September 2015

Scenario 9 & 10

PIA comparison with Bankruptcy

The case studies contained within this publication are primarily designed to assist Personal Insolvency Practitioners (PIPs) prepare proposals for either a Debt Settlement Arrangement or a Personal Insolvency Arrangement and, in particular, highlight the manner in which a comparison to an alternative outcome for creditors in bankruptcy might be made. Such a comparison should be included in all proposals in order to comply with section 71(1)(d) or 107(1)(d) of the Personal Insolvency Act.

There are essentially three elements that must be addressed to ensure an appropriate comparison to the outcome in bankruptcy is made, namely;

- **Assets**
- **Income**
- **Costs**

Assets

Upon being adjudicated bankrupt all assets transfer to the Official Assignee with the exception of assets, of an essential nature, up to a value of €6,000 including vehicles, or more, if the High Court allows. In bankruptcy all of these assets will be sold for the benefit of creditors.

Recommendation: A PIP should ensure that the value attached to an asset is reasonable. Any discount applied to the current market value of an asset, to reflect the fact that the asset is being sold by the Official Assignee in administration of the estate should be clearly stated. A PIP should only assume the crystallisation of negative equity of a family home, where the PIP is satisfied that the debtor will, in a post adjudication situation, be unable or unwilling to make mortgage payments to a level acceptable to the mortgagee and Official Assignee.

Income

The stated policy of the Official Assignee is that where a debtor fully cooperates with the Official Assignee generally in administration of the estate and, in particular, in putting in place an Income Payment Order (IPO) at the earliest possible opportunity, the Official Assignee will seek an IPO for a maximum four year term. The Official Assignee applies the ISI Guidelines for a reasonable standard of living and reasonable living expenses in assessing income contributions towards bankruptcy debts by bankrupts.

Recommendation: A PIP should, in the normal course, assume that the monthly contribution from income available to creditors within a Personal Insolvency Arrangement or Debt Settlement Arrangement will be the same in bankruptcy, with the main variation possibly being the duration of the monthly payments.

However, other factors may be relevant such as the impact of bankruptcy on a debtor's capacity to generate income and a debtor's intention to remain in current employment/maintain current or projected income levels while bankrupt.

Fees and Costs

The fees charged by the Insolvency Service in bankruptcy matters are set out in Statutory Instrument 465 of 2013 (http://www.irishstatutebook.ie/pdf/2013/en.si.2013.0465.pdf) and are summarised in the appendix of each scenario.

Other costs including costs of realisation of assets (e.g. auctioneer costs and legal conveyance costs) are unlikely to materially differ between an asset that may be disposed of by the Official Assignee or a financial institution where the property is surrendered to it in a bankruptcy and an asset being disposed of privately by a debtor through a Debt Settlement Arrangement or Personal Insolvency Arrangement.

Recommendation: A PIP in calculating Insolvency Service of Ireland bankruptcy fees should apply SI 465 and assess reasonable auctioneer (if applicable) and legal costs as payable in bankruptcy.

Of greatest importance is that the assumptions and calculations for the comparison to bankruptcy are clear to the reader.

CONTENTS

PIA

SCENARIO 9

PIA COMPARISON WITH BANKRUPTCY.

This sample scenario is designed to illustrate the basic features of a PIA and highlight the manner in which a comparison to an alternative outcome for creditors in bankruptcy might be made.

1. SHARON'S STORY

Sharon is an IT consultant. She has seen her income drop in the last five years. She earns a net income of €2,700 per month.

She bought her Principal Private Residence (PPR) ten years ago in North County Dublin. The outstanding mortgage is €200,000 and the current value of the house is €130,000.

Sharon has one son in primary school and she does not own a car. Sharon is also due to receive an inheritance of €6,000.

Sharon also has a total of €60,000 in unsecured debt consisting of a credit union loan (€30,000), credit card debt (€25,000) and an overdraft (€5,000). Her monthly debt commitments are as follows:

• Mortgage repayment on her PPR of €1,238

• Unsecured debt repayments of €1,800

Sharon has co-operated with her bank under the Central Bank Code of Conduct on Mortgage Arrears in relation to her PPR for the last six months, but has been unable to agree a sustainable repayment solution. Sharon is unable to pay her debts in full as they fall due and acknowledges she is insolvent.

