MONEY PROBLEMS
MONEY SOLUTIONS

CONSUMER PROPOSALS: AN INSIDER'S GUIDE

What you need to know *before* you file a consumer proposal

A Guide for Canadians

MONEYPROBLEMS.CA

An Insider's Guide to Consumer Proposals

More information can be found at www.moneyproblems.ca

Table of Contents

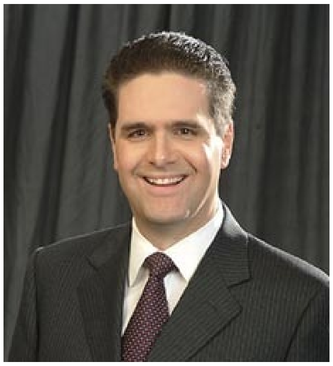
Chapter 1

1. Who Can You Trust?

Is there anyone who will give you un-biased information about consumer proposals?

You are constantly bombarded with ads on the radio and television for debt consultants and debt settlement companies that promise to settle your debt for cents on the dollar. It sounds great, but can you trust them?

The best way to decide who you can trust is to do the research yourself, and make a decision. That's why we wrote this book.



Blair Mantin, CMC, CIRP

Barton Goth, MBA,CRIP

Douglas Hoyes, CA, CIRP

Blair Mantin of Sands & Associates Inc. in British Columbia, Barton Goth of Goth & Company Inc. in Edmonton, and Douglas Hoyes of Hoyes, Michalos & Associates Inc. in Ontario have helped over 20,000 Canadians over the last decade file a consumer proposal, and they can help you too.

This book contains their collected wisdom and insider tips on how to file a consumer proposal.

Do your research, and decide if a consumer proposal is the right solution for you.

Chapter
2

2. Crunch the Numbers

To find out if a consumer proposal is right for you, you need to crunch the numbers.

A consumer proposal typically involves making a payment to your creditors each month to eliminate your debts. That raises the most critical question in deciding if a consumer proposal is right for you: what can you afford to pay each month?

If you only have $20 each month to service your debts, a consumer proposal is **not** the right option for you. You need to dramatically cut your expenses, or increase your income, before you decide on your next step.

How much do you have each month? You need to take stock, and make a budget.

WARNING: These next two steps will take an hour of your time, but they are well worth it, because it you don't do these two steps, you can't solve your money problems on your own.

Taking Stock

Taking stock is quite simple. Get yourself a file folder, or a bulletin board, or just use the kitchen table.

Then, find the most recent statement from everyone you owe. That means all of your credit card statements, bank loans, car loans, mortgages, and even family loans.

You want to make a list of everyone you owe money to, because if you don't make a list, you won't know how much you actually owe.

On the next page we have included a debt worksheet. List everyone you owe. List the type of debt, the interest rate you are paying, and the amount you owe.

Be honest. Include everyone, no matter how small. There is no point in deceiving yourself. Even if it's a small amount, or a debt to a family member, or a "don't pay for a year" debt from a furniture store, include it.

It's easy to remember debts like bank loans and credit cards, because you pay them each month, and you get a statement from them every month.

It's easy to forget other debts, like income taxes, because you don't get a statement from them each month. If you owe taxes for last year, or if you think you will owe taxes for this year, be sure to include them on your debt worksheet.

Debt Worksheet

Name of Creditor	Type of Debt	Interest Rate	Amount Owing
Bank credit card	Credit card	17.9%	$4,321
TOTAL			$

Are you shocked by the amount of money you owe?

Most people with money problems have no idea how much they owe, so completing the Debt Worksheet is an eye opener.

Now, for step two.

Making a Budget

Now that you know who you owe money to, the next step is to figure out how much you can pay each month, and the way to do that is by making a budget.

Many people believe the "B" word is scary. They have never made a budget before, but don't worry, it's actually fairly simple. A budget is simply a list of everything you spend money on each month.

WHAT IS A PERSONAL BUDGET?

