Webinar: Debt strategies to support your clients

Paul Liccione:
Good afternoon, everybody, and thanks for joining us on today's webinar, where we're going to be talking about debt strategies to help your clients.

I'm Paul Liccione, New South Wales ACT BDM for MA Money, and I'm joined today by Kitty Thomas, the founder and director of Debt Angel Solutions, a specialist debt negotiation business that's been helping Australians manage their debt challenges for over 11 years now.

Today, Kitty is going to take us through how debt negotiation works, what it is, including informal debt arrangements, and how to identify clients who may benefit from this type of support.

She'll also cover off some different debt strategies. We're going to look at some case studies, and some of those you'll probably be familiar with from your clients over the years. Not specifically those clients, but of course, similar circumstances.

You might have some questions along the way. At the bottom of your screen, there is a Q&A tab. Pop them into there and we will answer as many of those as we can at the end of the webinar, so stay tuned for that.

For those looking for their CPD points, tomorrow you're going to get an email which will have a link to the webinar again. It'll have the slide deck that Kitty's going to take us through today, and it'll also have how to claim your CPD points. So keep an eye open for that.

And with all that being said, I'll hand over to Kitty. Welcome.

Kitty Thomas:
Thank you so much for having me. It's lovely to be here, and hello to everyone.

Paul:
So let's kick off with your slide deck.

Kitty:
Okay, beautiful. So basically, I have put together some objectives that we deal with, or some things that happen. Sorry, I'm a little bit nervous.

Paul:
That's awesome. So let me share.

Kitty:
Obviously, as brokers, there are a lot of challenges that occur. People have too much unsecured debt, and it makes it really hard for brokers to put them into, get them a deal or get them a loan, without trying to get everything together in one package.

Sorry, I'm struggling because...

Paul:
Trying to figure out how it actually...

Kitty:
Yeah. We've got different slides. I'll get a look up here.

All right. So often a lot of people have ATO debt or business debt. They have been overlent money in the past and they may be asset rich or cash poor.

If people are trying to get into the industry and trying to get into the market and try to buy their new place, they might have too much debt or they might be looking at refinancing.

So, what I've experienced over the years is that brokers often find that people simply aren't loan ready because they have all these debts.

And then, of course, we've got all the paydays and the small to medium debts that people are getting nowadays as well, buy now, pay later and things like that, that really affect the credit file.

So effectively what we do is we do what we can to tidy everything up for people so that they are in a much better position. And brokers really like working with us because we can get them into an overall better position. So we'll talk a little bit about that.

Paul:
You see a bit of an uptick in stress because of the buy now, pay later market.

Kitty:
Absolutely. And I think people don't really realise, a lot of the time I come across people who don't realise that their credit files are affected by every application that they make.

And so they're in a bit of a precarious position, not just being overlent money or having too much unsecured debt or secured, but they're also in a position where they've been trying to make ends meet and getting one to another. I see that a lot, unfortunately.

So just quickly before we get started, who we are. We've been in business now for 11 years. We've saved our clients well over $20 million. I'm very proud of what we do.

We support clients in their get out of debt journey. So we support them from end to end. We literally work with them from complete overwhelm, and, "I don't know what to do. I don't see a solution. I'm overwhelmed. I don't know how to make ends meet," etc.

To firstly, in the strategy call, shining the light on that particular area and then giving them strategies and solutions. And then we work with them, coaching and guiding them along the way through personalised strategies.

And as you all know, there's not a one-size-fits-all model, unfortunately. Every situation, every creditor is different. And so we tailor our solutions based on the strategies of the unique client at that particular time.

I know about this because I got into debt in my early 20s when I turned that little piece of land there, which is now Grow and Grow, into a venue and put on some of the biggest and best events Australia's seen. It was amazing.

But unfortunately, one of the promoters didn't have enough people at an event, and I pulled the event three days before and lost $75,000 that day, which was a very painful day.

Paul:
It's a learning experience.

Kitty:
Oh, yeah.

And then my business partner at the time said, "I can't do this anymore," and handed me a folder with another $65,000, and I went, "Okay."

And I stuck my head in the sand for a very long time because I didn't know what to do. I always knew I was an entrepreneur. I always knew that there were things that I wanted to do in life, but I just didn't know how to get out of the situation.

And I think I see this a lot with people. They're numbing themselves, they're avoiding things because they just don't know how to get out of the situation.

And I'm really passionate about what I do because it gives people a solution that they didn't know was possible in a lot of instances.

Paul:
Mm-hmm. And giving them that light at the end of the tunnel and them knowing it is a light and not an oncoming train is very valuable.

I imagine people tend to leave it till the very last, about to jump off a cliff, not literally, but fall off a cliff of debt.

Kitty:
Exactly.

Paul:
Sometimes, right? Before you find them a lot, so perhaps brokers have got a better opportunity to identify clients before it gets to that stage.

Kitty:
Absolutely. And I think at the moment as well in particular, there's so much turbulence in the market. There's so much upset and people don't know. There's so much insecurity.

People don't know where they're going and what that looks like and what they're going to do.

So yeah, we give that opportunity to people so that they can explore what else is possible and before it's too late. Quite often, yes, we do get clients in that position when they are at their wit's end and not knowing where to go. But at the same time, we get people who are, I call someone on the edge, literally surviving payday to payday.

If you're living paycheck to paycheck, and it may be that you've got an amazing job. We have a heap of clients in finance. You may have an amazing job and be earning really great money, and on the flip side of that, you might be in a position where you've lost your job or something has happened.