Sharon meets with a Personal Insolvency Practitioner (PIP) and provides full details of her financial circumstances so the PIP can understand her financial position.

2. SHARON'S INSOLVENT POSITION

Assets	Value	Loan
Principal Private Residence	€ 130,000	€ 200,000
Inheritance	€6,000	0
Total	**€ 136,000**	**€ 200,000**
Debts		
Secured debts		
PPR Mortgage		€ 200,000
Unsecured debts		
Credit Union Loan		€ 30,000
Credit Card debt		€25,000
Overdraft		€ 5,000
Total		€ 260,000

Monthly Income	
Sharon's Net Income	€ 2,700
Total	**€ 2,700**
Monthly expenses	
Total Set costs[1]	€ 1,159
Rent/Mortgage[2]	€ 1,238
Childcare Costs[2]	440
Reasonable Living Expenses	**€ 2,837**
Available for unsecured debt service	(€137)
Unsecured debt repayments	(€ 1,800)
Deficit prior to meeting unsecured debt obligations	(€1,937)

3. ELIGIBILITY

Sharon qualifies for a PIA because:

- ✓ Sharon is insolvent – she is unable to pay her debts as they fall due.
- ✓ Sharon has secured debts.
- ✓ Sharon has not incurred 25% or more of her debts in the 6 month period ending on the application date for the Protective Certificate.
- ✓ Sharon has participated in the Mortgage Arrears Resolution Process (process approved by Central Bank) with her PPR mortgage provider for a minimum period of six months in relation to her PPR but has been unable to agree an alternative repayment arrangement.
- ✓ Sharon's total secured debts do not exceed €3 million.

[1] The Personal Insolvency Practitioner references the table in the ISI "Guidelines on a reasonable standard of living and reasonable living expenses", available on the website (www.isi.gov.ie). One adult €944.71 + one primary school child €214.37 = €1159.08. For illustrative purposes and ease for the reader, the total set costs figure is rounded to €1,159.

[2] The Personal Insolvency Practitioner will assess the reasonableness of mortgage, rent and/or childcare payments in accordance with pages 8 and 9 " Reasonable Living Expenses Background Information ".

4. NEXT STEPS

a) The PIP is satisfied that Sharon meets all the eligibility criteria for a PIA and submits an application to the Insolvency Service of Ireland (ISI) for a Protective Certificate (PC) on her behalf, including a Prescribed Financial Statement (PFS).

b) The ISI and the Court are satisfied with Sharon's application and the Court issues a PC. Sharon's name, address, year of birth and date of issue of the PC will be added to the Public Register of PCs on the ISI website. The PC offers Sharon and her assets protection from legal proceedings by her creditors while she is applying for a PIA.

c) The PIP has 70 days to develop a PIA proposal, get it voted acceptable by the creditors and submitted to the Court for assessment.

d) Sharon agrees to the PIA proposal developed by the PIP (Details of potential PIA solution are set out below in point 5).

e) The PIP provides the necessary documentation to each creditor prior to the creditors' meeting including analysis which demonstrates how the financial outcome for creditors under the terms of the PIA is likely to be better than the estimated financial outcome for such creditors were Sharon adjudicated bankrupt (Analysis set out below in point 8).

f) Creditors representing 65% or more of Sharon's total debt participating at the creditors' meeting agree to the proposal (i.e. first threshold needed for creditors' approval). This includes creditors representing 50% or more of Sharon's secured debt (i.e. second threshold needed for creditors' approval), and creditors representing 50% or more of Sharon's unsecured debt (i.e. third threshold needed for creditors' approval).

g) The PIP records the creditors' meeting results and sends them to the ISI, Sharon and each of her creditors. No creditor appeals at any point of the process.

h) The ISI and the Court carry out final reviews of Sharon's case and the Court approves the PIA.

i) Sharon's details are placed on a Public Register of Personal Insolvency Arrangements. (This includes her name, address, year of birth, and the date of coming into effect of her PIA).

5. POTENTIAL PIA SOLUTION FOR SHARON PROPOSED BY PIP

Sharon has revised her monthly expenditure and reduced her living expenses from €1,400 to the prescribed amount of €1,159 in accordance with the ISI Guidelines on a reasonable standard of living and reasonable living expenses.