Essentially, a budget is a projection of how you are going to spend your money. Budgets are usually based on monthly income and expenses. Some people track weekly, some daily, but unfortunately, most of us simply do not budget at all. A budget works when at the end of the month, we have spent only the amount of money that we have earned, or better yet, when there is an amount of money left over. So, how do you create a personal budget?

CREATE A PERSONAL BUDGET

Creating your personal budget and sticking to it can help you pay back your debt. It is also a great way to see your whole financial picture to get an understanding about what you are spending money on and how much money you need every month in order to stay afloat.

Step 1: List your fixed expenses

The first step is to list every monthly expense that is unavoidable, or fixed expenses that we experience – that is, even if you had no money coming in, the expense would still be incurred. Examples include rent or mortgage payments, gasoline to get to and from work, and utility payments. Do not include groceries because, even though we have to buy groceries, we have some control over how much we spend. This is not true of our rent or mortgage.

Step 2: Subtract your monthly fixed expenses from your monthly income

Next, subtract the unavoidable expenses from your total regular monthly income. It is important to make sure that you are making your calculations using your base income only – it is not a good practice to include overtime or extra income that you may earn by doing odd jobs for example. Why? It's pretty simple – your budget then becomes dependent on your having to do odd jobs and work overtime to make your budget work. What happens then if there is no overtime to work, or no odd jobs to do? You guessed it – your budget won't work, and you'll end up in the red at the end of the month.

Step 3: Budget money for your other expenses

Subtracting your fixed expenses from your "real" monthly income leaves you with the amount of money that is remaining to pay for all of the expenses over which you have some degree of control. Examples include groceries, snacks, restaurants and clothing. With the leftover money from you fixed expenses, budget money for each of these expenses, estimating how much you need to spend, while keeping in mind what you can afford to spend.

Now that you know what a budget is, it's time to put your knowledge into action.

On the next page is a sample budget.

Start by filling it out, based on what you spent **last month**. Some items will be easy, since your rent or car payment probably are the same each month.

Other items may be more difficult if you haven't kept track in the past. If you pay for groceries with a debit card or credit card, go back to your bank statement or credit card statement for last month to see what you paid.

If you haven't kept track, you will simply have to estimate as best as you can.

Family Monthly Income & Expenses Statement

INCOME

	Applicant	Spouse	Total
Employment	$	$	$
Pension	$	$	$
Support Received	$	$	$
EI	$	$	$
Welfare/Social Assistance	$	$	$
Self Employed Income	$	$	$
Baby Bonus/CTC	$	$	$
Other Income	$	$	$
Total	$	$	$

EXPENSES

Support, Child Care, Medical and Other Expenses

Child Support	$	$	$
Spousal Support	$	$	$
Child Care	$	$	$
Medical	$	$	$
Court Imposed Fines	$	$	$
Employment Expenses	$	$	$
Total	$	$	$

Living Expenses

Rent/Mortgage	$	Food / Groceries	$
Property Taxes	$	Laundry/Dry Cleaning	$
Heat/Gas	$	Grooming / Toiletries	$
Telephone	$	Clothing	$
Cable	$	Total	$
Hydro	$		
Cell Phone	$	Car Lease / Loan	$
Internet	$	Repairs / Gas / Maintenance	$
Total	$	Public Transportation	$
		Total	$
Smoking	$		
Alcohol	$	Vehicle Insurance	$
Restaurants	$	House Insurance	$
Entertainment	$	Furniture / Contents	$
Gifts/Donations	$	Life Insurance	$
Allowances	$	Total	$
Total	$		
		Other (specify)________________	$
Prescriptions	$	Other (specify)________________	$
Dental	$	Other (specify)________________	$
Total	$	Other (specify)________________	$
		Total	$
		Total All Expenses	$
		Net Monthly Family Income	$

Now that you have a budget, let's put these numbers to use:

Step 4: Figure out how much money you can afford to apply to your debt

If you have money left over at the end of the month, use that money to make extra payments on your debts to pay them off faster.