And so being able to help people around the board is really...

Paul:
It takes all types, right?

Kitty:
It does.

About Kitty and Debt Angel Solutions

Kitty:
So just a little bit about me. I don't believe that people should be defined by their past choices, the difficult circumstances that they find themselves in.

I think everybody deserves a chance, a second chance.

And I find, I know when I was in that position, because I didn't see that there was a pathway forward, I felt like I was kind of stuck in that life.

And it's not true. There really is an alternative solution that people can lock into and utilize to transform not only their financial situation, but in turn their entire life.

Paul:
Which is liberating for a lot of people who really don't think that there's a way out. And you felt that liberation personally, right?

Kitty:
Absolutely.

Nobody taught me what this was about. I kind of fumbled my way through. But when I realised that there was an alternative way, and unfortunately, creditors don't say, "Hey, Paul, you're in this tough position, let me freeze your interest or hold your debt or whatever." They just don't tell you what's available.

So people, a lot of the time, are betting themselves up about the position that they're in.

And so when they can see that they don't have to stay stuck there and there is freedom on the other side, yeah, that's where people thrive.

Because then they can see that solution and they lock in a lot of the time to really work on transforming their overall situation, especially with brokers.

If there's an opportunity and someone thinks that they cannot break free of the debt situation that they're in and they approach a broker and they've got too much debt, there's no way that it can actually be tied together or a solution can be formed.

They can actually now go, "Well, hold on a second. I have an opportunity."

I've got clients who have bought houses that never in a million years thought that they would. Investment properties and things like that.

So yeah, it's liberating, as I said before.

Different expertise and shared goals

Kitty:
So different expertise and shared goals.

With mortgage brokers, arranging finance and structuring lending and finding lending solutions, maximising borrowing capacity, and helping clients obtain finance is amazing.

But when people can't do that, giving them an opportunity, and we'll talk a little bit later in this presentation about what that may look like.

But resolving debt challenges, negotiating with creditors, developing debt strategies, and improving financial positions as a whole, it helps the client actually become loan ready, which is what I was saying a moment ago.
It gives them that ability to see that they can break free and they can actually get into a position that so many of the clients I speak to never thought that they would be able to.

And what we do is nothing to do with formal arrangements. So it's nothing to do with bankruptcy or anything like that. Informal debt arrangements, it's something completely different.

So again, when a client is at loan ready, when I've spoken to a lot of brokers in the past, they've said, "Well, I've asked, 'What do you do?'" And they're like, "Well, we can't really do anything."

A lot of the time they have to say, "I can't help you."

Maybe give them some instructions or some ideas of what they might do to tidy up their budget or bring down their debt balance. But often it's like, "I can't really help."

And so the brokers that we do work with, we'll talk again a bit about the different ways that we can help down the track, but many leave that situation, many people approaching brokers leave that situation feeling overwhelmed and unsure where to start.

That's my experience, and I'm not a broker.

And many never resolve their financial challenges because they don't know where to start.

And quite often I believe that it's not just money that's the problem, it's your story about why you're not able to make ends meet or about the psychology behind it. Why am I in this position, etc.

And so if you're not really adapting or changing the situation, you stay stuck. But if you can actually bring in a new way of transforming that situation so that you can move yourself out of the position, then there's freedom.

And again, brokers often lose clients because they're not loan ready. They're not in a position where they can actually go, "Well, we can help you," or, "We can actually see a way down the track that we can help you."

But when brokers do send clients to us at Debt Angels, we assess the client's overall financial situation, as a broker does, of course, and we develop tailored get-out-of-debt strategies.

So we negotiate improved outcomes with creditors. And again, we'll talk a little bit more in detail about that in a minute.

But once we're able to work with a client and get them into a stronger financial position, they can actually start beginning to explore the different opportunities.

And that's really exciting for people who've had no opportunity of that.

How we help clients become loan ready

Kitty:
So how we help clients become loan ready.

We understand their financial position and we educate and empower them around it.

So we're looking at not only, of course, the statement of financial position, we're looking at the psychology as well. We're looking at the job that they're in. We're looking at their overall position. We're looking at how they feel in themselves.

Are they in a place that's too expensive? Are they spending too much on the addictions that they have to numb themselves because they can't see a way out?

We're looking at those pathways.

Paul:
You go into that detail of how they got there.

Kitty:
We do. We really do.

Because if you don't transform the habits that take you there, you're going to stay stuck. So if nothing changes, nothing changes.

And we're really, really big on that education piece and getting people into a balanced situation.

And then we review their debt commitments, we negotiate with creditors, we develop practical strategies for them. It may be someone's in a position where they're really unhappy in their role, but they have all of this debt, they can't keep moving.

They know that they can get a better job that's paying more, but they're so stuck because they've paid all of this money in debt, they can't actually break free.

So sometimes when we take that pressure off and we may freeze the payments or freeze the interest, it gives them an opportunity to actually go and find something that's more financially lucrative or, the other end, reduce their costs and improve their overall financial position.

Paul:
Just give that emotional release, really, isn't it?

Kitty:
Yeah.

Paul:
To explore...

Kitty:
Yeah.

Paul:
The solutions or...

Kitty:
Yeah.

Paul:
The way out of life.

Kitty:
Yeah. Yeah, it is.