The PIP assesses whether a change in mortgage terms or interest rate will make the mortgage sustainable. The PIP recommends a term extension on the PPR Mortgage for an additional 10 years, bringing the mortgage to 30 years. This reduces the monthly mortgage repayments from €1,238 to €984 a month. Sharon's monthly disposable income, after deducting total set costs, childcare costs and mortgage repayments, is €117 per month. This amount is now available to make payments to her unsecured creditors. This equates to €8,424 over six years.

Sharon's monthly income and expenses after PIA restructuring

Monthly Net Income	**€2,700**
Less:	
Principal Private Residence Mortgage	€984
Childcare Costs	€440
Total set costs	€1,159
Available to Unsecured Creditors	**€117**

The PIP proposes that proceeds of the inheritance (€6,000) are used to make an upfront payment to Sharon's unsecured creditors. In total Sharon will have available €14,424 (€8,424 + €6,000) to make payments to her unsecured creditors during the lifetime of the PIA.

6. REPAYMENTS TABLE

Year			1	2	3	4	5	6	Totals	Return for Creditors
Net monthly income			€ 2,700	€ 2,700	€ 2,700	€ 2,700	€ 2,700	€ 2,700		
Set costs			€ 1,159	€ 1,159	€ 1,159	€ 1,159	€ 1,159	€ 1,159		
Rent/mortgage			€ 984	€ 984	€ 984	€ 984	€ 984	€ 984		
Childcare			€ 440	€ 440	€ 440	€ 440	€ 440	€ 440		
RLE			€ 2,583	€ 2,583	€ 2,583	€ 2,583	€ 2,583	€ 2,583		
Monthly contribution			€ 117	€117	€117	€117	€117	€117		
Annual contribution			€ 7,404[1]	€ 1,404	€ 1,404	€ 1,404	€1,404	€ 1,404	€ 14,424	
Less PIP's fees			(€1,700)	(€ 1,100)	(€ 1,100)	(€ 1,100)	(€ 1,100)	(€ 1,100)	(€ 7,200)	
Net contribution			**€ 5,704**	**€ 304**	**€304**	**€304**	**€ 304**	**€304**	**€7,224**	
Repayment breakdown between creditors[2]										
Credit Union	€ 30,000	**50%**	€ 2,852	€152	€ 152	€152	€152	€152	€3,612	12%
Credit Card	€ 25,000	**41.66%**	€ 2,377	€127	€ 127	€127	€127	€127	€ 3,012	12%
Overdraft	€ 5,000	**8.33%**	€ 475	€ 25	€ 25	€25	€25	€25	€600	12%
	€ 60,000	**100%**	**€5,704**	**€304**	**€ 304**	**€304**	**€ 304**	**€ 304**	**€7,224**	

For the purposes of this scenario, it is estimated that the PIP fees are €7,200. The PIP fees of €7,200 include a €1,700 upfront payment in year one followed by an annual payment of €1,100 in years two to year six.

As part of developing the PIA proposal, the PIP will seek to agree fees with the creditors. Fees will vary in accordance with the complexity of a case and what is acceptable to the creditors. In proposing the fee amount, the PIP may suggest a staggered drawdown of the fee to reflect the upfront work associated with making an application and a proposal, as well as his/her other statutory duties during the lifetime of the PIA.

[1] The inheritance of €6,000 is included in the Annual Contribution in Year 1 figure : Annual Contribution in Year 1(€1,404) + Inheritance (€6,000) = Total Annual Contribution in Year 1 (€7,404).

[2] For illustrative purposes and ease for the reader, figures shown in the repayments table have been rounded.

7. SHARON'S POSITION AFTER MEETING HER DUTIES AND OBLIGATIONS UNDER THE PIA

a) Principal Private Residence mortgage is now sustainable because:

- Term is extended to lower repayments.
- Unsecured debts are discharged.

b) Sharon will have repaid €7,224 of her unsecured debts at the end of the term of the PIA and the remaining €52,776 is discharged. This represents a 12% return for the unsecured creditors based on amounts outstanding at the date of the issue of the Protective Certificate.

c) Sharon is solvent.

