%	
\$10 000-\$19 999	24%	
\$20 000-\$49 999	26%	
\$50 000-\$99 999	9%	
\$100 000-\$499 999	9%	
>\$500 000	2%	

## Creditors

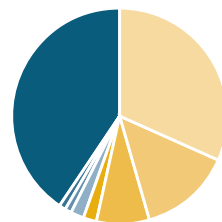
ITSA classifies creditors as banks, building societies, credit unions, finance companies, State housing, tax, utilities (gas, electricity etc) and "other". Creditors identified as "other" would include trade creditors, store accounts, professional fees, medical bills, school fees, family loans and the like.

In dollar terms, banks accounted for 32% of total debt and finance companies 14%. Tax accounted for 8% of total debt and 'other' represented 41%.

When the frequency of occurrence of each creditor is compared with all other creditor types, banks and finance companies were the largest, each accounting for 22% of total creditors

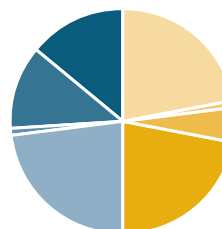
The following list shows the frequency of occurrence of each creditor category in all bankruptcies.

- 67% of bankruptcies had banks as a creditor.
- 67% of bankruptcies had creditors from the 'other' category
- 64% of bankruptcies had finance companies as a creditor.
- 41% of bankruptcies had utilities as a creditor.
- 15% of bankruptcies had tax as a creditor.
- 14% of bankruptcies had credit unions as a creditor.
- 4% of bankruptcies had state housing as a creditor.
- 3% of bankruptcies debtors had building societies as a creditor.



Bankrupts: Percentage of amounts owed to different creditor categories

Bank	32%
Finance Company	14%
Tax	8%
Credit Union	2%
Utilities	2%
Building Society	1%
State Housing	less than 1%
Other	41%



Creditors: Percentage of occurrence of creditor categories

Bank	22%
Building Society	1%
Credit Union	5%
Finance Company	22%
Other	23%
State Housing	1%
Tax	12%
Utilities	14%

## Assets

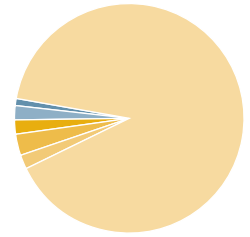
90% of all bankrupts had assets of less than \$1000. [note: Under the Bankruptcy Act, some assets are “non divisible”, for example a motor vehicle up to a value of \$5,650 (indexed), normal clothing, household furniture and most superannuation. These “non-divisible” assets are not included as assets.]

## Home ownership

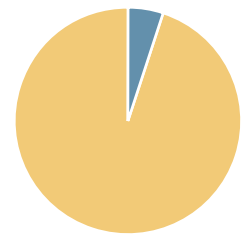
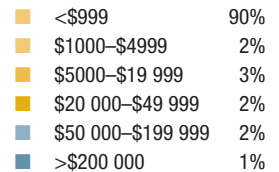
5% of bankrupts were either home owners or in the process of purchasing a home at the date of bankruptcy. According to the 2001 census, dwellings which were fully owned or being purchased accounted for 66.2% of the private dwellings in Australia.

## Marital status

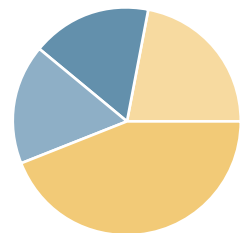
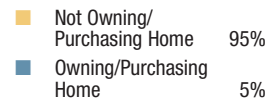
44% of bankrupts are single with no dependants. This represents the largest group of bankrupts and is followed by couples with dependants, at 22%, and single parents and married with no dependants at 17% each.