If you don't have money left over, it's time to take out the scissors and start cutting.

Review every item on your budget on the previous page and ask yourself this question: "Can I cut it?" Do you really need the fancy cable TV package, or can you get by with basic cable? Do you and your family really need to eat out three nights a week, or can you save money by preparing more meals at home? Do you need to go to the coffee shop every day, or can you make your own coffee?

It's time to make some hard choices, but if you want to deal with your debt on your own, you need to make some cuts.

The more you can cut, the faster you can get out of debt.

Step 5: Sticking to your budget

Cutting expenses is great. Using the savings to repay your debt faster is even better. But it will only work if you can stick to it.

A personal budget is essentially a plan of how you are going to spend your money each month. The only way the plan will work, however, is to stick to it, which is a tough thing to do for a lot of us.

Why is a budget hard to stick to?

Well, the answer is pretty simple: we want more than we can afford. This is the reason why many of us end up carrying balances on our credit cards. If we "want more" too often, the minimum payments can exceed our budgets, and soon we end up struggling to make our payments.

So, the trick is to ensure that we try our best to live within our budgets.

This is where you need help from your spouse and other family members. You all have to be "on the same page", because if one of you is trying to save and the other is trying to spend, you simply won't be able to cut your expenses enough to pay off your debts on your own.

It takes work, but you can do it. For more information and inspiration, read our Biggest Budget Mistake report on the next page.

The Biggest Budget Mistake

Some budgets work and some don't. Why is that? Most often it is because the budget did not take into account all of the expenses that you are likely to incur. If your budget is not working, take a look at the expenses you are including – are there any others that you may have forgotten?

For example, Jane went to talk to a credit counsellor about her budget, to find out why it wasn't working. She had followed the steps above and made a personal budget, but she was finding she was coming up short each month, and was making up for it by using her credit cards.

After reviewing her budget, the credit counsellor and Jane found the problem: She had failed to plan for the following expenses:

Birthday/Christmas gifts	$50/month ($600/year)
Dental expenses	$10/month ($120/year)
Prescription expenses	$10/month ($120/year)
Oil changes, license, and plate expenses	$20/month ($240/year)
Daily coffee trip	$40/month ($10/week)
Total amount not accounted for:	**$130/month ($1560/year)**

As you can see, forgetting to include expenses causes your budget to fail.

Jane had made an honest mistake, as she had recently separated from her husband, who used to cover most of these expenses with his benefits package from work, and by giving her extra money when she needed it.

Now Jane is a wizard at budgeting and her family comes to her for advice! You too can make a successful budget – don't forget to include every expense, even if they don't seem important. Even a daily cup of coffee can add up over time and throw your budget off.

So what's the secret for avoiding the biggest budgeting mistake?

Include everything in your budget, even items like Christmas and birthday presents that only happen once a year!

Chapter
3

3. What is a consumer proposal?

A consumer proposal is a legally binding settlement to eliminate your unsecured debts.

A consumer proposal is an offer to repay part of what you owe. It is called a proposal because you are "proposing" a deal to your creditors. Your creditors have to agree to your proposal in order for it to be accepted.

A consumer proposal is a legal procedure, governed by federal law, so there are specific rules that must be followed to ensure that both the person that is filing the consumer proposal and their creditors are treated fairly.

Don't be surprised if you've never heard of consumer proposals before. During the late 1990's and the early 2000's, for every 7 bankruptcies that awere re filed in Canada, only 1 consumer proposal was filed, but those numbers are changing. In 2012, in provinces like Ontario, there will be approximately the same number of consumer proposals and personal bankruptcies filed.

More people are becoming aware of this option and deciding that it makes sense for them. It is unlikely the day will come when people no longer file personal bankruptcy, but consumer proposals provide a useful alternative to many people experiencing financial difficulties.