8. COMPARISION WITH BANKRUPTCY

Background

The PIP in consultation with Sharon sets out the assumptions used to calculate the financial outcome for Sharon was she to be adjudicated bankrupt.

Assumptions used by PIP

a) Sharon has confirmed she will leave her PPR in the event of a failed PIA[1].

b) A downward adjustment of 10 %[2] is made to the market value of the PPR to take into account the effect of selling costs, including estate agents fees, legal fees, other related costs, and the fact that the property will be sold by the Bank.

c) The PIP evaluates the rent in the local area by house size (city, large town) and by region (Leinster, Connaught, Munster, Ulster) using DAFT.ie to see average rental costs for the area. Sharon is living in North County Dublin and a monthly rental amount of €1,000 is considered appropriate for her monthly accommodation costs.

d) The difference between the secured liability less the value received from the asset sale will be a new "unsecured debt". In Sharon's case the value of the PPR in bankruptcy is calculated as €117K (€130k minus 10% downward adjustment). Therefore in Bankruptcy the shortfall of €83k is treated as a new "unsecured debt".

e) The Income Payment Order/Agreement is calculated for 48 months in Bankruptcy.

f) The PIP calculates Sharon's Insolvency Service bankruptcy fees on the basis set out in Appendix A at Point 9 below:

Administration Fee	€ 2,000
Realisation Fee	€ 4,877
Distribution Fee	€ 500
Sharon's ISI Bankruptcy Fees	**€ 7,377**

Calculations

The PIP calculates Sharon's monthly income and expenses after adjudication based on the assumptions above. It is assumed that Sharon reaches an income payment agreement with the Official Assignee and there is €101 per month available to the Bankruptcy estate as set out in Table A below. Table B then sets out the comparison between dividends to Sharon's secured and unsecured creditors in both the PIA and Bankruptcy.

[1] Bankruptcy Scenarios (Gerry / Leo/Martin) on the ISI website show examples where a bankrupt can remain in their home through bankruptcy and thereby avoid crystallization of some or all of any negative equity.

[2] This percentage adjustment will, in all likelihood fall, as the underlying asset value rises.

Table A

Sharon's Bankruptcy Monthly Contribution Calculation(IPA)		
Monthly Net Income		**€2,700**
Total Set Costs	(€1,159)	
Childcare Costs	(€440)	
Rent	(€1,000)	
Reasonable living expenses		**(€2,599)**
Monthly Contribution (IPA)		**€101**

Table B

Comparison of PIA/Bankruptcy	**PIA**	**Bankruptcy**	**Assumptions**
Financial Outcome for Secured creditors			
PPR	€200,000	€117,000	(a)(b)
Proceeds for Secured Creditors	€200,000	€117,000	
Total Secured Creditors	€200,000	€200,000	
Dividend (Secured Creditors)	**100%**	**58%**	
Financial Outcome for Unsecured Creditors			
Monthly Contributions			
Bankruptcy IPO (48 mths at €101)		€4,848	(e)
PIA (72 mths at €117)	€8,424		
Proceeds from Inheritance	€6,000	€6,000	
Estimated Total Assets Available	€14,424	€10,848	
ISI Bankruptcy Fees		€7,377	(f)
PIP Fees(including Vat)	€7,200		
Deficit/Total Costs	€7,200	€7,377	
Assets available for unsecured creditors	€7,224	€3,471	
Unsecured Creditors	€60,000	€60,000	
Shortfall from disposal of property	0	€83,000	(d)
Total Unsecured Creditors	€60,000	€143,000	
Dividend (Unsecured Creditors)	**12%**	**2%**	

9. APPENDICES

Appendix A: Basis for Insolvency Service Fees in Bankruptcy

1. Administration Fee:

The administration fee charged to the bankrupt estate will depend on the value of the gross assets declared on the bankrupts Statement of Affairs:

Gross Value of Assets	Administration Fee	Sharon's Administration Fee
< €10m	€2,000	€2,000
€10m to €50m	€4,000	-
€50m to €100m	€6,000	-
€100m to €150m	€8,000	-
€150m +	€10,000	-

NB: The administration fee is only charged once and does not apply to each and every dividend payment. The administration fee can only be charged on bankrupt estates which were adjudicated after 3rd December 2013 i.e. when the relevant statutory instrument was signed.

