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## **Be careful of debt agreements – debt expert issues warning to credit card users**

Credit card users should be careful before signing up to Debt Agreements as they contain hidden costs and can be a fast-track to bankruptcy, said CEO of Prushka Fast Debt Recovery Mr Roger Mendelson.

Mr Mendelson said credit card holders with large debts are often enticed to sign up to an agreement by third-party organisations promoting Debt Agreements as a means of avoiding payment of their debts. “Debt Agreements seem enticing as the agreement often involves paying as low as 50 cents in the dollar.

“However, Debt Agreements often add to an already large debt via hidden costs and a tough repayment schedule, which can make it more difficult for the debtor to repay their debt.

“Also, there is an ongoing stigma with Debt Agreements as it is an arrangement under The Bankruptcy Act. Breach of an Agreement constitutes an act of bankruptcy.

. With up to 90 per cent of debt agreements Prushka deals with failing, most debtors are being caught out by debt agreements. The result is that they are still left with the original debt and have incurred additional costs in setting it up.

“The harm done by Debt Agreements often outweighs their good at a time when Australians’ love affair with credit cards grows.”

According to the Melbourne Institute and the Reserve Bank, national credit card debt now exceeds mortgage debt climbing above \$38 billion.

Mr Mendelson said people with large credit card debts have other options which they should explore first and a Debt Agreement should be a last resort.

“Credit card debtors should first make a proposal to set up a repayment plan based on their own financial circumstances. Many creditors will be willing to accept such an agreement if asked.

“Credit card debtors should also consider taking out a low-interest debt balance transfer from a new financial institution. This allows you to transfer debt to another institution at a lower interest rate for a fixed period like six months, giving the debtor more time to pay off the debt.

“Another option is to consolidate existing credit card debts into your home mortgage. A home loan attracts a much lower interest over an extended period of time.

“While these options provide alternatives to debt agreements and help debtors avoid bankruptcy, they all come at a price. If a credit card holder is spending more than they are earning they are always going to be in debt and ‘bad’ debt costs money”, Mr Mendelson said.

Other tips for managing credit card debt include:

- Consolidate existing credit cards into the one card to avoid missing payment dates and accruing additional annual fees.
- Manage your credit card balances proactively as banks make big profits from late payment fees incurred by customers incorrectly managing their credit cards .
- Use a debit card wherever possible. These often have no fees as they draw on funds directly from your savings account.
- Factor in the time period the bank allows for clearance of your credit card payment to avoid late fees by several working days.

Mr Mendelson said that maintaining a clean credit card history is important as it greatly affects your ability to gain future credit including mortgages, borrowing for future investments, or to pay for common expenses such as airline tickets and hotels.

“Prushka is currently witnessing a jump in consumer debts which indicates that businesses will soon be getting tougher on their overdue debtors.

“Now is the time to tighten your belt and devise a credit card repayment plan that best suits your individual financial circumstances.

“The economy is tightening again, which may lead to increased unemployment, particularly if the global economic outlook worsens in Europe.”

*Roger Mendelson has more than 33 years experience operating Australia’s largest privately owned debt-collection company, Prushka Fast Debt Recovery, which collects debts for more than 42,000 small- to medium-sized businesses across Australia. .He is the author of The Ten Mistakes Businesses Make and How to Avoid Them And Business Survival-both published by New Holland Publishers.*

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