The relief that people... I hear so many times I'm on a phone call doing a consultation with somebody, and at the end of the call they'll be like, "I feel like I can breathe for the first time in a long time."

Or I'll get on a follow-up call and they're like, "I slept for the first time last night."
And I think often we don't realise the pressure and stress, especially when we think that we should be getting a property and we should be living a particular way, and yet the choices that we've made in the past haven't necessarily supported us in living that into the future.

And that's what I was saying before about my stand. It's about we all do things in the past that we may not necessarily be proud of or make decisions in a moment that may not necessarily serve us.

Paul:
Of course.

Kitty:
But we all do in some way, shape or form.

So if we can actually have people go, "Well, you're not defined by that position," or, "You're not defined by that situation."

If we can solve that problem and put you on a baseline, and you can create new from there. It's a very exciting prospect for people who didn't think that they had one.

What are informal debt agreements?

Kitty:
So what are informal debt agreements?

We negotiate directly with creditors. So they're basically customised agreements between debtors and creditors.
I know there's a formal pathway, which is a Part IX debt agreement, which is an act of bankruptcy, which is not what we do.

The informal is, and how we do it, is we negotiate directly with the creditors based on the unique situation of that particular client.

So it may be that example I used before, that somebody was overextended, they'd got far too much debt in a situation, and then they'd lost their job.

Or they were living in a relationship and that person moved out and now they're having to carry the rent of the entire place, or one of their kids got sick or...

So there's different circumstances, and we advocate very strongly with the creditors based on that unique situation.
And then we basically tailor repayment plans based on the debtor's actual financial capacity. So not on a wish and a prayer and hoping that we're going to do this.

And we see this again and again with credit cards in particular.

If somebody, they're earning, I don't know, let's say $5,000 a month, and they're literally putting that $5,000 a month directly onto a credit card and then using it all.

But the interest is going on, so that $5,000 depletes and it's not actually $5,000 until they're at the end of that credit card, and they've actually got no money.

And so really, when we do get to the point when we negotiate the outcomes, we get them to a position where they can manage the payments that are in front of them.

And I'll talk a little bit more, I'll go into a little bit more about that in a second.

I guess in summary, we aim to facilitate something that's achievable and manageable rather than overextending them and keeping them stuck.

Examples of informal debt agreements

Kitty:
So examples of some informal debt agreements are reduced or frozen interest, fees, charges, for an agreed period of time.

So the way that we do informal debt agreements is we negotiate at different intervals. Different creditors have different parameters, but it may be that we put the accounts on hold for a three-month period or a six-month period. And then we freeze the interest, and we hold the payments, and we free up some cash flow.

And then we're able to use the cash flow to settle some debt elsewhere so that that liability just depletes.
They're now no longer paying the additional interest. They've settled that debt, so the principal has gone on that as well, and they're in a better position.

Or we might get to a position where you've got a $50,000 personal loan and you're paying $1,000 a month, 20% interest. You've got a giant amount of interest that you're paying.

If we can freeze the interest long term and negotiate a long-term solution, we charge off the account, we bring the balance down to a particular number, whether it be 50, whether it be 40, depending on a whole lot of variables, and then we split that over a period of time.

And they're now in what's called a long-term arrangement, which means there's no interest for the most part, and they're actually paying off that money as they go, and they can build it into their budget.

It's not actually 50% of what they're paying is going on interest, and the other 50% is maybe, if you're lucky, bringing down the balance.

So that's really good for people as well because it makes it manageable and achievable for them to get out of the situation.

Paul:
Yeah.

Kitty:
Then we've got loan variations.

It might be that we can negotiate a variation on a loan to bring the amount that they're paying down.

So they may be overextended with their three different credit cards, their personal loan, and whatever, but we vary the amount that they're paying over a period of time so that they can pay it off a little bit differently than what they were.

And again, in line with their statement of financial position and how much they can afford to pay, so it's not overextending them.

Serviceability agreements

Kitty:
Serviceability agreements.

I might just talk a little bit about this because I find a lot that many brokers that I have met in the past, and you may be different, but many I have met in the past don't know necessarily about how a serviceability agreement happens or works in line with a client with a mortgage.

So if we have a client with a mortgage and they're paying $5,000 a month and we have it on hold for three months, they of course are going to be $15,000 in arrears, and we don't stop interest on mortgage, unfortunately.

But they're now $15,000 in arrears. That $15,000 might have been used to actually settle some debt and get them into a better position, and then we negotiate serviceability.

Now, obviously, you know the term serviceability, but in the terms of negotiating informal debt agreements, that $15,000, what we say to the creditor is, "Okay, this client or he can maintain those payments on time, every time, not a day late or a dollar short for the next three or six months," again, credit independent.

And once we do that for the next three or six months, then we have the opportunity to capitalise the arrears.

So put that arrears amount, $15,000, onto the end of the loan, which means that they are now in a position where they don't have to make up that $15,000 on top of all the money that they're paying, but it's built into the loan.

Paul:
Yeah. And it increases a little bit, but over the life of the loan, it's a lot more manageable than somebody who wasn't able to pay it in the beginning.

Kitty:
Much more manageable, yeah.
And that's a really good saving grace for people when they are literally... Because quite often they'll come to us and they will have already been in arrears and a lot of the lenders are trying to get them to make that up.
But this gives them an option to do it in a way that is manageable for them. And when it's manageable for them, their mindset is better as well.

Paul:
So all of those things, in theory, can be done by the individual, but they don't have the...