2. Asset Realisation Fee[1]

Value of Realisation	% Realisation	Basis for Calculation		Sharon's Realisation Fee
Administration Fee Charged	0%	€2,000	X 0%	€0
Next €1500	100%	€1,500	X 100%	€1,500
Next €6,500	50%	€6,500	X 50%	€3,250
Balance up to €1,000,000	15%	€848[2]	X 15%	€127
€1,000,000 +	1%	€0	X 1%	0
		€10,848		**€4,877**

3. Distribution Fee

The distribution fee charged will depend on the number of creditors (to include any preferential creditors) who are receiving cheque payments.

Number of Creditors	Fee	Sharon's Distribution Fee
<10	€500	€500
<20	€1,000	-
20+	€2,000	-

[1] The Realisation Fee is calculated based on a sliding scale as follows: Administration Fee amount @ 0%, the next €1,500 @ 100%, the next €6,500 @ 50% , the balance up to €1m at 15% and the balance thereafter at 1%.

[2] Figure derived as follows: €10,848 - €2,000 - €1,500 - €6,500 = €848 (For illustrative purposes and ease for the reader, figures shown in the table have been rounded).

SCENARIO 10

PIA COMPARISON WITH BANKRUPTCY.

This sample scenario is designed to illustrate the basic features of a PIA and highlight the manner in which a comparison to an alternative outcome for creditors in bankruptcy might be made.

1. EAMON'S STORY

Eamon is a store manager who earns a monthly net income of €2,930. He is married to Audrey who does not work outside of the home in order to take care of their child. They have one child at primary school aged 5. They have a family car, which is required for Eamon's work, and is valued at €4,000. Eamon bought his Principal Private Residence (PPR) ten years ago. It is worth €100,000, but the outstanding mortgage is €300,000. Eamon also has a total of €50,000 in unsecured debt consisting of a personal loan (€25,000) and credit card debts (€25,000). His monthly debt commitments are as follows:

• Mortgage repayment on his PPR of €1,448

• Unsecured debt repayments of €1,500

Eamon has co-operated with his bank under the Central Bank Code of Conduct on Mortgage Arrears in relation to his PPR for the last six months, but has been unable to agree a sustainable repayment solution. Eamon is unable to pay his debts in full as they fall due and acknowledges he is insolvent.

Eamon meets with a Personal Insolvency Practitioner (PIP) and provides full details of his financial circumstances so the PIP can understand his financial position.

2. EAMON'S INSOLVENT POSITION

Assets	Value	Loan
Principal Private Residence	€ 100,000	€ 300,000
Car	€4,000	0
Total	**€ 104,000**	**€ 300,000**
Debts		
Secured debts		
PPR Mortgage		€ 300,000
Unsecured debts		
Credit Union Loan		€ 25,000
Credit Card debt		€25,000
Total		€ 350,000

Monthly Income	
Eamon's Net Income	€ 2,930
Total	**€2,930**
Monthly expenses	
Total Set costs[1]	€ 1,623
Rent/Mortgage[2]	€ 1,448
Childcare Costs[2]	0
Reasonable Living Expenses	**€ 3,071**
Available for unsecured debt service	(€141)
Unsecured debt repayments	(€ 1,500)
Deficit prior to meeting unsecured debt obligations	(€1,641)

3. ELIGIBILITY

Eamon qualifies for a PIA because:

- ✓ Eamon is insolvent – he is unable to pay his debts as they fall due.
- ✓ Eamon has secured debts.
- ✓ Eamon has not incurred 25% or more of his debts in the 6 month period ending on the application date for the Protective Certificate.
- ✓ Eamon has participated in the Mortgage Arrears Resolution Process (process approved by Central Bank) with his PPR mortgage provider for a minimum period of six months in relation to his PPR but has been unable to agree an alternative repayment arrangement.
- ✓ Eamon's total secured debts do not exceed €3 million.

[1] The Personal Insolvency Practitioner references the table in the ISI "Guidelines on a reasonable standard of living and reasonable living expenses", available on the website (www.isi.gov.ie). Two adults €1,420.83 + one primary school child €202.12 = €1,622.95. For illustrative purposes and ease for the reader, the total set costs figure is rounded to €1,623.

