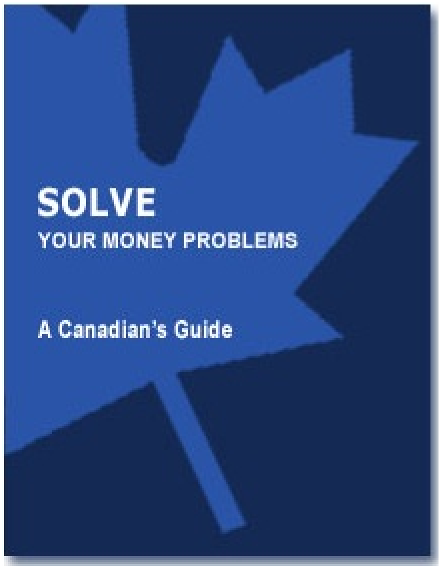

SOLVE YOUR MONEY PROBLEMS

A Canadian's Guide

MONEYPROBLEMS.CA INC.

Solve Your Money Problems

More information can be found at www.moneyproblems.ca

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1. I Have Money Problems: What Can I Do?

There are solutions: you just need to know where to start.

Money problems are scary. You don't know what to do, or where to turn. Even worse, it's embarrassing. You don't want to talk to your friends or family about your problems, because you feel that means you must admit you have failed.

The truth is, many people who have financial problems have gone through a life changing event.

They may have lost their job, or had their hours cut back at work, or gone through a marriage separation or divorce. Many people had an accident, or suffered an illness that prevented them from working, and forced them to use credit to survive.

If you have money problems, for whatever reason, this book is for you.

The editors of moneyproblems.ca, Canada's most informative website about dealing with money problems, have compiled this guide to show you how to deal with your money problems.

In the following chapters we will walk you through your options for dealing with your money problems.

Chapter
2

2. Solve your Money Problems On Your Own

Don't call an expert yet; you may be able to solve your money problems on your own.

The most obvious place to start solving your money problems is on your own. There are two steps to this process: First, you take stock, and next, you 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.

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?

Make a Budget on your computer

You can create a budget on paper (keep reading for an example), or you can do it on your computer. You can use this link http://www.moneyproblems.ca/debt-relief-options/budgeting/ to find a budget in Excel format. Or, use Calendar Budget (use this link http://bit.ly/YuUIu) to prepare your budget on-line, over the internet.

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

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

Living Expenses

Rent/Mortgage	$
Property Taxes	$
Heat/Gas	$
Telephone	$
Cable	$
Hydro	$
Cell Phone	$
Internet	$
Total	$

Smoking	$
Alcohol	$
Restaurants	$
Entertainment	$
Gifts/Donations	$
Allowances	$
Total	$

Prescriptions	$
Dental	$
Total	$

Food / Groceries	$
Laundry/Dry Cleaning	$
Grooming / Toiletries	$
Clothing	$
Total	$

Car Lease / Loan	$
Repairs / Gas / Maintenance	$
Public Transportation	$
Total	$

Vehicle Insurance	$
House Insurance	$
Furniture / Contents	$
Life Insurance	$
Total	$

Other (specify)________________	$
Other (specify)________________	$
Other (specify)________________	$
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!

Want to try a completely radical solution? **Don't budget**! Instead, pay your bills as often as you get paid. Go to this link for more information:

http://www.moneyproblems.ca/debt-solutions-blog/how-to-not-make-a-budget/

Chapter 3

3. Get a Debt Consolidation Loan

A debt consolidation loan may be the solution to your money problems, but only if you qualify.

A debt consolidation loan is a personal loan that allows you to consolidate many other debts into one. For example, if you have three credit cards, you may be able to eliminate your credit card debt (see details below) by getting a debt consolidation loan to pay off the credit cards, so that you only have one payment each month instead of three.

What are the advantages of a debt consolidation loan?

The **first advantage** 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.

The **second advantage** of a debt consolidation loan is that since you are replacing many payments each month with only one payment, it will be easier to keep track of all of your monthly payments. It is difficult to remember when the payments are due on numerous credit cards; with one payment, it’s easy to remember when the payment is due.

Finally, qualifying for a debt consolidation loan and paying it off may improve your credit rating, which makes it easier to borrow in the future.

Do I qualify for a Debt Consolidation loan?

To qualify for a debt consolidation loan you must be working, or have some other source of income allowing you to repay the loan. Banks calculate your ability to service a debt based on your income, so bring with you to the bank your most recent pay stubs, and last year's tax return, when you apply for a debt consolidation loan.

The bank may require a copy of your monthly budget to determine if you can meet your loan payments. You can use our budget worksheet on page 6.

If you have poor credit, or missed or late payments, it may be difficult to qualify for a loan. You may need a co-signor or collateral, such as a car or a house, in order to get the loan.

WARNING: A debt consolidation loan may be the perfect solution for you, but beware!

A debt consolidation loan **does not reduce the amount of money you owe!** If you owe $5,000 on five different credit cards, your total debt is $25,000. If you get a debt consolidation loan and use the money to pay off your credit cards, you now have one $25,000 loan.

You still owe $25,000. You have not reduced your total debt.

As we said at the start of this chapter, a debt consolidation loan may be a good option for solving your money problems, because you are paying off your high interest rate credit cards with a lower rate consolidation loan.

If you are paying 18% on your credit cards, but you qualify for a 8% interest loan at the bank, your interest rate is now 10% lower, so on $25,000 in debts you have saved yourself $2,500 per year. If you use those savings to pay off your debt consolidation loan faster, you are in good shape.

But if you don't use those savings to pay off your loan, you are no farther ahead. You still are carrying $25,000 in debt, and to get out of debt you actually have to pay it off.

How to increase your chances of getting a debt consolidation loan

When applying for a loan, it is essential that you are fully prepared. If you don't know exactly what you earn or what you owe, it is unlikely that you will be able to negotiate a loan.