How do I file a consumer proposal?

There are many steps involved in the filing of a consumer proposal. They are included in this book for your reference and are discussed in detail. The steps are:

Assessing your financial situation

Determining your eligibility

Preparing the documents you need to file

Deciding the terms of your proposal

Mailing your proposal and waiting for the answer

Living with your consumer proposal

Finishing your proposal: Now what?

We have also included a bonus section, *Consumer Proposals and Your Credit*, so please read on.

Chapter

4

4. Step #1: Assessing your Financial Situation

Before you decide to file a consumer proposal, determine if you have any other options.

In order to file a consumer proposal you need to see a licensed trustee in bankruptcy, who will act in the role of **consumer proposal administrator**, who will complete what is called an assessment. The purpose of the assessment is to review your situation to determine if filing a consumer proposal is right for you.

Your proposal administrator will ask you to provide information about the people you owe (your liabilities), the things that you own (your assets), your family situation, your household income, and your household expenses (your budget). That's why we had you **crunch the** numbers in the last chapter. Depending on your answers, your proposal administrator may review a number of different options with you before allowing you to proceed with a consumer proposal.

Your proposal administrator will want to discuss your situation, and your options:

- Changes to your spending and payment patterns – maybe you can find your own way out of trouble
- A debt consolidation loan
- Debt settlement
- Credit counselling
- Consumer proposals
- Personal bankruptcy

It is only after you have considered each of these alternatives that you can make an informed decision that a consumer proposal is the right choice for you.

Chapter 6

You should review your options to decide what's best for you. For example:

One of the advantages of a debt consolidation loan is that you may be able to negotiate a lower interest rate than the rate you are paying on your credit cards, so the loan should reduce your interest payments and help you eliminate your debt faster, since a greater portion of your payment is going to principal, and less to interest.

With the lower interest rates and/or extended terms a debt consolidation and refinance loan may offer, you may be able to reduce your total monthly payments. If you qualify for a debt consolidation loan, that might be an option for you.

A **debt settlement** is another option. If you have a lump sum of money, and if your debts are old, you may be able to negotiate a lump sum payment to eliminate your debts.

Credit counseling, also called a debt management plan, is also an option. You are required to pay your debts in full, often at reduced or zero interest rates, to eliminate your debts. Debt management plans are prepared by a not for profit credit counselor.

If you can't afford to repay your debts in full, a consumer proposal may be the option for you.

Chapter

5

5. Step #2: Determining your eligibility to file a consumer proposal

Not everyone is eligible to file a consumer proposal

If you've decided that filing a consumer proposal is the right solution for you, you must determine whether or not you are eligible to file a consumer proposal. We mentioned at the beginning this ebook that a person must be insolvent in order for them to file a consumer proposal, but there is actually more to it than that.

In order to be eligible to file a consumer proposal you:

- Must be a person (businesses may not file consumer proposals)
- Must be insolvent
- Must have total debts (excluding the mortgage on your principle residence) of less than $250,000 (or $500,000 if you are a married or common-law couple filing for your joint debts).

In addition, if you have previously filed either a Notice of Intention or a Proposal to Creditors under Division 1 of the *Bankruptcy & Insolvency Act* you may not file a consumer proposal until the trustee that was handling your previous filing has been discharged

And finally, if you have previously filed a consumer proposal and it was annulled or deemed to be annulled, you may not file another consumer proposal until all of the claims filed in your prior proposal have been paid in full or extinguished by operation of Section 178 of the *Bankruptcy and Insolvency Act*.

It is possible for more than one person to file a consumer proposal together – this is called a joint filing. In order to file a proposal together all of the debts from all the individuals must be substantially the same, such as joint credit cards.

When two people file together, a husband and wife for example, the total debts must be less than $500,000 (excluding the mortgage on their principle residence) instead of the $250,000 limit for a single person.