Kitty:
Exactly. Well, one, they don't realise what's possible.

Paul:
Mm-hmm. And two, they don't have the head space often by the time they get to this stage, right?

Kitty:
Yeah.

Paul:
And three, I imagine when there's an organisation, when you're doing the negotiation...

Kitty:
Mm-hmm.

Paul:
It's a different level because, let's say, you're a professional at that.

Kitty:
Well, one of the things that I used to dread when I went through it myself was, there was a lead up to it, and it was literally, I'd put it in my diary and call in counsellor and I'd be like, "I've got to call Nathan, I've got to have a conversation with him."

And I was dreading it because I had to open my mind, open my heart, I had to talk to a complete stranger on the other end of the phone. I had to literally tell them everything.

And quite often they didn't give a care. They did not care about me. They didn't care about my situation, none of it. They were there to do a job.

And unless you word it in a particular way and you know exactly what you're saying, quite often they won't grant it or they'll go, "Okay, well, we'll put the payments on hold, but the interest won't go on hold."

Which, when the balance of the debt is rising and you're not paying, that's really anxiety-ridden. That's really not good.

So yeah, teaching people how to do what we do, I love that. I love giving people the choice and them knowing that they have all of these options available.

But yes, making those calls can be very daunting. Very daunting.

Partial and full debt waivers

Kitty:
And then we have partial and full debt waivers.

Now, I say to people, people are like, "I'll have a full debt waiver." I'm like, "Me too."

But I say to people, the person who's getting a debt waiver, a full debt waiver, is in a less than desirable situation. You don't necessarily want to be in a position when you are getting a full debt waiver.

However, if you have been paying your same Westpac credit card for the last 35 years at 20% interest, you have paid that thing 10 times over.
If we were to negotiate that settlement, let's use that example about the mortgage of $15,000, and we were to settle at 15%, you're 15% better off with the principal and you don't have the interest ongoing.

So that's a partial debt waiver.

Paul:
And that obviously is liberating for someone.

Kitty:
Isn't that word overused a bit? But anyway.

Paul:
It's a good word.

Kitty:
It is a good word. But it's true. That's how people feel.

They feel lighter, freer, like they actually hold themselves better.

There's nothing worse than being in an unmanageable debt situation. It's daunting, it's intimidating. You feel embarrassed, you feel ashamed. You don't want to tell anyone.

Then you do all the drinking and the smoking and the pills and whatever you're doing to numb it so that people don't know, and it's really sad and hard to deal with.

Paul:
In our space, they start looking at the property picture. That's why they're here, right?

Kitty:
Yeah.

Paul:
So it must be a massive relief and excitement.

Kitty:
Yeah. Oh, absolutely.

When they get to the point where we can actually say, "Okay, your debt's managed. Now get into a savings habit and you'll be in a position where you can actually move forward and go and create something."

Yeah, absolutely wild. It breathes new life into people to the point where they feel liberated and big in their life, ready to take on what's next, and it's so beautiful to watch.

The debt management process

Kitty:
Okay, so the debt management process from our side and the goods are the get out of debt strategy.
I mentioned before the consultation, that literally is a phone call. We then come up with a strategy on the phone call, and then we obviously negotiate, do all the negotiations, go through the process, get them into a position where they're debt-free.

And when I started speaking to you guys about coming in and sharing this information, we were talking about different ways that we'd worked with clients in the past that had mortgages or were looking at a refinance, and ways in which we could actually help them through.

So actually, before I talk about that, let me talk about credit repair.

Credit repair versus debt negotiation

Kitty:
Credit repair is focusing on reviewing and disputing incorrect or inaccurate information on clients' reports, and they assist them in removing that listing so that their credit file and their credit score is not affected.

But their overall role, I guess, is to improve the credit file, so to speak.

And if there's things on there that need to be settled, I think they do some of that as well.

That isn't what we do.

The difference between what we're doing is we're negotiating strategic planning. We're negotiating directly with the creditors to reduce the interest, the fees, the principal debt.

In those cases of the SecondMac loans or the buy now, pay laters, which is just so many people. So many people are stuck in that. They don't realise how quickly it snowballs in such a negative way.

Breaking that cycle, getting them on track, clearing up, teaching them about managing their credit file and so that they can get into a position where those inquiries fall off their file naturally after a period of time and get them into a savings habit as well.

Again, improving their overall position and their money management.

And the objective is to have them... Sometimes it's for people to become loan ready and to look at investing and what's next for them, and sometimes it's just so that they can have a moment so they can breathe and then think about what's next.

How Debt Angel Solutions works with brokers

Kitty:
So there are two ways that we work with brokers.

One is mortgage brokers can identify clients who is ready for finance or refinance, and then they come to us and we develop a debt strategy and negotiate with creditors where appropriate.

So if somebody is overextended and they're in a position where they've got too much unsecured debt, it may be a step of us actually going, "Okay, well, we're going to sort that out. We're going to clean them up, and we're going to hand them back across to the broker so that the broker can, they're in a much better position, much stronger position."

And then the other option is that we identify a client who has equity in their property.

So we've had a couple of these recently where people have got equity in their property and unsecured debt.

What we can do is go, "Well, is there a way we can refinance and get some equity out of that property such that we can use that equity as part of that negotiation to settle that debt to get them into a better position straight away?"

And that's really, really valuable for somebody who's in that position because they can now go, "Okay, well, yes, I've got my mortgage, but I'm not kind of haemorrhaging with all of this money that's going out everywhere else as well."