Make an appointment with the lender; don't expect them to be available if you just walk in.

You don't need to wear a suit when you apply for your loan, but if you are coming after work it does help to put on a clean set of clothes.

On the next page we list all of the documents that you should bring with you to your appointment with your lender.

Debt Consolidation Loan Preparation Checklist

Assemble and bring the following information with you to your meeting with the bank:

Identification:

- ❒ Birth certificate, passport, citizenship card or other proof of identity
- ❒ Hydro or phone bills with your current address as proof of your current address

Proof of Income:

- ❒ most recent pay stub
- ❒ pay stubs from the last few months if your pay changes frequently
- ❒ copy of last year's tax return
- ❒ most recent Notice of Assessment for your last tax return

Budget

- ❒ Monthly budget (use the budget worksheet on page 6)
- ❒ Recent bank statements to verify your monthly income and expenses
- ❒ Recent statements for monthly expenses (hydro, gas, telephone, rent, etc.)

Debts

- ❒ Current statements from each of your debts (credit cards, bank loans, etc.)
- ❒ Mortgage documents and recent mortgage statement if you have a mortgage
- ❒ Car loan documents if you have a car loan

Assets

- ❒ If you own a house, ask a real estate agent to give you a written "Comparative Market Assessment" appraisal on your home, and bring it to the bank
- ❒ RRSP and RESP statements
- ❒ Car ownership and proof of insurance

Some final words of advice

- The best place to get a loan is usually the bank where you already bank. They know you. They know how much you earn, because you deposit your paycheque with them each week. They want to loan you money, because that's how they make money.

- If you know someone else who also banks at your bank, ask for a referral to a loan officer they know. A referral may increase your chances of success.

- Be ready to explain why you want the loan. In other words, what are you going to do with the money? You should have an answer ready for that question.

- Be prepared to negotiate. If the bank agrees to give you the debt consolidation loan, but they require you to cancel all but one of your credit cards once they are paid off, are you willing to do that? (Here's a bonus tip: yes, you should be willing to do that, because you want to prevent any increases in your debt).

- Read the fine print. If they offer you a loan, be sure to understand how much you are required to pay. What's the interest rate? How many years will it take to repay the loan? Can you pay it off early?

- Discuss payment frequency. If you get paid weekly, you should ask the bank to take the payments directly out of your bank account weekly. A weekly payment is easier to manage on a weekly paycheque than a monthly payment, and you will pay the loan off faster if you pay weekly.

By being prepared you increase your chances of getting a debt consolidation loan.

A Special Type of Debt Consolidation Loan

The easiest type of debt consolidation loan to qualify for is a secured debt consolidation loan.

As the name implies, a secured loan is a loan secured by an asset. For example, a car loan is a loan secured by a car. If you don't make your loan payments, the lender can repossess your car.

Another common type of secured loan is a mortgage, which of course is a loan secured by the value of your house or other property.

Why do lenders like making secured loans? Simple. They know they can recover some or all of their money if you don't pay.

In contrast, an unsecured loan has no security, so if you don't pay there is no asset, like a car or a house, for the lender to seize. It is the value of this security that makes it easier for the lender to lend to you, and to offer you a **lower interest rate** on your loan.

That's why the interest rate on a house mortgage is lower than the interest rate on a credit card. Here are some sample interest rates (which are presented for illustrative purposes only, since interest rates can change on a daily basis):

- House mortgage 6%
- Car loan 8%
- Bad credit car loan 15%
- Bank credit card 18%
- Store credit card 25%
- Finance company loan 33%

What does this list illustrate? Simply put, the best interest rate on a debt consolidation loan will be on a secured debt consolidation loan, such as a mortgage.

If you have equity in your house, you can borrow against that equity to consolidate your higher interest debts.

If you own a car with no loans against it, you may be able to pledge that car as security for a loan or line of credit with your bank.

For more information, see the next page for a Mortgage Debt Consolidation Case Study.

Case Study: How To Solve Your Money Problems With a Mortgage Debt Consolidation Loan

Tom Smith (not his real name) was out of work for three months, then had to pay for his son's first year at university, then he paid for his daughter's wedding, then he had some significant home repairs.

All of those expenses were paid for with credit cards, so Tom found himself owing $40,000 on six different credit cards. Three of them were bank credit cards with an interest rate of 18%, and the other two were department store and home renovation store cards with interest rates of 25%, so the average interest Tom was paying was over 20%.

Tom was paying over $650 per month just in interest.

Fortunately, Tom owned a house worth $275,000, and he only had a $75,000 mortgage. That meant Tom had $200,000 worth of equity in his house.

Tom talked to his bank, and they offered him two options:

The first option was to give him a secured line of credit for $40,000, secured by his home. In effect the secured line of credit would become a second mortgage.

The second option was to increase the amount owing on his mortgage from $75,000 to $115,000 by renegotiating his mortgage.

In both cases the interest rate would be the same as what Tom is currently paying on his existing mortgage.

The advantage of increasing his mortgage is that no further legal work or fees are required, since the bank already has a mortgage registered.

The advantage of getting a secured line of credit is that the line of credit will be completely open; Tom can pay it off as quickly as he wants.

Tom decided to get the secured line of credit. The bank did charge him a small administrative charge to cover their legal fees for registering a second mortgage, but the flexibility appealed to Tom, because he believed he could have the entire line of credit paid off over the next three or four years.

How Much Did Tom Save?

The interest rate on the new secured line of credit at the bank was 8%, so by paying off his high interest credit cards Tom reduced his interest rate from 20% to 8%, which on $40,000 is a savings of $4,800 per year.

That's $4,800 that Tom can now put towards paying off his debts faster, which is a great solution to his money problems.

What do I do if the Bank says "No"?

There is no guarantee that you will qualify for a debt consolidation loan.