If you have been deemed eligible to file a consumer proposal, either alone or together with someone, you and your proposal administrator will begin to put together all the documentation needed to file.

Chapter

6

6. Step #3: Preparing the documents you need to file

Consumer proposals are done by licensed trustees, so in most cases this is a solution you will hear about from a trustee.

THe assessment is done and you have decided to file a consumer proposal in order to obtain relief from your financial difficulties. Your proposal administrator has requested, and you have provided them with, information about your liabilities, your assets, and your budget. With this information your proposal administrator will prepare all of the documents you will need in order to file a consumer proposal.

Some of these documents are:

- The Statement of Affairs
- A Statement of Income and Expense
- The Assessment Certificate
- Payment terms and conditions
- Consumer Proposal

Each of these forms and any others that your trustee may ask you to sign serve a specific purpose. Some are required by law and are designed to provide your creditors with enough information about your situation to enable them to decide whether or not to agree to your consumer proposal. Others are used by your trustee to ensure that all of your duties and responsibilities during the proposal have been clearly explained to you.

When you file a consumer proposal you are commencing a legal procedure and it is important that you read carefully and understand all of the documents that your trustee asks you to sign.

Filing a consumer proposal is supposed to help you solve your financial problems – if you don't fully understand what you are signing please take the time to ask questions.

Generally speaking, only the people that don't understand the procedure run into trouble during this process.

Deciding the terms of your proposal

So, you've reviewed your situation with a proposal administrator (step one), you've determined that you are eligible to file (step two), and you've provided your trustee with all of the information to prepare the paperwork required to file (step three). That's great, but how do you figure out what portion of your debt to offer your creditors in your consumer proposal?

Consumer proposals – a creative solution

Consumer proposals can have different terms to suit your needs, but there are a few basic rules that must be followed, regardless of the proposal you make. These include:

You must offer your creditors more money, or a greater benefit, than they would receive if you went bankrupt. This makes sense – why would your creditors accept your deal if it is for less money than a bankruptcy?

You must be able to make the payments you are proposing. Again, this is pretty straightforward – there is no point in offering your creditors a payment plan you know you can't maintain (i.e. if you offer $500 a month, but can only afford $400 a month, your proposal will fail).

The good news is that your trustee will work with you to ensure that these rules are kept – it's part of the service trustees provide when you file a consumer proposal.

The bad news is that just because you've kept these rules, it doesn't mean your creditors will accept your consumer proposal. Each creditor has their own set of rules for accepting (or rejecting) a consumer proposal. Trustees that handle a large number of proposals will have a good idea of what those rules are – your trustee should be able to warn you if any of your creditors require unusual terms or if your trustee thinks a particular creditor (or creditors) may ask you for more than you have offered.

What kinds of terms can I propose?

A consumer proposal is a plan to pay back a portion of your debts over a set amount of time. There are three different ways the payments can be made, and therefore three different proposals you can offer you creditors:

1. **Monthly payments made over a course of no more than 5 years or 60 months.** If you proposed to pay back $60,000, you could do it in monthly installments of $1,000 over a five year period.

2. **A lump sum payment.** If you proposed to pay back $60,000, you could do it in one lump sum payment and your proposal would be over.

3. **A combination of both a lump sum payment with monthly payments to cover the rest.** If you proposed to pay back $60,000, you could do it with a one-time lump sum payment, and paying off the rest over a period of time in monthly installments.

No matter how you design your proposal, it is still up to your creditors to accept your consumer proposal. That being said, your trustee will assist you to draft a consumer proposal that your trustee believes is likely to be accepted. If you proposed a deal that wouldn't be accepted, it would be a waste of everyone's time and resources.

Filing your proposal and waiting for an answer

Once your proposal administrator has assembled all of the documents required to file your consumer proposal, your consumer proposal administrator will electronically file the forms with the Office of the Superintendent of Bankruptcy, and then mail, fax or electronically send the paperwork to all of the creditors that appear on your list of liabilities. Your proposal administrator has five business days from the time that your consumer proposal is filed with the Official Receiver to send this mailing out.

