Debt Vultures

30 March 2017

CASE STUDY 1 – CREDIT REPAIR

Mick and Saul want to buy their first home. Mick's not working at the moment but has some money from his late grandparents to put towards a deposit.

Big Bank refuse their mortgage application. Mick remembers a letter from Phone Co a few years ago about an unpaid bill and something about a credit listing. He searches "credit report" online, and the top link takes him to Credit Miracle Co's website.

During his free telephone consultation, the friendly consultant says that Credit Miracle should be able to fix his credit report but will need to check. She calls back an hour later with goods news – they can help! If he pays just $1000 today, they can clear up his credit report, and help him on the way to buying a home. They read out some T&Cs. Mick agrees and gave his credit card details.

Weeks later, Credit Miracle send a bundle of documents including a form to request his credit report and a guide to challenging listings.

Mick's credit report shows a default listing in April 2012 by Phone Co for $480. Credit Miracle tells Mick to call Phone Co and apply to the Telecommunications Industry Ombudsman (TIO). Mick wonders why he's doing all the work. The TIO decides against Mick, finding that the credit listing was validly made by Phone Co.

Mick demands a refund from Credit Miracle. The friendly consultant refuses, pointing to clauses in the T&Cs:

a. *Credit Miracle does not make any representation or promise to rectify your credit report.*

b. *'Our services' means a report on your creditworthiness and information on how to challenge an incorrect listing.*

<u>Questions</u>

1. What issues do you see with Credit Miracle's conduct?
2. What are Mick's options?

CASE STUDY 2 – DEBT NEGOTIATION

Alan and Anna are married. They own their home mortgaged to Big Bank. Alan works earning a low income and Anna receives a pension.

Because of difficulty, they fall behind on their loan to Big Bank, who sues them for possession of their home. At the same time, they receive numerous flyers in the mail offering to help them save their home from repossession. Desperate to save their home, they call one of the flyer companies, Home Saver, who offer to help refinance their debts to save their home.

Home Saver say that Alan and Anna need to urgently speak with another company, Helpers, who can buy them more time so Home Saver can arrange the refinance.

Alan and Anna sign an agreement with Helpers to stay the repossession by 60 days, for a fee of almost $4,000. This agreement was not explained to them, but they were pressured to sign in a rush. Helpers then lodge a caveat on the title of their property.

Without telling Alan and Anna, to halt the repossession, Helpers make a complaint to an Ombudsman service, something Alan and Anna could have done themselves for free. Helpers do not talk to them about this and do not respond to the Ombudsman when it asks for details about the case.

Alan and Anna hear nothing until Home Savers contact them saying that to help with they refinance, they must urgently sign two more agreements with Helpers, one to clean their credit report and another to negotiate to reduce their unsecured debts. Each contain fees of between $2,000 and $4,000.

Hearing nothing from Home Savers for some time, Alan and Anna receive a notice to vacate their home from the sheriff.

They then receive a bill for $12,000 from Helpers, who refer the debt to Debt Collectors.

Panicked, Alan and Anna find their own way to save their home that does not involve Helpers or Home Saver.

<u>Questions</u>

1. What issues do you see with Home Saver and Helper's conduct?
2. What are Alan and Anna's options?

CASE STUDY 3 – DEBT AGREEMENT

Lisa works as a carer, earning approximately $1,400 per fortnight. Lisa is 64 and likely to retire soon. She lives in a 40-year-old caravan and owns a car worth $900. Lisa owes around $30,000 in credit card debt to two creditors.

Worried about her debts, Lisa called Debt Co after seeing an ad on TV promising that Debt Co 'would stop all interest and make it easier to pay.'

As a result of the call, a man came to her home on the same day. He was only there for about half an hour. He said that if Lisa paid $1800, Debt Co would negotiate with her creditors to stop interest and that she would be able to make payments to pay off the debts. He didn't say how much the payments would be, and didn't mention any fees.

Debt Co did not mention any of Lisa's other options to manage her debts, like hardship, informal negotiations or bankruptcy.

Lisa signed an agreement with Debt Co's and had to pay $300 per fortnight towards an $1,800 fee for its service.

Debt Co then provided her with a pre-filled debt agreement proposal. Under the proposal, Lisa would repay $21,569 to her unsecured creditors and pay Debt Co fees totalling $7,930.

The debt agreement proposal states that Lisa's uncommitted income is $244 per fortnight. Despite this, Debt Co's fee for preparing the proposal was $300 per fortnight – putting her budget into deficit for 5 consecutive fortnights before she even repays her creditors.

Lisa did not sign the proposal and saw a financial counsellor.

<u>Questions</u>

1. What issues do you see with Debt Co's conduct?
2. What are Lisa's options?