If you own a house with equity, you will probably qualify at your bank for a secured line of credit or second mortgage, or you can refinance your mortgage to consolidate your debts.

However, if you don't own a house, or if your house has no equity, you may not qualify.

If you are rejected for a loan, here are the steps you should take:

1. Ask the bank why you were declined. It may be that you are close to qualifying, so if you can reduce your debt or increase your income you may be able to re-apply again in six months or a year.

2. If your bank won't give you a mortgage, consider talking to a mortgage broker. They have access to many different lenders, so they may be able to get you a mortgage even when the bank says "no".

3. Consider asking a friend or family member to co-sign for you.

WARNING: If a friend or family member agrees to co-sign for you, they are now **fully responsible** for your loan. If you don't make the payments, the bank can now pursue your co-signer for payment.

You should only ask a friend or family member to co-sign on your behalf if you are absolutely certain that you can make all of the payments. If you are afraid that you may at some point miss a payment, **do not get a co-signer**.

WARNING: Each time you apply for a loan and are rejected, a note appears on your credit report showing that you were rejected. Your credit score goes down each time you are rejected for a loan.

If you are rejected, ask the bank why you were rejected. If you can take action to qualify in the future (perhaps by increasing your income, or paying off some of your old debts) then wait until you have fixed the problems before applying again. A series of rejections will make it even harder to borrow in the future.

If you are unable to get a debt consolidation loan, but you have the ability to repay your debts in full, please see the next chapter for another option for dealing with your money problems: credit counselling.

Chapter

4

4. Credit Counselling

Put a not-for-profit credit counsellor to work for you.

Credit counselling has been a great solution for many Canadians for many years. One of the reasons Canadians like going to see a credit counsellor is that most credit counselling agencies in Canada are "not for profit", so you will not be charged large fees to get advice on how to solve your money problems. In fact, most credit counsellors will only charge you a small amount, and it is usually based on your ability to pay.

Credit counselling is provided by not-for-profit organizations created to help you deal with your money problems. Credit counsellors work with you to figure out your situation and make a plan to deal with your debts, by working out a personal budget to help you manage your money better, or by creating a debt management plan, which makes a deal with your creditors to pay back your debts over a set amount of time until you are debt free.

WHAT ARE THE ADVANTAGES OF CREDIT AND DEBT COUNSELLING?

Credit counselling is one of your options when you are in financial trouble to help you get out of debt and back to living a healthy financial life. There are many advantages to choosing this service.

Credit and debt counselling helps you make a plan

If you find yourself in financial trouble, the best thing to do is to make a plan to deal with your debt and get back on track. The biggest advantage of credit and debt counselling is that they do just that – counsellors will help you figure out a plan to deal with your debt and ensure you have a healthy financial future.

This might be working out a personal budget to give you a clearer sense of your situation or coming up with a debt management plan, where you make a deal with your creditors to pay back all of your debt. Either way, you're taking the first step to a happy financial future – making a plan.

Credit and debt counselling teaches you how to manage your money

In making a personal budget and coming up with a debt management plan, credit counsellors will teach you how to manage your money properly. You will learn how to budget, what the true costs of credit are, how to read your credit card statements, and how to avoid future financial trouble.

Credit and debt counselling gives you a healthy financial future

By choosing credit counselling, you are making a plan to deal with your debts. When you have finished paying off your debts, you will be able to start rebuilding your credit, using the tools and resources given to you by your credit counsellor. You will also have learned how to prevent financial trouble from happening again.

WHAT WILL THE CREDIT COUNSELLOR DO?

Your credit counsellor will start by doing two things: making a list of who you owe money to, and helping you make a personal budget.

So, if you want to make your first meeting as efficient as possible, fill out our debt worksheet (see page 3) and do your best to make a personal budget (see page 6).

Based on this and other information, your credit counsellor may help you make a debt management plan.

What is a debt management plan?

A debt management plan is a payment plan that will help you pay off all of your debt over a set amount of time.

With a debt management plan you pay off all of your debt, but in most cases your credit counsellor can negotiate a reduced or even zero rate of interest.

See the next page for a debt management plan example.

Case Study: A Debt Management Plan

John Smith had a good job, but then he got sick and was off work for five months. By the time he got back to work he owed $30,000 on six different credit cards.

He had a good job, but the interest on his credit cards was 18% per year, and it was more than he could afford to pay.

He visited the credit counsellor in his city; they offered a free initial consultation. The credit counsellor helped John work out a budget. They determined that after paying for all normal living expenses (rent, food, transportation, etc.), John could afford to pay $500 per month towards his debts.

Unfortunately for John, the interest on his credit cards was about $450 per month, so that only left $50 to pay down his credit cards. A John realized that at $50 per month in principal payments he would only pay off $600 over the next year, which was barely a debt in the $30,000 that he owed.

Fortunately, his credit counsellor suggested a Debt Management Plan, where John pays off his debts in full, but with no interest. Since John can afford to pay $500 per month, it will take him five years to repay his debts in full, but at the end of the plan he will have no debts.

John thought that this was a great solution, because he wants to pay off his debts, he just needs a break on the interest, which is exactly what he gets from a debt management plan.

How do I make a debt management plan?

To make a debt management plan, you will meet with a credit counsellor who will help you figure out if you are eligible or not. Your credit counsellor will ask you how much money you owe, who you owe money to, what your expenses are, and how much money you make.

If you are eligible for a debt management plan, your credit counsellor will work out a plan for you to pay back your debts in no more than 5 years, with one manageable payment a month.

For example, if you owe $60,000 and you have enough money to pay $1,000 a month, after 5 years you will have your debt paid back.

They will then take the plan to your creditors, or the people you owe money to, to see if they will accept or reject the plan.

What happens after my debt management plan has been approved?