The purpose of the mailing is to make all of your creditors aware of your consumer proposal. Your creditors have 45 days from the date that your proposal was filed with the Office of the Superintendent of Bankruptcy to vote on your proposal.

Your creditors may do one of the following:

- Vote for the acceptance of your proposal
- Vote to reject your consumer proposal
- Vote to accept your consumer proposal if you agree to alternate terms which they will provide
- Submit a claim, but not bother to vote for or against your consumer proposal
- They may choose to do nothing at all, not even submit a proof of claim

Your proposal administrator is allowed to contact your creditors to remind them to submit a proof of claim and to ask them to vote, but your trustee may not solicit votes on your behalf.

At the end of the 45 day period if a majority of the votes received are for the acceptance of your consumer proposal it may go forward.

If 25% or more of the votes received (by dollar value) have voted to reject or to alter the terms of your proposal, and they have requested a creditor's meeting, your trustee is required to schedule something called the First Meeting of Creditors. The purpose of this meeting is to see if an agreement can be reached with a majority of your creditors that have voted on your consumer proposal.

At this point, your consumer proposal can only go one of two ways – either it is accepted by your creditors (which is what happens in most of the proposals that are filed) or it will be rejected by your creditors and it ends right there.

In the vast majority of cases if you have offered a reasonably proposal, that's more than the creditors would get if you filed bankruptcy, and if you can afford the monthly payments, your proposal will be accepted.

Chapter

7

7. Living with your consumer proposal

My proposal is accepted. Great! Now what?

Congratulations – your proposal has been accepted by your creditors. You should be well on your way to resolving your financial problems.

One of the reasons that people choose consumer proposals is to make their debt repayment more manageable. In the majority of the consumer proposals that are filed, individuals opt to make a regular monthly payment towards their debt.

What happens if you can't make a payment? The law states that you can miss a maximum of two months payments with no consequences. If you miss a third payment, though, on the day that your third payment is due, you proposal will be deemed annulled. In other words, miss three payments and your proposal will be automatically cancelled.

Before this happens to you, essentially after you have missed two payments, you should meet with your trustee to review your options. Obviously, something is not right – the payments you originally agreed to aren't working for you.

Your options at this point include:

- Leave the proposal as is and make sure you don't miss any future payments
- Make changes to your proposal terms (called an Amendment)
- Deliberately miss a third payment to cause your proposal to be automatically annulled
- File an assignment in bankruptcy

The option that you pick will depend on what has happened to cause you to miss two payments. If it is something minor, like an unexpected car repair, then perhaps you can work out a plan with your trustee to make up the missed payments over the next 6 months or a year. If it is something more serious, like a lay-off, then an amendment might be required. If it's something catastrophic, like the plant where you work is moving to China, you may have to consider bankruptcy.

A consumer proposal is a binding contract, but if you find that you can't keep up the payments and that your situation has changed, you may need to sit down with your trustee to assess whether or not your solution needs to change too.

YOUR PROPOSAL IS FINISHED: NOW WHAT?

Well, it may have taken a while to get here, but you've made your last payment and now your proposal is complete. That's great news.

Your proposal administrator is going to send you a Certificate of Full Performance – that's your proof that you satisfied all of the terms of your consumer proposal. You will also receive, although perhaps not right away, a Statement of Receipts and Disbursements, a Notice of Taxation of the Administrator's Accounts, and the Discharge of the Administrator. These are the final documents that your trustee will send to you when they close your consumer proposal.

These final documents are sent to you, your creditors, and the Office of the Superintendent of Bankruptcy. It is this government agency that actually notifies the credit bureaus, not your trustee. All of this takes time – sometimes a couple of months – depending on the back log in the system.

From this point forward, you may begin to rebuild your credit.