Case study: Travis

Kitty:
Okay, so these are a couple of our case studies.

Travis was a business owner. He basically was in an industry that was devastated by COVID.

He was trying to keep his business afloat, doing everything that he could. He went into voluntary liquidation, and he had a property, and he was trying with his property to free up some equity so that he could actually settle some of those debts, which we ended up doing.

And you can see the starting debt amount that we settled was 133. We ended up settling it for just under 75.

And the minimum monthly payments that he was making, freeing up that equity from the house, was 3,700, and then the minimum monthly repayments, because he settled it all, it was finalised, became zero.

And he saved almost $13,000 in interest on all of that extra debt.

And that was all debt that was basically attached to him personally as a personal guarantee on the business that he had.

Case study: Pam

Kitty:
We have Pam, who had a successful training organisation.

Again, it was COVID. She'd lost $250,000 worth of revenue overnight. She came to us, and we really focused on stabilising her actual position.

And her thing was she was a little bit older, and she was like, "I just can't lose my home. I can't lose my home. It's the most important thing for me."

And so we were able to negotiate with the creditors to a position where, you can see the results.

Her starting debt was 180. We freed up some cash flow. It's a bit different with this one.

We freed up some cash flow with her mortgage. We then actually utilised that, and some additional money that she had, to settle the debt.

So we settled at 89,000.

Her minimum monthly payments before us was like 7,600, and afterwards was zero because everything got tied up and put together and finalised, which was incredible.

And she has peace of mind, aside from the fact that she's now no longer haemorrhaging at $15,300 a year in interest, which is a lot of money, especially when you're at that end of life.

You're like, "Okay, well, I just want my home. I had the business, but I don't have the business anymore, and I need to just make ends meet."

It caused a lot of fear in her, understandably. So she was very happy with those results.

Case study: Jen

Kitty:
And then we have Jen.

Jen was, still is, an incredible lady who basically was a public speaker, was doing incredibly well.

She came to us after a serious domestic violence situation.

She had just under $84,000 worth of credit card debt, and we had a two-year-old daughter, and literally COVID came and her speaking business completely stopped. She couldn't do anything.

And she used that time while we held everything away.

So we took on all the debts. We managed it all. We kept it all away from her. We froze the interest. We froze her payment. We just gave her space.

And to be honest, she felt up for a little bit because she'd been holding it together for so long.

But when she put herself back together again, she must've used Glitter Glue because she came back very sparkly.

Paul:
Wow.

Kitty:
When she came out the other side, she pivoted and created a business called Happy Hairbrush, and she is absolutely smashing it.

She is a multimillion-dollar...

Paul:
Different person.

Kitty:
Different person, multimillion-dollar business, no debt, and you can see the savings.

Her minimum payments were just under 1,200 or what, 1,100 and whatever it was, 61.

But her interest was $17,000 a year in interest. And we settled it for $28,000.

She walked into the office one day and gave Spencer Flowers and started crying. And her life is completely different. She was able to process what happened to her. We gave her the time and space to do that and to move forward, which was incredible.

And now she's a very big advocate of domestic violence and helping people, not financially necessarily in the same position.

But when you give people that lease of life and you give people that space to solve a problem that they haven't known how to solve, it gives them an ability to reset.

Paul:
Right.

Kitty:
And when they can reset, they can recreate.

And Robert Kiyosaki says, "The bigger the problem, the bigger the solution."

That was her. She was like, "Okay, well, I've got a big problem here. It's like 83,000 odd debt. How am I going to get out of that? Okay, what am I going to do?"

And I really see that time and time again, and I think that's what we are so good at, is that we walk alongside people while they're going through that and lift them.

They get allocated a coach, and they get walked through the entire thing. We've got a coaching programme that goes alongside of what we're doing to give them that freedom.

The opportunity for brokers

Kitty:
So through what we're looking at here is the opportunity, working with brokers.

Clients are able to reduce that overall debt before entering into a new loan as a possibility.

They lower their liability and can improve affordability and long-term financial stability, which is what we all want, really.

Clients appreciate brokers who introduce them. I find that all the time.

If a broker introduces people to us, they are so grateful to the broker because it doesn't just fix the problem, it gives them that opportunity, and then they go back to the broker and say, "Thank you," and they can move forward.

Paul:
So just on that, at what point, how does a broker recognise an opportunity?

Because lenders like us, most scenarios we can find a solution for.

Now, the better their situation...

Kitty:
Yeah.

Paul:
The better solution and the more price-effective solution...

Kitty:
Yeah, exactly.

Paul:
For us as well.

So in your experience with the broker referrals, how do they recognise that it might be a place for you to help before they pursue the loan?

Kitty:
I think if you can reduce the amount of debt, it reduces the amount of the loan, which reduces the amount of the interest in a lot of cases, which puts them into a better position.

Did that answer your question?

Paul:
It did. So why has a broker referred to you rather than just written a loan? Or done a loan at a specialist instead of a near-prime kind of a thing, right?

Kitty:
A lot of these people aren't necessarily keeping up to date with their payments, so they're behind, which makes it harder, from what I believe, for the brokers to actually find somebody.

So that's one.

Or the level of overextension is to the point where a lot of brokers go, "I can't put you into a position that will help you, so we need to actually solve that problem, and I don't know how to solve that problem. So go see these guys because they'll be able to solve it, and then you can come back."

Paul:
So if you find somebody you just cannot find a solution for...