[2] The Personal Insolvency Practitioner will assess the reasonableness of mortgage, rent and/or childcare payments in accordance with pages 8 and 9 " Reasonable Living Expenses Background Information ".

4. NEXT STEPS

a) The PIP is satisfied that Eamon meets all the eligibility criteria for a PIA and submits an application to the Insolvency Service of Ireland (ISI) for a Protective Certificate (PC) on his behalf, including a Prescribed Financial Statement (PFS).

b) The ISI and the Court are satisfied with Eamon's application and the Court issues a PC. Eamon's name, address, year of birth and date of issue of the PC will be added to the Public Register of PCs on the ISI website. The PC offers Eamon and his assets protection from legal proceedings by his creditors while he is applying for a PIA.

c) The PIP has 70 days to develop a PIA proposal, get it voted acceptable by the creditors and submitted to the Court for assessment.

d) Eamon agrees to the PIA proposal developed by the PIP (Details of potential PIA solution are set out below in point 5).

e) The PIP provides the necessary documentation to each creditor prior to the creditors' meeting including analysis which demonstrates how the financial outcome for creditors under the terms of the PIA is likely to be better than the estimated financial outcome for such creditors were Eamon adjudicated bankrupt (Analysis set out in point 8 below).

f) Creditors representing 65% or more of Eamon's total debt participating at the creditors' meeting agree to the proposal (i.e. first threshold needed for creditors' approval). This includes creditors representing 50% or more of Eamon's secured debt (i.e. second threshold needed for creditors' approval), and creditors representing 50% or more of Eamon's unsecured debt (i.e. third threshold needed for creditors' approval).

g) The PIP records the creditors' meeting results and sends them to the ISI, Eamon and each of his creditors. No creditor appeals at any point of the process.

h) The ISI and the Court carry out final reviews of Eamon's case and the Court approves the PIA.

i) Eamon's details are placed on a Public Register of Personal Insolvency Arrangements (This includes his name, address, year of birth, and the date of coming into effect of his PIA).

5. POTENTIAL PIA SOLUTION FOR EAMON PROPOSED BY PIP

Eamon's current mortgage repayments are €1,448 per month, which is not sustainable. The PIP assesses whether extending the mortgage term or reducing the interest rate would make the mortgage sustainable.

Due to Eamon's age, it is not possible to extend the mortgage term. The mortgage interest rate already runs on a very low "tracker" rate and leaves no room for downward adjustment. The PIP does not believe a Split Mortgage would be suitable in Eamon's case.

In order for the mortgage to be sustainable, the PIP concludes that it will be necessary to reduce the principal by €100,000. This would reduce Eamon's monthly mortgage payments to €965 per month, and leave a small amount available for Eamon's unsecured creditors.

The shortfall of €100,000 is treated similarly to the unsecured debt in accordance with section 102 (11)[1] of the Personal Insolvency Act.

Amounts forming Eamon's unsecured debts after PIA restructuring

PPR Mortgage (Principal reduction)	€ 100,000
Credit Union Loan	€ 25,000
Credit Card Debt	€ 25,000
	€ 150,000

Eamon's monthly income and expenses after PIA restructuring

Monthly Net Income	**€2,930**
Less:	
Principal Private Residence Mortgage	€965
Childcare Costs	€0
Total set costs	€1,623
Available to Unsecured Creditors	**€342**

Eamon's monthly disposable income, after deducting total set costs, childcare costs and mortgage repayments, is €342 per month. This amount is now available to make payments to his unsecured creditors. This equates to €24,624 over six years.

[1] Where a Personal Insolvency Arrangement includes terms providing for a reduction of the amount of debt (including principal, interest and arrears) secured by the security as of the date of the issue of the protective certificate to a specified amount, the terms of the arrangement shall, unless the relevant secured creditor agrees otherwise, also include a term providing that the amount of such reduction shall: (a) rank equally with, and abate in equal proportion to, the unsecured debts covered by the Arrangement; and (b) be discharged with those unsecured debts on completion of the obligations specified in the Arrangement.

