

Getting Control of Debt



**How much debt does the
average Canadian have?**

September 11, 2015

huffingtonpost.ca/2015/04/29/canadians-debt-over-a-decade_n_7172092.html

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The amount owed by indebted Canadians grew by 64 per cent to \$60,100 in just over a decade, according to a new Statistics Canada study.

VIDEO | Canada's skyrocketing household debt

Today, the debt-to-income ratio is 165 per cent. But that's not the whole story.

CBC News Posted: Sep 13, 2015 2:03 PM ET | Last Updated: Sep 13, 2015 2:12 PM ET

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Canada's sky-rocketing household debt 1:54

Click here to see video (2 minutes):

<http://www.cbc.ca/news/politics/canada-election-2015-skyrocketing-household-debt-1.3226359>

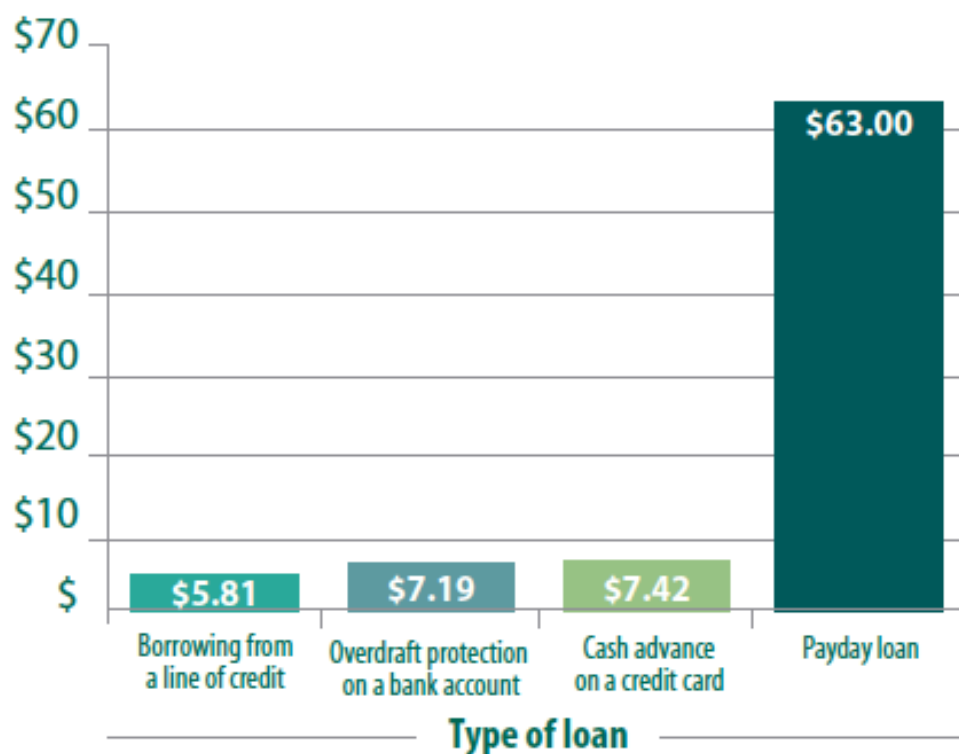
Danger! Payday Loans

Some people use “payday loans” to cover costs until they can earn another paycheck. These are short-term, high-interest loans.

But payday loans usually make a person’s debt grow, not lessen.

Payday loan cost vs. other ways of borrowing

Based on a \$300 loan taken for 14 days



The costs shown in this example are for illustration purposes only. Calculations of costs are based on the following assumptions:

- a payday loan costs \$21 per \$100
- a line of credit includes a \$5 administration fee plus 7% annual interest on the borrowed amount
- overdraft protection includes a \$5 fee plus 19% annual interest on the borrowed amount
- a cash advance on a credit card includes a \$5 fee plus 21% annual interest on the borrowed amount.

Some alternatives to payday loans

Line of credit — This is a loan offered by a financial institution that allows you to withdraw cash whenever you want, up to a certain credit limit. You are charged interest on the amount until you pay it back in full.

Overdraft protection — This allows you to withdraw money from your bank account even if your balance is zero. You pay interest on the money you've taken out from the day you take it until you pay it back in full.

