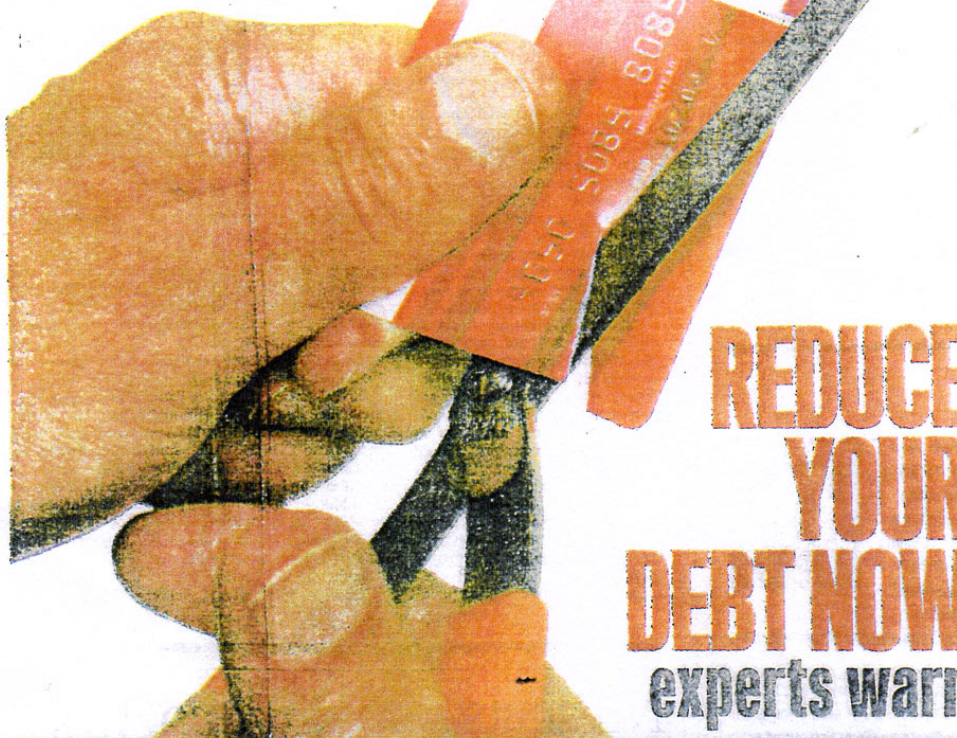


Bankruptcies hit 8-year high



**REDUCE
YOUR
DEBT NOW**
experts warn

Excessive use of credit cards is one of the main reasons for people going broke, along with job loss, relationship break-ups and illness.

By ROB STOCK and KAREN ARNOLD

BANKRUPTCIES HAVE reached an eight-year high and experts are warning people to reduce their personal debt.

In the first eight months of this financial year, 2380 people have become bankrupt, a 22% rise on the same period last year.

Until this year, bankruptcies have been rising by only a few percentage points each year.

The five main causes of people going broke are job loss, excessive use of credit, relationship breakdown, ill health and a lack of health insurance and decisions to stand as guarantor for someone else's loan or business venture.

Business commentator Rod Oram said people had been pushing their luck for a long time and warned bankruptcy rates would accelerate should there be a severe recession and unemployment. "It's time to start reducing debt now."

Household debt levels had rocketed, in part because banks and other lenders were pushing the boundaries of lending, including offers of 100% mortgages.

Consumers were also enjoying competitive credit card rates and finance firms had eased their lending criteria.

"I think it will come back to haunt them," said Oram.

People were less paranoid about debt and there were many who owed more than the value of all their assets, he said.

Since 1999, New Zealand's economy had experienced its longest sustained growth in 40 years, after a boom-bust cycle. Many people who had joined the workforce in the late 1990s had not experienced a recession and its consequences, Oram said.

Auckland remains New Zealand's bankruptcy capital, where 850 people went bust in the 2005/06 financial year, followed by 495 in Christchurch, 268 in Wellington and 241 in Hamilton.

While bankruptcy levels rose in the country's biggest centres, smaller cities saw falls. Hamilton, Palmerston North and New Plymouth all saw drops, but there was a 20% or greater rise in Auckland, Wellington, and Dunedin.

Bankruptcies are highest in the 30-40 age group, but people in their 20s go

broke at a higher rate than people in their late 40s and early 50s who are more likely to have housing assets.

For a 22-year-old South Otago woman who wanted to be identified only as Amber, filing for bankruptcy last month wiped debts of about \$20,000 and offered her a fresh start.

The ease with which she could get credit led to her financial downfall. Some of her debts were up to five years old, but she still managed to get a stereo, bed and bedroom suite on hire purchase. She struck trouble when she was responsible for a car crash and had to pay the other person's insurance company.

Federation of Family Budgeting Services chief executive Raewyn Neilson said bankruptcy was not the best option for many people. There were other alternatives, such as summary instalment orders and credit pools, that could help consumers manage their debt and stave off the consequences of bankruptcy.

Young people especially should try to avoid it because it would seriously harm their ability to borrow later, she said.

Neilson lamented the reluctance of Kiwis to seek budget help. Though the numbers getting help were steady, the level of debt was increasing, she said.

It only took a life-changing event, such as illness, separation or even a broken-down car, to tip people over the edge, she said.

Auckland University Students' Association education vice president David Do said young adults were increasingly given a message that debt was OK.

Students were borrowing money to cover living expenses and were being offered overdrafts and credit cards despite having no income, he said.

But New Zealand bankruptcy levels are extremely low compared with other developed, English-speaking countries.

Each year, one in 1348 Kiwis goes bankrupt, compared with one in 873 Aussies, one in 782 Britons, one in 322 Canadians and one in 169 Americans

BANKRUPTS: THE NUMBERS

Region	05/06	04/05	03/04	% rise since 2003/04	
Auckland	850	842	705	20.5%	▲
Christchurch	495	427	460	7.6%	▲
Wellington	268	233	223	20.1%	▲
Dunedin	143	117	88	62.5%	▲
Palmerston Nth	130	150	162	19.75%	▲
Hamilton	241	275	277	13%	▲
Napier	140	122	87	60.9%	▲

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