6. REPAYMENTS TABLE

Year			1	2	3	4	5	6	Totals	Return for Creditors
Net monthly income			€ 2,930	€ 2,930	€ 2,930	€ 2,930	€ 2,930	€ 2,930		
Set costs			€ 1,623	€ 1,623	€ 1,623	€ 1,623	€ 1,623	€ 1,623		
Rent/mortgage			€ 965	€ 965	€ 965	€ 965	€ 965	€ 965		
Childcare			€ 0	€ 0	€ 0	€ 0	€ 0	€ 0		
RLE			€ 2,588	€ 2,588	€ 2,588	€ 2,588	€ 2,588	€ 2,588		
Monthly contribution			€ 342	€ 342	€ 342	€342	€342	€342		
Annual contribution			€ 4,104	€ 4,104	€ 4,104	€ 4,104	€4,104	€ 4,104	€ 24,624	
Less PIP's fees			(€2,000)	(€ 1,100)	(€ 1,100)	(€ 1,100)	(€ 1,100)	(€ 1,100)	(€ 7,500)	
Net contribution			**€ 2,104**	**€ 3,004**	**€ 3,004**	**€ 3,004**	**€ 3,004**	**€ 3,004**	**€17,124**	
Repayment breakdown between creditors[1]										
Personal Loan	€ 25,000	**16.66%**	€ 351	€ 501	€ 501	€ 501	€ 501	€ 501	€ 2,854	11%
Credit Card	€ 25,000	**16.66%**	€ 351	€501	€501	€501	€501	€501	€ 2,854	11%
PPR Reduction	€ 100,000	**66.68%**	€ 1,402	€ 2,002	€ 2,002	€ 2,002	€ 2,002	€ 2,002	€11,416	11%
	€150,000	**100%**	**€2,104**	**€ 3,004**	**€ 3,004**	**€ 3,004**	**€ 3,004**	**€ 3,004**	**€ 17,124**	

As part of developing the PIA proposal, the PIP will seek to agree fees with the creditors. Fees will vary in accordance with the complexity of a case and what is acceptable to the creditors. In proposing the fee amount, the PIP may suggest a staggered draw down of the fee to reflect the upfront work associated with making an application and a proposal, as well as his/her other statutory duties during the lifetime of the PIA.

For the purposes of this scenario, it is estimated that the PIP fees are €7,500. The PIP fees of €7,500 include a €2,000 upfront payment in year one followed by an annual payment of €1,100 in years two to year six.

[1] For illustrative purposes and ease for the reader, figures shown in the repayments table have been rounded.

7. EAMON'S POSITION AFTER MEETING HIS DUTIES AND OBLIGATIONS UNDER THE PIA

a) Principal Private Residence mortgage is now sustainable because:
   - Unsecured debts are discharged;
   - A portion of the PPR mortgage principal (€100,000) was reduced during the PIA.

b) Eamon will have repaid €17,124 of his unsecured debts at the end of the term of the PIA and the remaining €132,876 is discharged. This represents an 11% return for the unsecured creditors based on amounts outstanding at the date of the issue of the Protective Certificate.

c) Claw-back provisions may apply to the extent of the principal reduction of €100,000, should Eamon sell his PPR within the next 20 years.

d) Eamon is solvent.

8. COMPARISION WITH BANKRUPTCY

Background

The PIP in consultation with Eamon sets out the assumptions used to calculate the financial outcome for Eamon was he to be adjudicated bankrupt.

Assumptions

a) Eamon has confirmed his intention to leave his PPR in the event of a failed PIA[1].

b) A downward adjustment of €9,500 is made to the market value of the PPR to take into account the effect of selling costs, including estate agents fees, legal fees, other related costs and the fact that the property will be sold by the Bank.

c) The PIP evaluates the rent in the local area by house size (city, large town) and by region (Leinster, Connaught, Munster, Ulster) using DAFT.ie to see average rental costs for the area. Eamon is living in County Sligo and a monthly rental amount of €850 is considered appropriate for his monthly accommodation costs.

d) The difference between the secured liability less the value received from the asset sale will be a new "unsecured debt". In Eamon's case the value of the PPR in bankruptcy is calculated as €90,500 (€100,000 minus €9,500 downward adjustment). Therefore in bankruptcy the shortfall of €209,500 is treated as a new "unsecured debt".

e) The Income Payment Order/Agreement is calculated for 48 months in Bankruptcy.