Cash advance on a credit card — When you get cash from an automated bank machine (ABM) or bank using your credit card, this is a cash advance. There is no interest-free period on this type of loan, but the rates are still much lower than payday loans.

Contact your financial institution before taking out a payday loan to see if you are eligible for any of these other forms of credit.

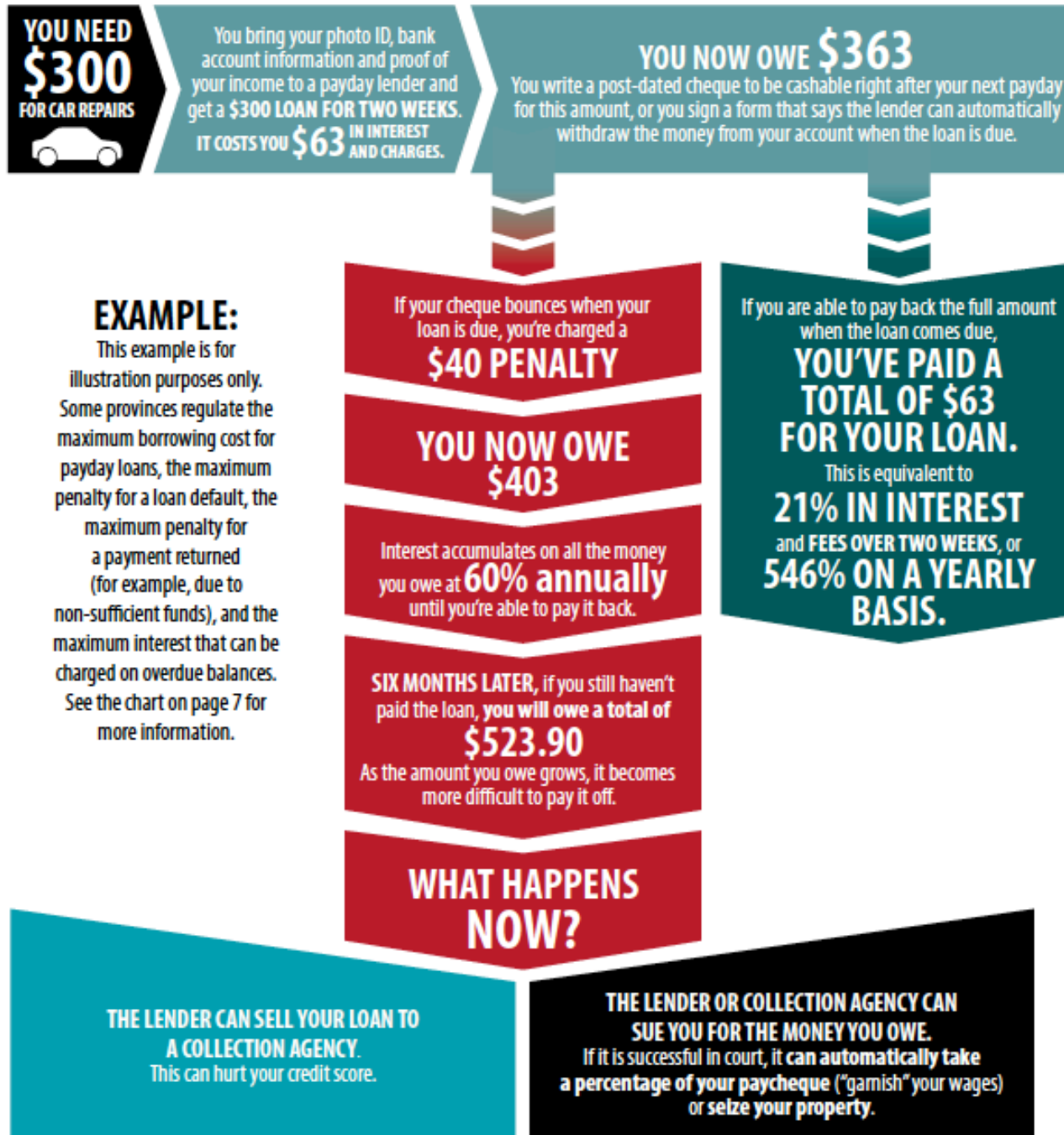
Also credit cards: similar to a line of credit, except that (generally) they have higher interest rates, higher fees and penalties, and you owe interest on the entire amount charged even if you pay some of it off.