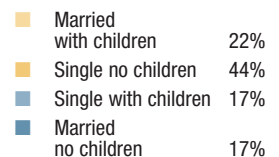
Bankrupts: Realisable Assets



Bankrupts: Home Ownership



Bankrupts: Marital and Parental Status



## Characteristics of those who enter into debt agreements

### Summary of Key Findings – Debt Agreement Debtors

Of debtors who enter into debt agreements

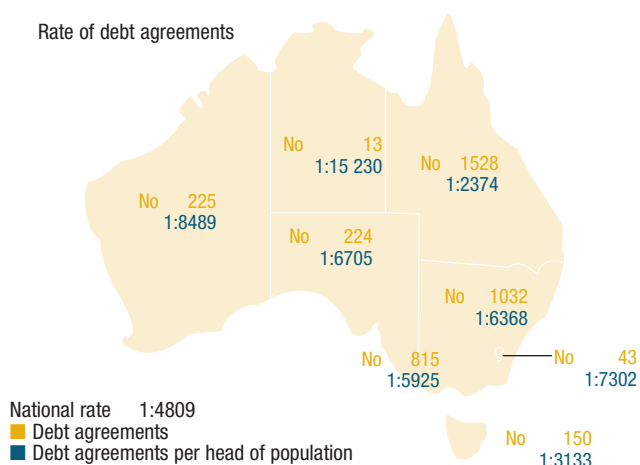
- half had an income of less than \$24,946 in the year prior to the debt agreement;
- 55% owed unsecured creditors less than \$20,000, with 18% owing less than \$10,000;
- ‘Unemployment’ followed by ‘excessive use of credit’ were the main attributed causes of insolvency; and
- more males entered into debt agreements than females.

### Frequency of debt agreements

4030 persons entered into debt agreements in 2001–2002 [note: the number of debt agreements entered into was 3294. Some 736 of these involved joint debtors].

The rate varies between the State and Territories as shown in the following map.

Rate of debt agreements





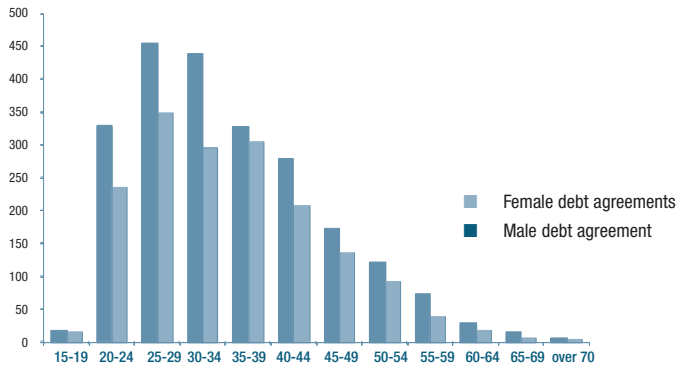
## Gender

57% of those who entered into debt agreements are male. 49.3% of the population is male.

## Age

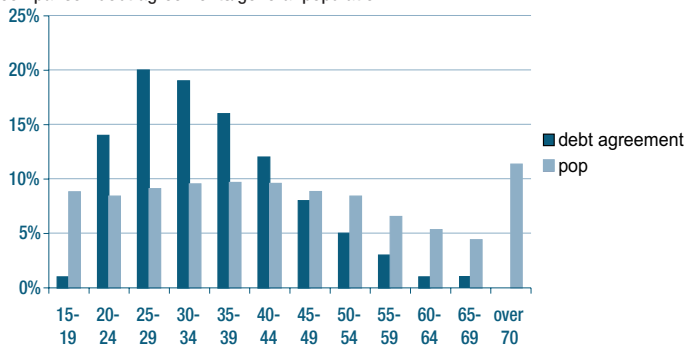
The age profile of debt agreement debtors is shown on the adjacent chart. The higher proportion of male to female debtors is consistent across all age groups, as shown in the following table.

Debtors with debt agreements: Ages male/female



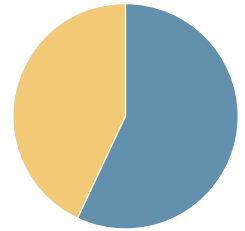
Of all debt agreement debtors, 35% were under the age of 30, 35% were between the ages of 30 and 39 and 30% were over 40. In the general adult population, the rates are 26%, 19% and 55% respectively.