Kitty:
Yeah.

Paul:
Pick up the phone.

Kitty:
Yeah, absolutely.

And again, they really do appreciate it because it's giving them a new lease at life.

There's one broker I can think of in particular that's recommended quite a bit of business, and he's helping one of our clients.

He recommended the client to us originally. We cleaned them up, gave them back, and now they're about to get an investment property.

Paul:
Do you find that some brokers work with a client and you through that process? Or hands-off?

Kitty:
They can. Usually, it's hands-off because we're doing our work, and we can get it sorted.

Often a broker will send the information through to us with everything that they know about the client, which is obviously really helpful. Then we don't have to go on that finding mission ourselves.

And at a glance, I've got brokers that will call me and say, "Hey, what do you think about this? What can we do here?" etc.

And I've got a thing that we're a fee for service, so I won't bring on a client if I can't save them more than we're going to cost them ethically.

But if it's strategic and we're saving a property and getting them into a position where they can actually release some of that equity and then use that equity, that's a different situation.

Paul:
So you'll often have a discussion with a broker with a bit of detail upfront...

Kitty:
Yeah.

Paul:
And they'll know whether it's worth, obviously...

Kitty:
Absolutely.

Paul:
The next step.

Kitty:
Absolutely. Yeah. Absolutely.

Stronger financial position

Kitty:
The stronger financial outcomes is basically the essence of what we've been speaking about. It gives them that basis to build.

And I think, again, when you don't have a light at the end of the tunnel and you don't think that you're going to be able to get a mortgage or you don't think you're going to be able to recover, you don't care as much.

Whereas when you start to see, you actually start to get into savings habits and putting money aside and really being clear about budgeting and things like that, which gives people a lot more strength in themselves.

And then they start looking for second jobs and different ways they can earn income and what can they sell and what can they do to fix this quicker, when they see that there's a solution.

But when they don't see that there's a solution, there's no incentive for them to do that.

Paul:
Awareness and hope as well, right?

Kitty:
Yeah.

Paul:
If you only use your bank balance every day, you're probably more inclined to do more about it than if you look at it once a month.

Kitty:
Absolutely.

Paul:
So it's having that awareness and taking action.

Kitty:
Absolutely.

And you being present to what that pathway is, because it's really hard, as you said before.

People can do this themselves. They absolutely can. But they don't necessarily know how far they can go or what they can get or the outcomes, etc.

Whereas if you've got somebody who knows what they're doing and can negotiate that outcome and can actually step it out for you on that first call and say, "Well, this is your situation. Okay, I've got all the debts. I understand where your situation is. This is what we're going to do. This is what it's going to look like."

And things ebb and flow as they do. Life isn't in a straight line.

But effectively, this is what we're going to do, and they're like, "Wow, I didn't realise that that was possible. So hold on, my dream of owning a property is actually, I can actually hold onto that?"

Absolutely, you can.

And clients are more likely to remain as well with the brokers that do. That's something else that I found because that loyalty of, "Well, you've looked after me. You gave me a solution that really actually helped me get an amazing outcome myself," and so they keep going back.

Benefits for clients and brokers

Kitty:
All right. So for your clients, we specialise obviously in debt negotiation and advocacy.

We reduce financial pressure and increase cash flow.

And we, again, we're just talking about the same things, that we talk, get the personalised get-out-of-debt strategy, practical solutions, and stronger financial position with ongoing support and guidance about the money management.

That's a really big piece. I'm very, very big on that.

The education, the financial literacy, the money management, and the financial problem-solving.

It's like, okay, well, if your statement of financial position says you're spending 6,000 and you're getting in five, well, there's your problem. There's the beginning of your problem. Let's start there.

So really, again, bringing, making it present because so many people aren't educated around money, and it's a typical conversation. You can't really talk about it. You don't know who to go to.

So people end up in this position, don't know where to go, don't know who to talk to, don't know how to get out of it, and then beat themselves up for being bad and wrong for getting in the position in the first place.

It's like, well, there's all these circumstances that got you there. It isn't a fault thing.

And so for brokers, it retains clients who aren't loan ready because they're getting sorted and back again.

Whereas in the past, from what I know, a lot of the times, if they can't help, that's it. They can't help. I mean, they'll stay on a database, absolutely.

It strengthens the client relationship. It creates more complete service offering. It increases the client loyalty, which we spoke about, improves the long-term client retention, and the clients are able to return to their mortgage broker with a stronger financial foundation and be able to explore a mortgage or refinancing options a lot sooner than they potentially might have been able to.

Paul:
And it's not uncommon for brokers to refinance a client who's got maybe $100,000 of credit card debt.

Kitty:
Yeah.

Paul:
A significant amount of credit card debt.

Kitty:
Yeah.

Paul:
And so sometimes it might be more advantageous, particularly if it can't be, it doesn't quite fit, to call you when there's significant debts. Maybe the client doesn't even realise there's a problem.

Kitty:
Yeah, absolutely. Absolutely.

And if you are going to do a refinance in a situation like that, incorporating 100,000 versus incorporating 50 or $60,000 makes a massive difference to their bottom line and the value of what they can loan and all the rest of it.

Paul:
So it helps a round peg fit through a square hole.

So you're negotiating the banks and credit cards. You don't need to wait until it's with a debt collector to...

Kitty:
Absolutely not.

I'd prefer actually if we're dealing with it from the point where we are living payday to payday because a debt collector has a reputation to be a debt collector.