Whatever the original causes of your financial problem, you have now them behind you and dealt with the debt. Hopefully, you've come through this a little wiser, a little more financially aware, and therefore better able to deal with your finances in the future.

Remember how you felt when you started? Hopefully you'll never have to feel that way again. If you recognize the same warning signs in your family or friends you might want to share your newfound wisdom and get them pointed in the right direction.

Congratulations on your fresh start!

Credit Counselling in Consumer Proposals

To help you get a fresh start, all consumer proposals include two sessions with a qualified credit counsellor.

These sessions, which are usually conducted one-on-one, are designed to help you with budgeting, understanding the causes of your problems, and getting back on track once the proposal is finished.

Chapter

8

8. Bonus Chapter: What Happens to My Credit Report if I File a Consumer Proposal?

When do I get my credit back?

If you have filed for a consumer proposal or are considering a consumer proposal, you are probably concerned about the effect it will have on your credit report and your borrowing power. Will you be able to buy a car, a house, get a credit card, or a loan? The answer is yes, you will, but there are some steps you need to take to make it happen.

When you file a consumer proposal, a note goes on your credit report stating that you filed a consumer proposal. Your credit report is a document that contains all of your credit history, including any action you decide to take with your debt. This can include things like debt management plans, bankruptcies, and of course, consumer proposals. This note will stay on your credit report for three years after the payments you have agreed to in the consumer proposal are finished.

For example, if you had agreed to a five year plan to repay your debts, the note would be removed from your credit report after eight years.

So, why is a consumer proposal better than a bankruptcy, where the note stays on your credit report for only six years after you are discharged? Consumer proposals are more flexible. You might be able to pay your consumer proposal off in two years, so the note on your credit report only remains for five years.

Consumer proposals also allow you pay faster what is stipulated in the proposal. Even if you had agreed on a five-year payment plan, you could shorten it by making extra payments, thereby getting the note removed from your credit report that much faster.

ANOTHER ADVANTAGE OF PROPOSALS

Perfect credit is reported as an R1. A bankruptcy is an R9. A consumer proposal is an R7, so it is slightly better on your credit report than a bankruptcy.

Once the note is removed from your credit report, borrowing money will be easier. Remember, though, that borrowing is not impossible with a note on your credit history.

Things such as whether or not you're paying your bills on time, how much of a down payment you have saved, and if you have a co-signer are also considered when you apply for a loan.

SO HOW CAN I REPAIR MY CREDIT AFTER A CONSUMER PROPOSAL?

There are three key steps to take to repair your credit.

1 **Pay all of your bills on time**. It's very important than you pay your rent, hydro, gas, telephone, cellular telephone and cable bill on time during and after your consumer proposal. If you have late payments for regular monthly bills, it is highly unlikely that anyone will lend you additional money. Prove that you can handle your normal monthly payments as a first step to rebuilding your credit.

2 **Save money**. This is critical. The best way to prove that you are responsible with your money is to show that you can save money. Start by putting a set amount each payday into a savings account, or a Tax Free Savings Account, or an RRSP. How you save will depend on what you plan to do with your money.

For example, if your goal is to finance a replacement car, it will be more difficult for you to borrow than it would be for someone with perfect credit. However, if, when you go to the car dealership, you have already saved up a down payment or security deposit of $3,000, your chances of getting the loan are much higher.

3 Get a secured credit card to start rebuilding your credit. There are many credit card companies that will give you a secured credit card. You can follow this link for more information: http://www.moneyproblems.ca/debt-solutions-blog/secured-visa-card-repair-your-credit/

Here's how it works: You save $1,000 (see step #2 above) and give the credit card company a $1,000 security deposit. They then give you a Visa card with a $1,000 limit.

This is **not** a prepaid credit card. It's a real credit card. You can use it anywhere, and you are required to make payments on it each month. (Obviously the smart move is to pay it in full each month). Because it's a real credit card, it shows up on your credit report, and helps you begin to repair your credit.