Age comparison debt agreements/general population



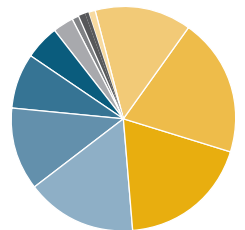
## Sources of Information

Almost all debt agreements are administered by professional administrators (that is, not by the debtor, family friend or creditor). Of those who entered debt agreements 83% received advice from only the debt agreement administrator



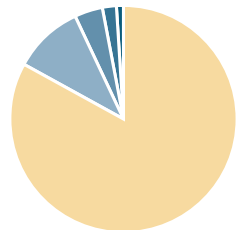
Debt Agreement: Gender

Male	57%
Female	43%



Debt agreement debtor: Ages

15-19	1%
20-24	14%
25-29	20%
30-34	19%
35-39	16%
40-44	12%
45-49	8%
50-54	5%
55-59	3%
60-64	1%
>65	1%



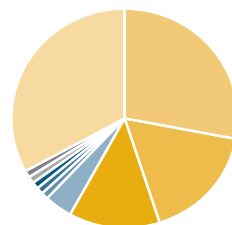
Debt Agreement: Sources of Information

Debt agreement administrator	83%
Financial counsellor	10%
Registered trustee	4%
ITSA	2%
Accountant	1%

## Cause of Insolvency

Unemployment was the most often disclosed (33% of debtors) primary cause of insolvency for those entering into debt agreements, closely followed by excessive use of credit (28%) and business reasons (17%).

The frequency of occurrence of each of the primary causes of insolvency disclosed by debtors is reflected in the adjacent chart.



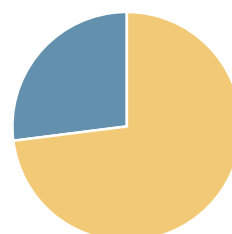
Debt Agreement: Causes

Unemployment	33%
Excessive use of credit	28%
Business failure	17%
Domestic discord	13%
Ill health	4%
Adverse litigation	1%
Liabilities incurred on guarantees	1%
Personal reasons	1%
Other	1%
Gambling or speculation	1%

## Employment Status

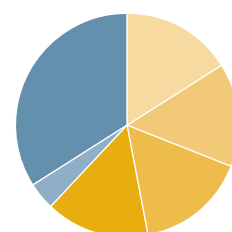
The nature of debt agreements is such that most debtors make regular periodic payments. Therefore, it is not surprising that 73% are employed, as opposed to the corresponding proportion of 39% in relation to those who became bankrupt.

Of those debtors who were not employed when they proposed their debt agreement, 34% had not been employed for 2 years or more.



Debt Agreement: Employment Status

Employed	73%
Not employed	27%



Debt Agreement: Periods Not Employed

3 Months	16%
3-5 Months	15%
6-11 Months	16%
12-17 Months	15%
18-24 Months	4%
24 Months or more	34%

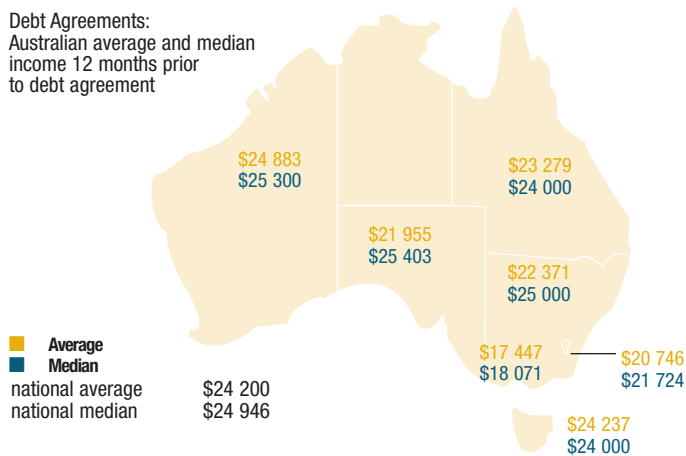
## Income

The after tax income of those who enter into debt agreements must be below \$32,041 as at 1 July 2002. This equates to approximately \$45,000 gross income before tax.

13% of debtors had an income under \$10,000 and 36% were under \$20,000.

The average income of debt agreement debtors in the year prior to their debt agreement was \$24,200 while the median income was \$24,946. The average and median income between the States and Territories are shown in the following map.