If your debt management plan has been accepted by your creditors, you will make one monthly payment to the credit counsellors, who will then forward the money onto your creditors, or the people you owe money to.

While you are paying back your debts, there will be no more interest put on your debt and all of your payments will go directly to the money you owe, not interest, helping you get back on track faster than if you were paying back the debts on your own.

A debt management plan is a great solution if you can afford to pay off your debts in full over a two to five year period.

But what can you do if you can only afford to repay half of your debts over the next few years?

Read on to find out about another solution for dealing with your money problems.

Chapter

5

5. Consumer Proposals: Canada's Best Kept Secret for Dealing with Money Problems

Most people have never heard of a consumer proposal, but in 2011 over 45,000 Canadians filed a consumer proposal, and it may be the right solution for you.

Are you having money problems? Do you have more debt than you can handle? Do you have a job, and you want to make payments, but you just can't afford to repay the full amount your creditors want each month? Are you afraid that bankruptcy may be your only option?

A consumer proposal may just be what you're looking for.

A consumer proposal is a legal procedure available to people living in Canada that are experiencing financial difficulties, but can still afford to repay a portion of their debts.

You might be asking yourself, "A *portion* of your debts? Not all of them? Sounds too good to be true!"

Although it is true, you need to remember that a consumer proposal is an alternative to filing bankruptcy, which means not just anyone can use a consumer proposal to get rid of their debts.

In order to file a consumer proposal you have to prove that you are insolvent (which means you have more debts than assets), and are unable to keep up with your payments.

If you are not insolvent you are not eligible to file a consumer proposal, so a debt management plan as discussed in the previous chapter may be a better option for you.

What is a consumer proposal?

Essentially 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 work.

A consumer proposal is a sub-class of something called a Proposal to Creditors. The sub-class was created to allow individuals to negotiate repayment plans with their creditors in the same way that large businesses can. It's a legal procedure, 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. Historically, for every 7 bankruptcies that are filed in Canada, only 1 consumer proposal has been filed, but those numbers are changing.

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:

We have also included a bonus section, *Consumer Proposals and Your Credit*, on page 27

Step one: Assessing your financial situation

In order to file a consumer proposal you need to see a licensed trustee in bankruptcy, who will act in the role of **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). 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
- 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.

Step two: Determining your eligibility

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 of Chapter 2 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 their principal residence) of less than $250,000

In addition, if you have previously filed either a Notice of Intention or a Proposal to Creditors 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.

Step three: Preparing the documents you need to file

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.

Step four: 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.

Step five: Mailing your proposal and waiting for an answer

Once your proposal administrator has assembled all of the documents required to file (step three), including your consumer proposal, your trustee is required to file the forms with an Official Receiver and then mail a Notice to Creditors to all of the companies and individuals that appear on your list of liabilities. Your trustee 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 an Official Receiver 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 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.

Step six: Living with your consumer proposal

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 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.

Step seven: Finishing your proposal: 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 Official Receiver. It is the government agency that employs the Official Receiver 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. More details can be found starting on page 39.

Bonus Section: Consumer proposals and your credit

Special Feature: What Happens to My Credit Report If I File a Consumer Proposal?

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.

When you file a consumer proposal a note goes on your credit report stating as much. 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 3 years after the payments you have agreed to in the consumer proposal are finished.

For example, if you had agreed to a 5 year plan to repay your debts, the note would be removed from your credit report after 8 years.

So, why is a consumer proposal better than a bankruptcy, where the note stays on your credit report for only 6 years after you have filed? Consumer proposals are more flexible. You might have agreed to a 2 year repayment plan, meaning after 5 years the note disappears.

And consumer proposals also allow you pay more than what is stipulated in the agreement. 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.

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.

Chapter 6

6. The Last Resort: Personal Bankruptcy

If all else fails, personal bankruptcy is the last option for dealing with your money problems.

Bankruptcy is the scariest "B" word in the English language, even scarier than Budgeting that we discussed at the start of this book. No-one wants to go bankrupt, and most Canadians do everything they can to avoid it. But for some, it truly is the only logical solution.

If personal bankruptcy is necessary to deal with your debts, it is important that you understand the process from start to finish. Your trustee will explain the process to you; if they don't, be sure to ask lots of questions, or find another trustee.

Many of the concepts discussed here may seem confusing; if there is anything you don't fully understand, make a note of it and ask your trustee.

A good trustee is essential to help the bankruptcy process proceed as smoothly as possible; a list of recommended trustees is presented on page 41.

THE STEPS IN YOUR BANKRUPTCY

How does personal bankruptcy in Canada work? The basic steps are as follows:

First, you must recognize that you are having financial problems, and you don't believe you can work them out on your own.

Next, you contact a licensed trustee to review your situation. They will explore the alternatives to bankruptcy, and only proceed with the bankruptcy if that is your most logical option.

If you and your trustee determine that personal bankruptcy is the correct option, your trustee will give you an information form to complete. The trustee needs your personal information (name, address, birth date), a list of your creditors (who you owe money to), and a list of your assets (what you own).

Once your application form is completed, the trustee will prepare the necessary bankruptcy paperwork.

Once the paperwork is prepared, you will meet with the trustee to sign the paperwork. That's the day the bankruptcy starts. From this point on your unsecured creditors cannot ask you for money; they must deal with your trustee.

Within five days of the bankruptcy starting your trustee will send a copy of your bankruptcy paperwork to each of your creditors, so that they can file a claim with the trustee.

The trustee will file your taxes up to the date of bankruptcy. Any money you owe to Canada Revenue Agency will be included in your bankruptcy. Any tax refund or GST credits received during the bankruptcy will go to the trustee for your creditors.

Each month during the bankruptcy you will send the trustee proof of your income. In a bankruptcy the more you earn, the more you are required to contribute to your estate for the benefit of your creditors.

