



Struggling with debt? Hang on, help is coming ... in September

By
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COMMENT



September might seem a long way off for anybody who is struggling with serious debt or hiding from their bank. It will bring good news, however, for those who are suffering. Ireland's banks have agreed a protocol with the Money Advice and Budgeting Service (Mabs) to help customers manage their debt. It will introduce a partnership approach between creditors and Mabs.

Until now, preventive measures have been the way to proceed in Ireland when someone gets mired in debt. That's because Irish bankruptcy proceedings are hopelessly complicated and expensive, and there are no formal voluntary insolvency arrangements similar to those in place in Britain.

From September 28, troubled debtors can follow a five-step plan that will help them to achieve a mutually acceptable and affordable repayment plan that keeps everyone out of the courts.

So far so good. These good intentions could come unstuck, however, given that creditors must "ensure that their door is always open to customers who may find themselves in financial difficulty".

No matter how willing in principle those creditors are to help their debtors cope with this downturn, in reality, if it comes to a "them or us" conflict, there might not be the satisfactory ending that the protocol seems to anticipate.

So you might want to get in the protocol queue as soon as you can by speaking to a Mabs adviser now. The IBF/Mabs Operational Protocol: Working Together to Manage Debt can be downloaded at www.ibf.ie.

Ready for a rush to PRSAs

We should know next month what tax changes to personal pensions are recommended by the Commission on Taxation.

Pension consultants are expecting the worst: that the tax-free lump sum, worth 25% of a pension fund in the case of a self-employed or director's pension and the equivalent of 1½ times final salary for employees in occupational schemes, will end up being taxed. The figure of 17.5% was leaked by government sources around the time of the April mini-budget.

For someone with a €1m pension fund, this tax raid means a potential loss of €43,750. If the recommendation is made, pension consultants expect self-employed and company directors over 50 to rush out of their rigid retirement annuity contracts and executive pensions and into more flexible personal retirement savings accounts (PRSAs).

Unlike most pension contracts, where the money is accessible only at retirement, 60 at the earliest, PRSAs allow holders to access their savings from the age of 50 onwards. John Mulholland of Custom House Capital, a Dublin pension consultant, says redundant employees and executives are also "quite sensibly" opting for the PRSA solution, since it does not stop them looking for, or working in, a new job even after they collect their PRSA lump sum and pension.

Buyers with wow factor

Earlier this year, a woman rounded on me for my apparent lack of sympathy for first-time buyers who were stuck with huge mortgages and negative equity.

She thought it was unfair of me not to jump on her bandwagon and demand that the government — "who are bailing

out the bankers" — force these same bankers "to do something" to alleviate the financial and emotional stress her son was under in trying to meet the repayments on his "bachelor apartment".

Interest rates were a couple of percentage points higher then than they are now, so this mammy's boy was probably paying at least 2%-3% more interest than he is now.

But she was also concerned about the fall in the market price of his house: "It was the banks lending too much money that caused prices to rise, but now that they've crashed he's stuck with a mortgage that's worth more than the apartment," she lamented.

His bank "forced" this money on him, she insisted, and so should be forced to share his "loss" of equity.

Sadly, it doesn't work that way. But since January, the sharp fall in interest rates has reduced the unfortunate man-child's mortgage by at least a few hundred euros a month.

House prices have fallen a further 6%-8% since January, so he is still deeply in negative equity.

That is why I thought a survey last week showing how 80% of mortgage applications are being rejected by the banks was such encouraging news, at least for the newest crop of first-time buyers.

Mortgage lenders are now doing what they should always have done: they are not just checking out the applicant's job security, credit record and future earning prospects, but also whether the property itself is a good risk.

With record inventories of new units unsold and prices still falling at a pretty shocking rate every month, is it any wonder the banks are demanding larger

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deposits and stricter repayment terms?

The biggest reason loans are being turned down — with a 45% rejection rate — is the person's inability to meet long-term repayments, says Select Finance Group, the broker consultancy that conducted the research.

It doesn't say whether this is down to the lender's concern about unemployment or the inevitability of rising interest rates. I suspect it's both.

Select Finance's conclusion is perfectly clear: if you want a mortgage in this market, you had better prepare a personal mortgage plan with the "wow" factor, as in, "Wow, this person looks like their job is secure . . . and they've got a 20% deposit too."