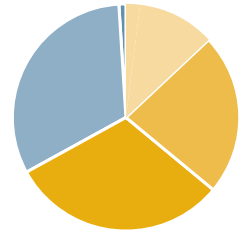
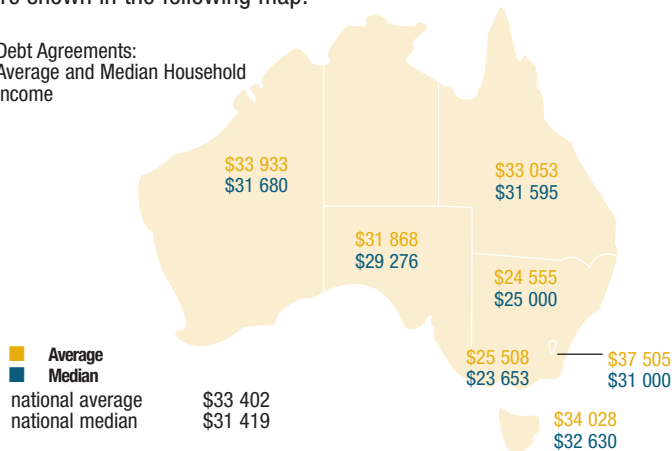
Debt Agreements:  
Australian average and median  
income 12 months prior  
to debt agreement



6% of households of debt agreement debtors earned less than \$20,000.

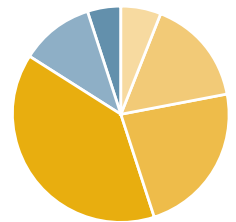
The average and median household incomes of debt agreement debtors are shown in the following map.

Debt Agreements:  
Average and Median Household  
Income



Income in 12 Months  
Prior to Debt Agreement

<\$10 000	13%
\$10 000–\$19 999	23%
\$20 000–\$29 999	31%
\$30 000–\$49 999	32%
>\$50 000	1%



Debt agreements:  
Household income

<\$10 000	6%
\$10 000–\$19 999	16%
\$20 000–\$29 999	23%
\$30 000–\$49 999	39%
\$50 000–\$64 999	11%
>\$65 000	5%

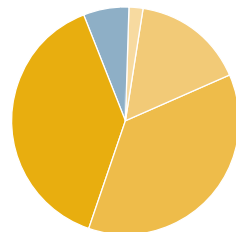
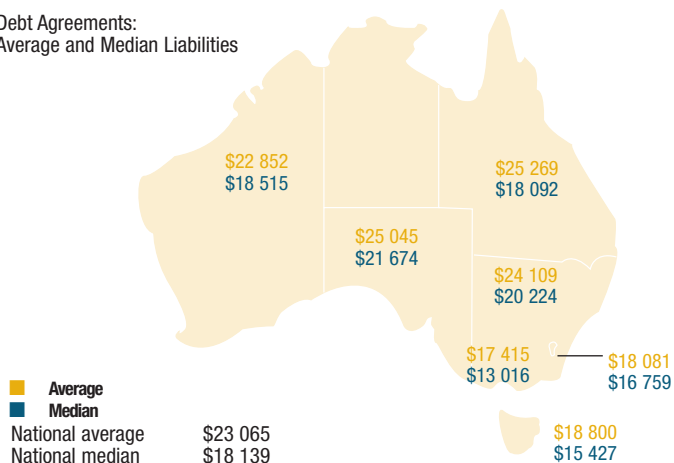
## Debt level

Only unsecured debts were taken into consideration. A debtor is not eligible to propose a debt agreement if their unsecured debts exceed (currently) \$64,082.

It was found that 18% of debtors owed creditors less than \$10,000, and 55% owed less than \$20,000.

The average and median income of debt agreement debtors across Australia is shown on the following map.

Debt Agreements:  
Average and Median Liabilities



Debt Agreements: Liabilities

<\$4999	2%
\$5000-\$9999	16%
\$10,000-\$19,999	37%
\$20,000-\$49,999	39%
\$50,000-\$64,082	6%

## Creditors

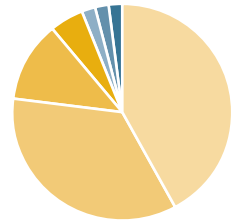
Creditors are categorised as banks, building societies, credit unions, finance companies, state housing, tax, utilities (gas, electricity etc) and "other".