Within 60 days you will have your first credit counselling session. These sessions are designed to teach you budgeting and good money management so that you are less likely to have financial problems in the future.

Within 210 days you will have your second credit counselling session, which will address the financial trouble you have experienced specifically, helping you to avoid the same trouble later.

If requested by your creditors, you may be required to attend a meeting of your creditors, although this only happens in unusual circumstances.

If you have never before been bankrupt, and if you have no surplus income, you are eligible to be automatically discharged or released from your debts and bankruptcy in nine months.

If you have an average of more than $200 per month in surplus income during the first six months of your bankruptcy, your bankruptcy will automatically be extended to a total of 21 months, and you will be required to make surplus income payments based on your income for 21 months.

If you have been bankrupt before and have no surplus income, your bankruptcy will last for a minimum of 24 months. If this is your second bankruptcy and you have more than $200 per month in surplus income, you will be bankrupt for a minimum of 36 months.

A note about your bankruptcy will remain on your credit report for a minimum of six years after the date of discharge.

YOUR DUTIES

During your bankruptcy, you will have things that you need to complete. Your trustee will explain your duties in detail, to ensure that you complete your bankruptcy as quickly as possible. Your duties will be different at each stage of your bankruptcy.

YOUR DUTIES AT THE START OF YOUR BANKRUPTCY

Initial information gathering

The bankruptcy process begins with you providing to your trustee the information that will be required to prepare your bankruptcy paperwork.

The trustee needs to know your full legal name, so you will be required to provide a copy of your birth certificate or citizenship documents. Other personal information provided will include your address, phone number, and a list of your family members living with you.

The trustee also requires a list of your assets (what you own), and your liabilities (what you owe), and other information about taxes and other matters.

This information is necessary to prepare your bankruptcy paperwork, but it is also necessary to allow the trustee to review your situation and advise you on the implications of bankruptcy. The trustee also uses this information to assess your situation, as discussed below.

ASSESSMENT BY THE TRUSTEE

By law, you cannot file a consumer proposal or go bankrupt unless you have been personally assessed by a trustee. You can read more about this on the government's web site (http://strategis.gc.ca/epic/site/bsf-osb.nsf/en/br01096e.html). We have reproduced, in italics, information from the government's web site discussing the assessment.

During the assessment the trustee, or the trustee's representative, will inquire about the debtor's property and financial affairs and shall prepare, on the basis of information obtained from the debtor, a complete statement of the debtor's financial affairs setting forth the details of:

- the debtor's assets;
- the debtor's liabilities;
- a detailed current monthly income and expense statement, including all income, gross and net; and all expenses, including special needs expenses, alimony, support or maintenance payments, transportation costs, medical and prescription expenses; and
- conveyances, preferences and settlements of real or personal property of the debtor;

- discuss with the debtor his/her views respecting the debtor's immediate problems, evaluate the extent and nature of the problems facing the debtor, review approaches for dealing with those problems;

- identify and discuss generally the options available to debtors for resolving financial difficulties, including a discussion of the rights and responsibilities of debtors and creditors under each of the following options:

  - non-legislative debt settlement arrangements;

  - an Orderly Payment of Debts under Part X of the Act, or similar option under provincial legislation, where applicable;

  - a consumer proposal under Division II of Part III of the Act;

  - a proposal under Division 1 of Part III of the Act; and

  - an assignment in bankruptcy under section 49 of the Act;

- explain the general meaning of the following credit and insolvency matters where pertinent to the circumstances:

  - garnishment;

  - co-signers;

  - credit rating;

  - assets;

  - legal action;

  - payments;

  - windfalls;

  - tax returns;

  - tax credits;

  - mediation;

  - the discharge process and types of discharge order.

To assist in choosing the appropriate option pursuant to the Act, the trustee or administrator shall discuss and review with the debtor:

- the debtor's views of the situation;

- the merits and consequences of the pertinent options;
- the rights and responsibilities of the debtor in a bankruptcy or a proposal;
- the specific effect of relevant credit and insolvency matters, as they relate to the debtor's circumstances (e.g.: wage garnishments, co-signing, credit rating, taxes, fees);
- the possible outcome of the discharge process as it may relate to the debtor's circumstances including the trustee's statutory responsibility to report on any fact, matter or circumstances which may, if an opposition is filed, justify the Court's refusal to grant an absolute order of discharge.;
- the responsibility of a bankrupt to contribute surplus income to the estate, where appropriate; and
- the type and nature of counselling adapted to the debtor's needs that will be offered to assist in the rehabilitation.

VIABLE PROPOSALS

For the purpose of paragraph 170.1(2)(c) of the Act, the trustee shall determine whether or not the debtor has the potential to file a viable proposal by considering the following factors:

- the debtor
- has sufficient property available to make a "lump sum payment" proposal, or
- has surplus income in accordance with the Directive on Surplus Income, and also has the capacity at the time of assessment to sustain continued payments to a proposal for a period of time;
- the family or personal situation of the debtor;
- the financial situation of the debtor;
- the number and type of creditors of the debtor, both secured and unsecured;
- the likelihood of acceptance of a proposal by the creditors, and;
- whether the return to creditors from a potential proposal would be greater than the returns from a bankruptcy.

Where the trustee determines the debtor has the potential to file a viable proposal, and the debtor chooses to file an assignment in bankruptcy rather than a proposal, the trustee shall comment in the section 170 report that a viable proposal could have been filed, and recommend that the bankrupt be discharged with conditions.

As you can see, the Assessment is a very detailed process. It is designed to allow the trustee to fully evaluate your situation, and to describe to you, in detail, all of your options.

At the end of the Assessment you should understand your options, and if you choose to file bankruptcy, you should understand the bankruptcy process.

Once the Assessment is completed the trustee will sign an Assessment Certificate, and this certificate will be included as part of the bankruptcy paperwork that are filed with the Office of the Superintendent of Bankruptcy.

