

The true cost for a debt to be collected

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Let's say in 2022, the average Australian credit card debt was estimated at **\$2887** per card, (Finder.com). A debtor gets into trouble through loss of job, illness, addiction, family breakdown/violence or another situation. The person is given 60 days to remedy the default before they are or can be listed as an overdue payment and their credit score is defaulted.

The debtor in this instance can request of the lender a moratorium on payments, enter a financial hardship repayment plan (all of which will/can be added to their credit report under the new guidelines), borrow the money from a family or friend, check to see if they have Consumer Credit Insurance or, in many cases, just ignore it and hope it goes away. Which it will not.

In many cases the debtor has competing demands for payment from them such as rent, mortgage, council rates, electricity, gas, water, BNPL loans, car registration, insurance (house/car), petrol, food, childcare, school fees, pay tv, phone and internet, importantly medication and so the list depending on the lifestyle of the debtor goes on.

For ease of simplification, we will use a basic model of the client is unable to pay the debt and has no assets and no other means by which to settle the outstanding amount owed. Already we will see default interest applied to the outstanding amount.

- Who makes the decision to apply default interest or how is it brought to the attention of the owner of the debt. In that operation how much time did that operation take and in real terms how much in a monetary value did that process take? If we apply that the process is automated, then someone or some people were paid to implement that software system. At this stage we will assume little or miniscule charge as economies of scale will be on the side of the creditor. However, a human will have had to deal with the phone calls or letters prior to the debtor getting to this stage. Being very conservative and we say two reminders and two phone calls. A bank staff member is paid at approximately \$25.00 ph and there are four hours prep and work including mail out, email and then the calls which may be more than just two as the debtor may not answer the calls as they are now anxious about the debt. That conservative amount equals to \$100.00 to collect a \$2887.00 debt.
- So now we have the debtor taking the call or answering the emails weeks after the debt was due. The creditor has discussed at team level with the bank officer. We determine the team leader is earning \$56.00 ph and we allow an hour for organising and holding a meeting to discuss 'where to from here because the debtor advised s/he cannot pay or make payments'. Just to complicate things the debtor enters into a financial hardship/reduced payment plan just to get the bank off her/his back but knowing full well the plan is going to fall over or worse still will not even begin as don't forget we have competing demands for payments and the debtor has now started to fall behind with the rent. The presumption is that all the negotiation by the bank to set up the hardship/reduced payments has takes three hours at team leader and bank officer wages and that works out to \$243.00 and add on the previous \$100.00 that is \$343.00 so far.
- The bank sends out more letters of demand and emails and phone calls. Add another two to three hours of collection time at the nominal bank officer rate and we are now at \$343 plus \$100.00 equals \$443.00 of a \$2887.00 debt. Now the bank are clever enough to employ legal people (in house lawyers) who are paid a lot of money to design and implement legal

language letters and documents to send to debtors and let us say they are reasonably well paid and earn about \$90.00 per hour and they spend two hours telling the debtor how they will make them go broke if they do not pay. The debtor says "I am already broke" but the threat is useless and creates more anxiety and so continues this relentless pursuit of monies owed by the debtor. That is another \$180.00 plus \$443.00 and we are now up to \$623.00 of a \$2887.00 debt. By this time months have passed and the debtor still gets the calls, emails and letters and when legal action is threatened, the debtor seeks a way out of the misery. It is not that s/he does not want to pay, s/he just does not have the means and through no fault of their own. There was a glitch in the normality of life. They did not account for the company closing or laying off staff for a myriad of reasons. They did not invite nor seek violence from their partner nor the illnesses that came out of the blue and rendered them too ill to work or even the fact that their relationship disintegrated and was unforeseen. Yes, they applied for Income Protection from their superannuation which was/is 75% of their previous income but they were barely making ends meet before the crisis and now, with 25% less income they are just not able to pay normal household bills never mind any credit they may have. We have now added on an approximate further amount of \$1000.00 in collection activity over the months. The amount is now \$1443.00 of a \$2887.00 debt. I hope the reader can see where I am going with this.

- Well the threats did not work, the hardship payment plan did not work and what now?
- The debt is assigned to a debt collector and they will surely be able to get payment. Now the bank has paid \$100-200.00 for the debt collector to get the money in. So now they spend time in phone calls, emails and red letters filled with threats of doom. Add another \$300-\$400.00 to the collection process and we are now up to \$1843.00 of a \$2887.00 credit card debt.
- Now a financial counsellor has become involved because the debtor has discovered there are people in the community who can assist them and take the heat away from them and be protected from the collection process. The service is free but an agency will need to pay the financial counsellor. The financial counsellor has at least one and sometimes more than one appointment of an hour with the debtor and gets an authority signed by them and begins communication with the bank as the bank has now taken the debt back because the debt collector drew a blank.
- We are now adding the financial counsellor's costs to the equation and again the bank's costs to make sure the debtor pays. For arguments sake let us be conservative and add on another \$300.00 plus the \$1843.00 and that brings us to \$2143 of a \$2887.00 credit card debt not to mention the other uncosted time to locate the debtor as they had to move because they fell behind in their rent and were evicted.
- Communication takes place between the bank and the financial counsellor who provides Income (from Centrelink) and Expenditure, medical, police and other statements. The hardship area of the bank are now considering a full waiver of the entire debt based on the information provided and the fact the debtor is just unable to pay now or in the foreseeable future. Based on the presented information as supplied by the debtor's doctor (another cost) and the police (another cost) and Centrelink (another cost) we have now arrived at the point where the cost to try to have the debt repaid far out weighs the original debt.

The information as listed above is not far from real life practice and it is an exercise to put into reality the cost of collection of a debt as apposed to dealing with it in the first instance on the information as provided at the time. I am not saying the debtor should not pay a debt to a creditor rather a creditor should make an economic decision at the time of the occurrence of a default,

whether it makes more economic sense to pursue the debt at the time or make a judgement call to let it sit but with advice to the debtor there are consequences for non-payment and that they will keep on it and request updated information periodically from the debtor and when the time and income permits then that is the time to request payment.

So much time, anxiety and cost to the creditor, financial counsellor and the debtor (not to mention the investors) could be saved if the final reward is less than the original debt. The above situation is not based on a real person or event but is somewhat similar to what in fact occurs in real time.