In dollar terms, banks and finance companies were the largest creditor groups, respectively owed 42% and 35% of the total unsecured debt. Tax were owed 2% of the total.

When the frequency of occurrence of each creditor is compared with all other creditor types, banks account for 28% of total creditors with finance companies at 29%.

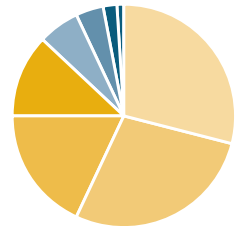
The following list shows the frequency of occurrence of each creditor category in all debt agreements.

- 84% of debt agreement debtors had finance companies as a creditor.
- 82% of debt agreement debtors had banks as a creditor.
- 52% of debt agreement debtors had creditors from the 'other' category.
- 35% of debt agreement debtors had utilities as a creditor.
- 17% of debt agreement debtors had credit unions as a creditor.
- 10% of debt agreement debtors had tax as a creditor.
- 5% of debt agreement debtors had building societies as a creditor.
- 2% of debt agreement debtors had state housing as a creditor.



Debt Agreements:  
Percentage of amounts owed to creditor types

Bank	42%
Finance company	35%
Other	12%
Credit union	5%
Tax	2%
Utilities	2%
Building society	2%

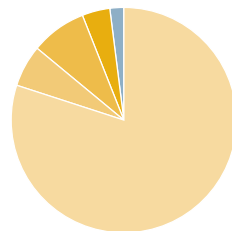


Debt Agreements:  
Percentage of occurrence of creditor categories

Finance company	29%
Bank	28%
Other	18%
Utilities	12%
Credit union	6%
Tax	4%
Building society	2%
State housing	1%

## Assets

80% of debtors had realisable assets less than \$1000.

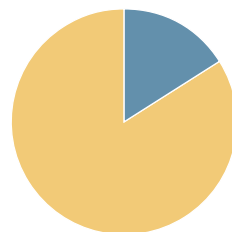


Debt Agreements:  
Realisable assets

<\$999	80%
\$1000-\$4999	6%
\$5000-\$19 999	8%
\$20 000-\$49 999	4%
>\$50 000	2%

## Home Ownership

The study found that 16% of debtors were either home owners or in the process of purchasing a home. This is significantly lower than the general population where according to the 2001 Census 66.2% of the private dwellings in Australia were fully owned or being purchased.

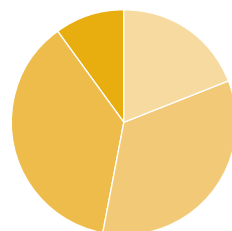


Debt Agreements:  
Owning or purchasing homes

Not owning/purchasing home	84%
Owning/purchasing home	16%

## Marital Status

37% of debt agreement debtors are single with no dependants which represents the largest group of debt agreement debtors. This is followed by married with dependants at 34%, married no dependants at 19% and single parents at 10%.



Debt Agreements:  
Marital and Parental status

Single no children	37%
Married with children	34%
Married no children	19%
Single with children	10%

## Summary of key findings

The following table provides a comparison of the key characteristics of debt agreement debtors and bankrupts.

	<b>Debt Agreements</b>	<b>Bankruptcies</b>
<b>Gender</b>	57% male	56% male
<b>Employment Status</b>	73% employed	39% employed
<b>Age</b>		
Average	35	39
Median	33	37
<b>Income Before</b>		
Average	\$24,200	\$19,430
Median	\$24,946	\$15,000
<b>Debt Level</b>		
Average	\$23,065	\$66,290
Median	\$18,139	\$18,141
<b>Home Ownership</b>	16% own or purchasing home	5% own or purchasing home
<b>Marital status</b>	47% single	61% single

It is evident, and not surprising, that bankrupts and debt agreement debtors are at the lower end of the socio-economic scale. The median income level for bankrupts was \$15,000 while 61% had an income below \$20,000. For debt agreement debtors the median income level was \$24,946 and 36% had an income below \$20,000. The Henderson Poverty line income level for a single unemployed adult with no dependants during 2001 was \$14,458 rising to \$18,561 for a single parent with one dependant child. (Source: *Melbourne Institute of Applied Economics and Social Research—Poverty Lines* at March quarter 2001).