PREPARING THE BANKRUPTCY DOCUMENTS

Once the trustee received as reviews your bankruptcy application, the trustee prepares your bankruptcy documents.

In emergency situations, such as if your wages are being garnisheed, it may be possible for the trustee to prepare your documents in 24 hours or less. In most cases the process takes two or three days.

SIGNING THE DOCUMENTS: THE DAY YOU OFFICIALLY GO BANKRUPT

Once the documents are prepared, you will meet with the trustee or their representative to sign the documents.

The documents include:

- Your statement of affairs, which includes a list of your assets, a list of your debts, and your personal information (name, address, birth date, marital status, and employment information);
- Your monthly income and expense statement, showing a typical month's income and expenses for you and your family;
- An Assessment Certificate, indicating that a licensed trustee has assessed your financial situation; and
- Your Assignment in Bankruptcy, the document that officially starts the bankruptcy process.

Most trustees also have a number of other documents you sign to ensure you understand the process.

Once the documents are signed, the trustee will then electronically file them with the Office of the Superintendent of Bankruptcy, and you are officially bankrupt.

The trustee will then receive electronically, usually in a matter of a few seconds, from the Office of the Superintendent of Bankruptcy a Certificate of Appointment, indicating that the trustee has been officially appointed to administer your bankruptcy estate. The

Certificate of Appointment contains your Estate Number which is used to track your bankruptcy.

NOTIFYING YOUR CREDITORS

Once the trustee receives the Certificate of Appointment they are required to notify all of your creditors. By law, the trustee must notify all known creditors within five days of the date of your Assignment in Bankruptcy.

The trustee will prepare a "Creditor's Package", which contains all required documents. These documents include:

- A Notice to Creditors, indicating the date of your bankruptcy, and, if you have never filed bankruptcy before, the date that you are eligible to receive an automatic discharge;
- A Proof of Claim form that the creditor will complete and return to the trustee, indicating how much you owe. The creditor must attach proof of the amount owing (generally a statement of your account), and a list of all transactions completed over the past three months;
- Instructions for Completing the Proof of Claim to assist creditors who may not be familiar with the procedure;
- Statement of Affairs; and
- Monthly Income and Expense Statement.

Generally this initial mailing to creditors is done by mail, but it is often sent by fax to the large common creditors, such as the banks. Either way, within about a week of your filing your creditors will be notified that you have gone bankrupt.

YOUR DUTIES WHILE YOU ARE BANKRUPT

Now that you bankruptcy has started, you have a number of duties to perform.

Reporting your income to the trustee each month

You are required to report your income to your trustee each month. Each trustee may have a different method for doing this, but the standard approach is to require you to complete a family income and expense statement each month.

Your trustee will provide you with a set of up to nine blank income statement worksheets, similar to what you filled out for the trustee prior to going bankrupt (see page 6). During the month you will keep track of what you earn and what you spend. At the end of the month you will send this report to the trustee. In most cases the trustee will also require copies of your pay stubs and proof of any other income, so that they can calculate your surplus income payments (see next section).

In addition to providing proof of your income, these monthly statements fulfill another important purpose: they force you to keep track of where you spend money, and that's a good habit to acquire.

Many people get into financial trouble because they don't know where they spend their money. By forcing you to keep track of where you spend your money, you will be able to see quite clearly any bad spending habits you may have, and you can take steps to correct them.

We recommend that you keep copies of each budget that you send to the trustee, so that at the end of your bankruptcy you have a complete history of your spending patterns. For most people, it's a real eye opener!

MAKING YOUR MONTHLY SURPLUS INCOME PAYMENTS

Under the *Bankruptcy and Insolvency Act*, the federal legislation that governs the bankruptcy process in Canada, you are required to make a surplus income payment each month based on your income.

The concept behind this rule is simple. The more you earn, the more you are required to contribute. It's only fair that a high income earner, such as a doctor, who goes bankrupt (perhaps because of bad investments), should be required to pay more than someone who has less income.

Here's how it works: The Office of the Superintendent of Bankruptcy sets limits for what a family is allowed to earn. The larger your family, the more you are allowed to keep. The thresholds are increased each year.

As an example, a single person in 2011 is allowed to have take-home pay each month (income after taxes) of $1,926. For every dollar their income exceeds this limit in a month they are required to make a contribution of half of the amount they are over in form of a surplus income payment.

If that person earned $2,526 in a month, they are $600 over the limit, so they would be required to contribute an extra $300 to their bankruptcy estate for the current month.

Each month during the bankruptcy process the bankrupt submits copies of their pay stubs and proof of other income to the trustee, and the trustee calculates their surplus income, and the bankrupt contributes the required portion.

HOW DOES SURPLUS INCOME WORK?

To explain surplus income calculation, let's work through a couple of examples.

John is single and has no dependents. He gets paid bi-weekly (every two weeks). His take-home pay, after taxes, is $1,100 bi-weekly.

John's surplus income calculation looks like this:

Total household income (2 X $1,000):	$2,200
Less the government threshold:	- 1,926
Income over the threshold:	274
Surplus income rate (50%):	x 0.5
Surplus income to pay:	$ 137

John would be required to pay an additional $137 to his trustee this month. At least twice a year John will receive 3 paycheques (instead of his normal 2). In those months his surplus income calculation looks like this:

Total household income (3 X $1,000):	$3,300
Less the government threshold:	- 1,926
Income over the threshold:	1,374
Surplus income rate (50% of $1,000):	687
Surplus income to pay:	$ 687

Here's the catch: At the end of the first six months of the bankruptcy the trustee is required to calculate John's average surplus income. If he had two, three paycheque months during the bankruptcy, the calculation would look like this:

Surplus Income Month #1	$137
Surplus Income Month #2	$687
Surplus Income Month #3	$137
Surplus Income Month #4	$137
Surplus Income Month #5	$687
Surplus Income Month #6	$137
Total Surplus Income	$1,922
Average Monthly Surplus Income	$320

In this case John had average surplus income during the bankruptcy of $320 per month, and since his average surplus income is greater than $200 per month, John's bankruptcy will be automatically extended from 9 months to 21 months, and John will be required to make a surplus income payment of $320 each month for 21 months.