It's actually possible to get this credit card once your proposal is accepted by your creditors, although our advice is to wait until your consumer proposal is nearing completion before applying.

Chapter

9

9. Why Should I File a Consumer Proposal Instead of Filing Bankruptcy?

If I have too much debt, isn't bankruptcy better?

Excellent question. We have reviewed how a consumer proposal works, but isn't it true that in some cases bankruptcy is a better option? Yes, that's true. In some cases there are better options for you than a consumer proposal. A consumer proposal is only the correct solution in specific circumstances. There are two key circumstances where a consumer proposal is better than bankruptcy.

1. YOU'VE GOT ASSETS

If you own something that will be seized in a bankruptcy, a consumer proposal may be a better option. Do you have any of these assets?

- ✓ A house with equity? In many provinces if your house is worth more than what is owing on your mortgage, you are required to pay the trustee in your bankruptcy the value of the equity, or you must surrender your house. Contact a trustee to determine the specific rules in your province.

- ✓ A car or truck? Each province has different rules, but in most provinces you are permitted to keep a motor vehicle worth up to a certain amount. Above that amount you must surrender the vehicle, or pay the trustee the non-exempt amount. For example, in Ontario, you are permitted to keep one motor vehicle worth up to $5,650. If your car is appraised at $7,650, you must pay the trustee $2,000 (to be distributed to your creditors) if you want to keep your car if you go bankrupt.

- ✓ An RRRSP? In a bankruptcy you lose all contributions you have made to your RRSP in the 12 months before filing bankruptcy.

- ✓ An RESP? You lose the value of any RESPs in a bankruptcy.

- ✓ A tax refund? You automatically lose your tax refund for the year of bankruptcy, and any tax refunds for any prior years that you have not yet received.

Chapter 9

In a consumer proposal you don't lose any assets. You can keep your tax refund, RRSP, RESP, car, or house (provided you continue to pay the mortgage or car loan if you have a loan or mortgage).

So, if you have assets worth $10,000 that you don't want to lose, it may be prudent to file a consumer proposal. You could offer your creditors $12,000, say $200 per month for 60 months, and they might accept that, because that's more than the $10,000 they would get in a bankruptcy.

2. YOU'VE GOT SURPLUS INCOME

It's beyond the scope of this book to explain surplus income in detail, but here's a quick explanation: In a bankruptcy, the more you make, the more you pay.

Each month of your bankruptcy you are required to send copies of your paystubs and proof of other income to your trustee. If your income is over the limit, you pay more, and your bankruptcy is extended for an additional year.

So, if you work at a job where you get overtime, or a bonus, or you are already over the limit, a bankruptcy may be very costly, so a consumer proposal may be a good option.

3. JOB ISSUES

There are certain jobs where a bankruptcy may impact your employment. Examples may include:

- ✓ Law enforcement (police, military)
- ✓ Financial services (banking, life insurance or mutual fund sales, financial advisor)
- ✓ Casino employee if licensed

Before deciding on a bankruptcy or consumer proposal, talk to your human resources department or your licensing body. In some cases a consumer proposal is better than a bankruptcy.

4. I JUST DON'T WANT TO GO BANKRUPT

For many people, bankruptcy simply isn't an option. They know they incurred the debt, and they want to pay back what they can afford to pay.

A consumer proposal simply makes them feel better.

If that's the case for you, a consumer proposal may be the best option.

Chapter 9

So where do you go from here?

Now that you understand how a consumer proposal works, contact a licensed consumer proposal administrator. You can find names of licensed consumer proposal administrators across Canada at http://www.moneyproblems.ca

To find out more, arrange for a no-charge in-person consultation.

TIP: There are lots of "debt consultants" that offer over the phone consultations. Don't be fooled. Your financial situation is very important to you, so don't make any decisions until you have had a face to face meeting with a government-licensed consumer proposal administrator.

Good luck, and best wishes as you file a consumer proposal and eliminate your debts!

Index