Paul:
Yeah. That's it.

Kitty:
Whereas a bank has a reputation to be fabulous.

Paul:
Good point.

Kitty:
Yeah, for sure. Understandably, they want people to come to them and to trust them.

Whereas, with a debt collector, their care factor is a lot less.

Q&A

Paul:
We have some questions that have come through.

So what is the incentive for a creditor to agree to a debt manager, management solution for your clients?

Kitty:
Often, yeah. So often the incentive is that they keep them as a client for starters.

They can either... They're not destroying their position. They are also getting in between.

Like if a creditor... Sorry, can you ask me the question again?

Paul:
So what's the incentive for a creditor to be involved in a solution?

Kitty:
If a creditor has got, let's say they've got a mortgage and a credit card with the same company, and they know that they're not actually making ends meet.

They can become delinquent, and if their account becomes delinquent, it gets sold to a debt collector, and the first cents on the dollar, and they're not going to make money out of it.

And they might be able to clear that debt and hold onto them with a mortgage or the other loans, so they're better, they're able to pay and stay on top of things.

I'd like to say sometimes it's loyalty. But I don't know.

Paul:
And for an organisation to manage challenging debts and arrears is expensive.

Kitty:
Yes. Absolutely.

Paul:
So sometimes the solution of negotiation makes economic sense as well, right?

Kitty:
Absolutely. Yeah.

What will a mortgage lender see on a client's credit report?

Paul:
Good question.

If my client has an informal debt arrangement with you, but already has repayment history issues or defaults, exactly what will a mortgage lender see on the comprehensive credit report during and after the arrangement?

Kitty:
So there's a hardship flag that will sit when we do a hardship arrangement, an informal debt agreement, for 12 months.

So it will sit there as part of that.

So sometimes we build it into the strategy. If they have defaults, and they have to wait for them to time out, or they have accounts that have been closed, we're waiting to drop off the file.

We work it alongside of that.

So by the time the default falls off or is finalised, then they're in a position that they've not only cleared their other debts through the informal debt arrangement, they are actually defaults fallen off as well.

So they now got a squeaky clean credit file and able to move forward.

And we're very big on that, like protecting the credit file and making sure that the credit file is managed as well as can be possible and also educating them on what happens every time you apply for credit and what happens to your credit file and what does it mean, and things like that.

Because a lot of people, as I'm sure you know, don't know.

Paul:
Yeah. They don't know.

And I think most brokers know now, but we don't do CCR, so that isn't necessarily an inhibiting factor for us to help our clients for that as well.

Is this a Part IX agreement?

Paul:
You kind of already touched on this. Is this a Part IX agreement?

Kitty:
Absolutely not.

No, a Part IX agreement is a formal act of bankruptcy, whereas what we do is informal.

So it literally is, it's a living, breathing, moving thing. It's managed over time.

Other companies that do informal debt agreements do wrap it in a bow and say, "Okay, Paul, you need to pay this amount. We've frozen the interest for however long. You need to pay this amount for the next five or seven years."

That is one way of doing informal debt agreements. It's not how we do it.

How we do it is we work with you ongoingly throughout the process to try and clean it up as quickly as possible.

Paul:
That's important. It's not just, "Here you go. Here's your plan. See you later."

Kitty:
No, it's not.

Paul:
Sure. It's very hands-on.

What fees do you charge clients?

Paul:
The big question, what fees do you charge clients?

Kitty:
Oh, yes.

So we have an establishment fee. We keep our fees quite low. We do an establishment fee, which is $660. And it brings a client on as a client. So it will do all the coaching calls. It'll set them up in the system with statement of financial position documents, everything that we need.

And then we charge a debt setup fee per debt account.
So depending on how many accounts they come on with, we will charge a fee. It's usually between 110, and if it's ATO, it's usually 550 because they're a nightmare.
And actually, that's a really good point. We might talk about that in a second, is the ATO. And then we charge a monthly management fee, which is $40 per account.

When we renegotiate, so effectively you're paying for the work that we're doing in real time, right? So the conversations, the coaching, the putting the arrangements in place.

So that debt setup fee puts the first arrangement in place, whether that's three months or six months, depending on creditors, that's what it pays for.

And when we renegotiate, we have to get all that information back again and do it all again and submit and all of that. We charge another 110 or 220. It's manageable.

It's a little bit more for a business. It's 1320 for an establishment fee. And we charge a success fee.

So once we get an outcome, whether it be a long-term solution or a debt waiver or a full and final settlement, we usually charge a success fee, which is about 15% of the starting debt.

Paul:
Yeah. Okay.

Kitty:
And this is important as well. We put it all into a payment plan.

So we're not asking the clients to pay us and not the creditors.

We're putting it alongside of our strategy, so it runs alongside of what we're doing.

Paul:
Yeah, nice. That seems very reasonable, by the way.

Kitty:
Thank you.

ATO debt

Kitty:
I don't know how many people, I don't know if you can even do a show of hands, but how many people are dealing with clients who have got ATO debt?

Paul:
We see a lot of those, so the brokers will see them all.

Kitty:
Yeah.

So ATO are being ruthless at the moment, and they are refusing to put holds on interest. They're refusing to, unless it's extraordinary circumstance, to get rid of the GIC that has been accumulated.

They were very lax during COVID, and then all of a sudden they've come down like a ton of bricks.

So, we're finding that people are doing, because it's like getting a death threat when you get the letters from the ATO, they're pretty scary, and the way that they're worded are very, very intimidating.