f) The PIP calculates Eamon's Insolvency Service bankruptcy fees on the basis set out in Appendix A at Point 9 below:

Administration Fee	€ 2,000
Realisation Fee	€ 6,540
Distribution Fee	€ 500
Eamon's ISI Bankruptcy Fees	**€ 9,040**

Calculations

The PIP calculates Eamon's monthly income and expenses after adjudication based on the assumptions above. It is assumed that Eamon reaches an income payment agreement with the Official Assignee and there is €457 per month available to the Bankruptcy estate as set out in Table A below. Table B then sets out the comparison between dividends to Eamon's secured and unsecured creditors in both the PIA and Bankruptcy.

[1] Bankruptcy Scenarios (Gerry/Leo/Martin) on the ISI website show examples where a bankrupt can remain in their home through bankruptcy and thereby avoid the crystallization of some or all of any negative equity.

Table A

Eamon's Bankruptcy Monthly Contribution Calculation(IPA)		
Monthly Net Income		**€2,930**
Total Set Costs	(€1,623)	
Childcare Costs	(€0)	
Rent	(€850)	
Reasonable living expenses		**(€2,473)**
Monthly Contribution (IPA)		**€457**

Table B

Comparison of PIA/Bankruptcy	PIA	Bankruptcy	Assumptions
Financial Outcome for Secured creditors			
PPR	€200,000	€90,500	(a)(b)
Proceeds for Secured Creditor	€200,000	€90,500	
Total Secured Creditors	€300,000	€300,000	
Dividend (Secured Creditors)	**67%**	**30%**	
Financial Outcome for Unsecured Creditors			
Monthly Contributions			
Bankruptcy IPO (48 mths at €457)		€21,936	(e)
PIA (72 mths at €342)	€24,624		
Estimated Total Assets Available	€24,624	€21,936	
ISI Bankruptcy Fees		€9,040	(f)
PIP Fees(including Vat)	€7,500		
Deficit/Total Costs	€7,500	€9,040	
Assets available for unsecured creditors	€17,124	€12,896	
Unsecured Creditors	€50,000	€50,000	
Shortfall from disposal of property	0	€209,500	(d)
PPR Principal Reduction	€100,000		
Total Unsecured Creditors	€150,000	€259,500	
Dividend (Unsecured Creditors)	**11%**	**5%**	

9. APPENDICES

Appendix A: Basis for Insolvency Service Fees in Bankruptcy

1. Administration Fee:

The administration fee charged to the bankrupt estate will depend on the value of the gross assets declared on the bankrupts Statement of Affairs:

Gross Value of Assets	Administration Fee	Eamon's Administration Fee
< €10m	€2,000	€2,000
€10m to €50m	€4,000	-
€50m to €100m	€6,000	-
€100m to €150m	€8,000	-
€150m +	€10,000	-

NB: The administration fee is only charged once and does not apply to each and every dividend payment. The administration fee can only be charged on bankrupt estates which were adjudicated after 3rd December 2013 i.e. when the relevant statutory instrument was signed.

2. Asset Realisation Fee[1]

Value of Realisation	% Realisation	Basis for Calculation		Eamon's Realisation Fee
Administration Fee Charged	0%	€2,000	X 0%	€0
Next €1500	100%	€1,500	X 100%	€1,500
Next €6,500	50%	€6,500	X 50%	€3,250
Balance up to €1,000,000	15%	€11,936[2]	X 15%	€1,790
€1,000,000 +	1%	€0	X 1%	0
		€21,936		**€6,540**

3. Distribution Fee

The distribution fee charged will depend on the number of creditors (to include any preferential creditors) who are receiving cheque payments.

Number of Creditors	Fee	Eamon's Distribution Fee
<10	€500	€500
<20	€1,000	-
20+	€2,000	-

[1] The Realisation Fee is calculated based on a sliding scale as follows: Administration Fee amount @ 0%, the next €1,500 @ 100%, the next €6,500 @ 50% , the balance up to €1m at 15% and the balance thereafter at 1%.

[2] Figure derived as follows: €21,936 - €2,000 - €1,500 - €6,500 = €11,936 (For illustrative purposes and ease for the reader, figures shown in the table have been rounded).