It is imperative that your trustee help you estimate your potential surplus income prior to filing bankruptcy, so that you can decide whether or not bankruptcy is the correct option for you. If you are expecting significant surplus income, and therefore your bankruptcy will be extended for an extra year, it may be wise to consider a consumer proposal as an alternative.

Note as well that a first bankruptcy with significant surplus income lasts for 21 months. A second bankruptcy with surplus income will last for 36 months, so if you have been bankrupt before, and you have surplus income, a consumer proposal may be an obviously better alternative.

In cases like the example above, the surplus income calculation is fairly straightforward. It can become more complicated if there are many people in the household with varying amounts of income.

CREDIT COUNSELLING AND BANKRUPTCY

As part of the personal bankruptcy process you will be required to attend two credit counselling sessions, that are usually completed in individual sessions with your counsellor.

These sessions are designed to help you understand what caused your money problems, and to give you techniques and tools to avoid money problems in the future. There is no extra cost to you for these sessions, but for many people they are the most important aspect of the bankruptcy process. More information can be found in the next chapter, starting on page 39.

Is bankruptcy the correct option for you? Bankruptcy is a last resort, and should only be considered if all other options have failed. For more information, we strongly recommend that you consult a trustee licensed by the federal government for a free consultation (see page 41 for a list of trustees in Canada that offer free consultations).

Chapter

7

7. Credit Counselling in Proposals and Bankruptcies

Credit counselling is an option for dealing with your debts, but it is also a part of every consumer proposal and personal bankruptcy filed in Canada.

In all personal bankruptcies and consumer proposals you are required to attend two credit counselling sessions. Directive 1R2 issued by the Office of the Superintendent of Bankruptcy describes the credit counselling process. (You can read the full Directive here: http://strategis.gc.ca/epic/site/bsf-osb.nsf/en/br01091e.html).

Credit counselling is designed to help you learn good financial management, including budgeting and the prudent use of credit. Credit counselling also helps you develop successful strategies for achieving your financial goals, and learning how to overcome financial set backs.

You are required to attend two counselling sessions in order to be discharged from your bankruptcy.

The first session must be completed between 10 and 60 days of the start of your bankruptcy, and the second session will be held no earlier than 30 days after your first session, and no later than 210 days after the start of your bankruptcy.

The sessions can be conducted one-on-one with a credit counsellor, or in a group. If you want a personal counselling session, be sure to mention that to your trustee before you sign your paperwork, otherwise your trustee may include you in a group session.

(The editors of moneyproblems.ca strongly believe that, where possible, private sessions provide the best opportunity for a bankrupt to ask questions without fear of embarrassment, and therefore to get personalized advice).

Directive 1R2 describes the First Counselling Stage, which is focussed on Consumer Credit and Education:

In the first stage, the qualified counsellor shall present information to provide the bankrupt and/or relative, or a consumer debtor, with consumer advice in the areas of:

- money management;
- spending and shopping habits;
- warning signs of financial difficulties; and
- obtaining and using credit.

The Second Counselling Stage helps you identify road blocks to solvency, and focuses on rehabilitation, which means getting you back on track once your bankruptcy is over. Quoting again from Directive 1R2:

The second stage is to determine the budgetary and/or non-budgetary causes of insolvency or bankruptcy and requires that the qualified counsellor to:

- follow-up on the application by the debtor of the principles presented in the first stage to assist the bankrupt and/or relative, or the consumer debtor, to better understand his/her strengths and weaknesses with regards to money management and budgeting skills;
- assist, where appropriate, the bankrupt and/or relative, or a consumer debtor:
- to identify the non-budgetary causes (such as gambling abuse, compulsive behaviour, substance abuse, employment and marital or family difficulties) that may have contributed to his/her financial difficulties;
- to better understand his/her behaviour in financial management and consumption habits; and,
- to make him/her aware of the existence of resources that will help him/her achieve and maintain economic stability; and
- cooperatively with the bankrupt and/or relative, or a consumer debtor, develop recommendations and alternatives for a financial plan of action which, if appropriate, may include referral for specialised counselling to deal with non-budgetary causes of insolvency.

At the end of each counselling session you will sign a Counselling Certificate indicating that you have completed the required counselling.

Chapter

8

8. List of Trustees Licensed by the Federal Government to Administer Consumer Proposals and Personal Bankruptcies

Each of the trustees listed in this chapter are licensed by the federal government, and provide free initial consultations.

In this book we have discussed your options for dealing with your money problems. If you cannot deal with your problems on your own, and don't qualify for a debt consolidation loan, and can't afford a debt management plan, a consumer proposal or a bankruptcy may be the correct option for you. To find out, you need to meet with a licensed trustee.

We have compiled a list of trustees with offices across Canada. We have personally interviewed each of these trustees, and all trustees on this list provide free initial consultations.

All trustees operate **by appointment only** so that they can set aside sufficient time to answer your questions. Please call them at the numbers listed to arrange your no charge initial consultation.