WHAT HAPPENS IF I CAN'T PAY A PAYDAY LOAN BACK ON TIME?

If you are unable to pay your loan back on time, you may be charged additional fees:

- A payday lender may charge you a **penalty** if your cheque or pre-authorized debit is returned to them (for example, due to non-sufficient funds). Some provinces have set limits on how high this fee can be, ranging from \$20 to \$50. In provinces and territories where this fee is not regulated, it may be much higher.
- Your financial institution may charge you **an additional fee** if there wasn't enough money in your account when the payday lender tried to cash your cheque or make a withdrawal from your account.
- **Interest** will continue to accumulate on the total amount you owe.

CONSIDER THIS EXAMPLE:





Many Canadians will face a financial crisis at some time.

Many debt problems are easy to solve, but others need professional assistance.

The best way to deal with your financial problems is to get control before they get out of hand.

Recognize the Danger Signs

You have a debt problem, or are going to have one, if you:

- Often go over your spending limit or use credit cards as a necessity rather than a convenience.
- Often borrow money to make it from one paycheque to the next.
- Have your wages garnished (partially held back) to pay for outstanding debts.
- Pay only interest or service charges and not the full principal.
- Have creditors pressuring you for payment, threatening to sue or repossess your property, or hiring a collection agency to recover the money for them.
- Have utility companies cut off service because your bills have gone unpaid.

5 Possible Solutions

1. Contact your creditor: Explain why you can't make your payments and suggest making lower payments over a longer period of time. Many creditors are willing to accept such arrangements.



2. Credit counselling services are available. If you have difficulty making a budget and sticking to it, counselling may help you.





3. Debt consolidation loan: You may be able to combine or “consolidate” your debts into one loan. In this case, the creditor will pay off your debts and, in return, you make the monthly payments to that one creditor.

4. Most importantly, make a budget and stick to it. Include in your budget only your absolute necessities as well as a plan for paying back your debt.

4. Bankruptcy: If nothing else solves your debt problem, you may choose to consider bankruptcy. It is a last alternative if you cannot meet your financial responsibilities through affordable payments over a specific period of time.

Bankruptcy is a legal process. Because of your inability to pay off your debts, you assign all of your assets, except those exempt by law, to a trustee.



This process relieves you of most debts, and legal proceedings against you by creditors should stop.

However, this will make it harder to borrow money in the future.

Not all debts can be forgiven through bankruptcy. Here is a list of different types of debt that will survive a bankruptcy:

- Student loans that are less than 7 years old
- Government overpayments, e.g. if you were paid too much in EI benefits, you will still need to repay the surplus
- Child support payments or arrears
- Spousal support / alimony payments or arrears
- Court-ordered fines and restitution payments
- Debts resulting from fraudulent activities

Insolvency Statistics in Canada—2014 (Table 2)

Table 2: Insolvencies Filed by Consumers

	Volume			2014	
	2014	2013	% Change	Assets Declared at the Time of Filing (\$)	Liabilities Declared at the Time of Filing (\$)
British Columbia	11,383	11,802	-3.6	1,318,196,621	1,926,281,148
Bankruptcies	6,345	7,130	-11.0	559,706,328	1,135,856,681

In 2014, **7130** British Columbians declared personal bankruptcy. Their combined assets totaled \$559,706,328 but their combined liabilities totaled \$1,135,856,681, for a combined debt of \$576,150,353 or an average of almost **\$81,000 per person**.

How to Avoid Debt

Spend less money than you earn.

Make a budget, stick to it, and revise when necessary.

Activity

1. Based on the information below, how much spending money can April count on having every month?

Usual monthly job income: \$1672-1824

Paycheque deductions: 20% of gross income

Emergency fund: 10% of gross income

Rent & utility bills: \$600

Car insurance & gas: \$140-170

Food & entertainment: \$100-200

Household expenses: \$50-100

2. What might her spending money need to go towards that is not listed here? (e.g. work clothes) List at least 10 things.