So we're finding that a lot of people are looking for alternative lenders to get them out of that situation with the ATO. I personally think that people should be trying to get rid of the ATO as quickly as they possibly can because there's no respite in sight with the ATO at the moment. And it's not cheap.

Paul:
So 11, 12% interest rates.

Kitty:
It's 11 point whatever they feel like.

Paul:
Yeah. And we can refinance ATO debts when that's possible. But they're not always the option, so.

Kitty:
Yeah.

Well, when those letters, when it's obviously moved across from, you've got your 14 days to wind up a company. I've never seen a company wind up in 14 days, but you've got that notice, and then it becomes a direct penalty notice.

That's really scary for people. They don't know how to deal with that, understandably.

Paul:
Yeah, can imagine.

The next question's about ATO at the moment.

Kitty:
Oh, yeah.

Paul:
The next question was about negotiation with the ATO.

Kitty:
Oh, there you go.

I really think that ATO is not necessarily doing any favours to individuals and businesses.

I find it, like I just said about the long-term solutions, banks are putting long-term solutions in place for people to reduce the interest, get rid of some of the debt, and pay it off over a long period of time.

ATO says, "You have three years. You need to pay it in three years. And if you can't pay it in three years, alongside of all the rest of your commitments with the ATO, we can give you two years."

It's just there's no give or take, and it makes it really, really hard. And I really worry about the people who are receiving these notices because they're very intimidating, very scary.

Do clients usually own an asset?

Paul:
Do the clients you help usually own an asset, such as property, where equity could be extracted?

Kitty:
A lot of the time, yeah. Not always.

We have clients varying from single mums like Jen to people who have got multiple properties and great property portfolios, asset rich, cash poor, overextended.

People my age and up have went through that stage before the Royal Commission came in and gave the banks a naughty bags smack for overlending, and so they've got all of this credit card debt, and the rates of the interest are going up on the properties, and they're just in this predicament.
How do I pay this and do this?

So yeah, we do. We have people, a full spectrum everywhere.

Do you provide credit repair services?

Paul:
You've already answered this well. Do you provide credit repair services as well? That's not your space, is it?

Kitty:
No. Obviously, I've got contacts in the industry, having been in the industry for a long time, but no, we don't.

Client scenario

Paul:
I've got one here. Tell me if this is a scenario.

Male applicant has a financial hardship listed on his credit file. Female has a default of $3,000. They have combined debt, excluding the home loan, of $160,000.

That's perfect for your situation. Is this a scenario that you can help?

Kitty:
Absolutely.

I need to know the creditors and a bit more information. But absolutely. Absolutely, yes.

Paul:
And by the way, so can they make money on that one?

Kitty:
Yeah. We'd be able to help as is.

Paul:
Yeah. But we could help even a... Well, it all comes down to product selection, which is where working with somebody like yourself can help everybody.

Kitty:
Yeah, absolutely.

Can the home loan remain outside the arrangement?

Paul:
Can Debt Angel Solutions structure a debt management arrangement that covers only the client's unsecured debts, such as credit card and personal loans, while leaving the existing home loan completely untouched and outside the arrangement?

Kitty:
It's a really good question. It depends what the strategy is.

So in theory, yes. But in practice, when we go to a creditor and we say, "Okay, sorry to bother you, but Paul's in this situation. He's got this amount of debt. He's going to continue paying the mortgage over here, but he's got all of this other stuff," it doesn't necessarily sit overly well with the creditors, because creditors want a holistic solution to everything.

In saying that, if it's to do with a refinance and we're looking at the options for refinance, yes, we can.

So the answer is yes, we can. But it does make it a little bit more challenging.

Paul:
Okay. That's interesting.

Kitty:
Well, no, sorry, that's not making it challenging. It's just...

Paul:
Different.

Kitty:
Yeah, it is.
It depends which creditor. I'm sorry. I know I keep saying that, but it does really depend which creditor we're dealing with and who the other debts are with as well.

Relationships with creditors

Paul:
Are you at the stage now where some creditors are familiar with who you are?

Kitty:
Oh, absolutely.

Paul:
Yeah. That's good.

Kitty:
We've got great relationships with creditors.

People say to me all the time, "Do the creditors hate you?"

I'm like, "Actually, no, I think they really like us," because we're mediating between a situation that could turn delinquent or bad and a client who is really grappling. And we're taking away the emotion.

We are giving it to them in the structure that they need it. We're giving them the information that they need in the timeframe that they need.

They're not, like you said, using all these resources to chase people up. We're getting them the outcomes.

Paul:
You're solving their problems as well.

Kitty:
Yeah.

Paul:
Essentially, right?

Kitty:
Yeah.

Closing

Paul:
I think that is the end of our questions. I found that fantastic, enlightening, so thanks so much, Kitty.

Kitty:
My pleasure.

Paul:
We'll do it again, I'm sure.

So thank you everybody who provided the questions. Good on you for coming up with some very interesting subject matter there. Appreciate that, and Kitty's responses.

If you've got any other questions after this session, no worries at all. Just reach out to your BDN, and if they can't assist, we'll jump on the phone and speak to Kitty personally and maybe connect you two as well. But you'll be getting all of Kitty's details when we send out the email tomorrow as well.

And that will also give you a copy of the full webinar and also how to access your CPD points.

Thanks very much, everybody, again, for joining us, and enjoy the rest of the day.

Bye.