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Women face debt timebomb from fear of bankruptcy due to social stigma

By SEAN POULTER

Thousands of women who are in desperate debt are shying away from bankruptcy because of the social stigma.

Refusal to take this difficult decision is piling on misery and creating even greater debt problems, according to a study from the Consumer Credit Counselling Service.(CCCS)

The CCCS says that 61 per cent of the people it recommends to go bankrupt are women - three quarters of these are single.

However, more than half of these women refuse to take this drastic step, seeing it as a sign of shame and failure.

It seems many of these are older women who have been plunged into a sudden financial crisis by the break-up of a relationship or job loss.

There is also a group of have it all single young women who have loaded up credit cards on clothes, partying and holidays.

Many of these women who fail to follow the advice offered by the CCCS trying to soldier on, begging and borrowing to make ends meet.

As a result they are put under enormous personal pressure, while their problems also put a strain on relationships with family members, who are asked to bail them out.

Others opt for so-called Individual Voluntary Arrangements(IVAs) which are currently at the centre of a hard sell by 'ambulance chasing' debt firms.

In most cases, people going bankrupt can be clear of debts and repayments after a year and are then free to rebuild their lives.

By contrast, taking out an IVA can string out debt repayments over five years. While a homeowner with an IVA will generally be required to remortgage their property, so wiping out any equity they have built up.

The number of people going bankrupt in the first nine months of 2006 was up by 36 per cent on the same period of the year before. IVAs more than doubled.

The figure is expected to rise again this year with accountants KPMG forecasting up to 150,000 individuals will either go bankrupt of take out an IVA.

The CCCS said that if all the people recommended bankruptcy actually took this step, this would add another 12 per cent to the annual total.

Its chairman, Malcolm Hurlston, said: 'It will come as a surprise that we find more people should go bankrupt rather then fewer but once people are in severe financial difficulty, for whatever reason, it is in everybody's interest - theirs, lenders' and that of society - that they follow best advice.

'More than half the people advise to go for bankruptcy fail to go through with the process, missing the best solution to their debt problem

'Stigma is the main reason why over a third of them - 34 per cent - did not proceed.'

Ironically a number of people - 18 per cent - were so badly off they could not afford to go bankrupt. This is because they are unable to raise £475 in administration fees and court costs.

Mr Hurlston said: 'We are worried that stigma and cost are causing people - and women in particular - undue distress and we are now working on solutions with the Insolvency Service.'

The debt body said the number of people over 60 who are recommended bankruptcy grew rapidly during 2006 - the annual rise was 16 per cent.

Mr Hurlston said: 'Half the clients recommended bankruptcy claimed that their accumulated debts were the result of a negative income shock, such as divorce, separation, illness or job loss, rather than overspending.'

The CCCS said the average debt of those recommended to go bankrupt was £30,293, with the figure mainly made up of credit card borrowing, loans and overdraft.

This same group had an average annual income of around £10,000 at the time they asked for help.

Those who live in rented accommodation, rather than home-buyers, are considered better candidates for bankruptcy. This is because they do not have a home to lose.

The Office of Fair Trading(OFT) signalled that it is worried that some firms selling IVAs as an alternative to bankruptcy are misleading those in debt.

There is a suspicion they are pushing people seeking help into an IVA because the company can earn a big fee, rather than because it is the best option.

The OFT warned 17 financial management businesses promoting IVAs that it considers their adverts and websites 'potentially mislead consumers'.

They included claims that 'up to 90 per cent of your debt may be written off' when the maximum would be in the region of 60-70 per cent.

A number failed to state that set-up and administrative fees will be required and will be taken out of payments before the creditors receive any payment.

Firms also failed to make clear that entering into an IVA affects an individual's credit rating for six years. This makes it more difficult to get a bank account, credit card, loan or mortgage.