Abbotsford
Sands & Associates
316 - 31935 South Fraser Way
(604)-864-5799

Burnaby
Sands & Associates
2600 – 420 Kingsway
(604)-451-5799

Chilliwack
Sands & Associates
#211 – 45480 Luckakuck Way
(604)-824-5794

Port Coquitlam
Sands & Associates
#209 – 2099 Lougheed Highway
(604)-945-5799

Langley
Sands & Associates
205 – 20651 56th Avenue
(604)-539-0200

Maple Ridge
Sands & Associates
Suite 200 – 11830 223rd St.
(604)-463-9599

Richmond
Sands & Associates
#926 – 6081 No. 3 Road
(604)-303-8732

Surrey
Sands & Associates
203-10366-136A Street
(604)-583-5499

Vancouver
Sands & Associates
1370 – 1100 Melville Street
(604)-684-3030 or Toll Free 1-800-661-3030

White Rock
Sands & Associates
Suite 202 – 15388 24 Ave, South Surrey
(604)-951-9599

ALBERTA

Calgary
Hudson & Company
200, 625 – 11 Avenue SW.
(403) 265-4357

Calgary North
Hudson & Company
231, 495 – 36 Street NE
(403) 531-4357

Calgary South
Hudson & Company
408, 10325 Bonaventure Drive SE
(403) 531-4357
By appointment

Edmonton
Goth & Company Inc.
815, 5241 Calgary Trail
(780) 435-5110

Edmonton North Office
Goth & Company Inc.
#17 8103 127 Avenue
(780) 435-5110

Edmonton West Office
Goth & Company Inc.
17510 102 Avenue Northwest, Suite 101
(780) 435-5110

Sherwood Park
Goth & Company Inc.
#15 Sherwood Business Centre
2016 Sherwood Drive
(780) 435-5110
Toll Free: 1-800-267-6015

St. Albert
Goth & Company Inc.
Suite 118 St. Albert Professional Building
7 Saint Anne Street
(780) 435-5110
Toll Free: 1-800-267-6015

Saskatchewan

Prince Albert
Deloitte & Touche Inc.
#5, 77-15th Street East,
Telephone: (306) 765-DEBT (3328)
Toll-free: 1-855-220-1705

Regina
Deloitte & Touche Inc.
2103 11th Avenue,
Mezzanine Level, Bank of Montreal Building
Phone: (306) 525-DEBT (3328)
Toll-free:1-855-220-1705

Saskatoon
Deloitte & Touche Inc.
Suite 400, PCS Tower,
122 1st Ave. South
(306) 343-DEBT (3328)
Toll-free: 1-855-220-1705

MANITOBA

Winnipeg
LCTaylor
702 – 310 Broadway
(204) 925-6400

ONTARIO

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Hoyes, Michalos & Associates Inc.
140 Dunlop Street East
Suite 205
Phone: (705) 719-4948 or **310-PLAN** (7526)
www.hoyes.com

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Hoyes, Michalos & Associates Inc.
7700 Hurontario Street, 2nd Floor, Suite 411
Phone: **310-PLAN** (7526)
www.hoyes.com

Brantford
Hoyes, Michalos & Associates Inc.
218 Brant Avenue
Phone: (519) 770-4440 or **310-PLAN** (7526)
www.hoyes.com

Brockville
Surgeson Carson Associates
304 – 9 Broad Street
Phone: (613) 287-0646

Burlington
Hoyes, Michalos & Associates Inc.
460 Brant Street, Unit 301
Phone: (905) 770-0770 or **310-PLAN** (7526)
www.hoyes.com

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Hoyes, Michalos & Associates Inc.
8 George Street North, 2nd Floor
Phone: (519) 622-3773 or **310-PLAN** (7526)
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Hoyes, Michalos & Associates Inc.
193 St. Clair Street
Phone: (519) 351-2323 or **310-PLAN** (7526)
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Grant Thornton
66 Keith Avenue, Unit 2
(807) 223-5895
Toll Free: 310-8888

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Hoyes, Michalos & Associates Inc.
54 West Street
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www.hoyes.com

Guelph
Hoyes, Michalos & Associates Inc.
300 Willow Road
Phone: (519) 823-0330 or **310-PLAN** (7526)
www.hoyes.com

Hamilton
1030 Upper James Street, Suite 301
Phone: (905) 777-0770 or **310-PLAN** (7526)
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Kenora
LCTaylor
225 Main Street South
1-807-468-3406

Kitchener
Hoyes, Michalos & Associates Inc.
607 King Street West, Suite 204
Phone: (519) 747-0660 or **310-PLAN** (7526)
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Hoyes, Michalos & Associates Inc.
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Hoyes, Michalos & Associates Inc.
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Orillia
Hoyes, Michalos & Associates Inc.
138 Mississauga Street West
Phone: **310-PLAN** (7526)
www.hoyes.com

Ottawa
Surgeson Carson Associates Inc.
99 Fifth Avenue, Suite 8
(613) 567-6434 Extension 222

Prescott
Surgeson Carson Associates Inc.
281 Centre Street
(613) 287-0646

Sarnia
Hoyes, Michalos & Associates Inc.
265 North Front Street
4th Floor, Suite 411
Phone: (519) 344-1058 or **310-PLAN** (7526)
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Hoyes, Michalos & Associates Inc.
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Toronto Yonge & Bloor – 2 Bloor Street East
Scarborough - 55 Town Centre Court, Suite 700
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8250, boulevard Décarie
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Allan Marshall & Associates Inc.
212 Queen Street, Suite 102
Telephone: 1-506-454-7850
Toll Free: 1-888-371-8900

Moncton
Allan Marshall & Associates Inc.
500 St. George Street,
Telephone: 1-506-384-7850
Toll Free: 1-888-371-8900

Saint John
Allan Marshall & Associates Inc.
53 King Street, Suite 400
Telephone: 1-506-634-7850
Toll Free: 1-888-371-8900

NOVA SCOTIA

Halifax
Allan Marshall & Associates Inc.
111 St. Peter's Road
Telephone: (902) 894-7851
Toll Free: 1-888-371-8900

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Janes & Noseworthy
40 Main Highway
(709) 786-9609

Corner Brook
Janes & Noseworthy
Office 5, Suite 302,
9 Main Street
Phone: (709) 634-3631
Toll Free: 1 (877) 934-4330

Gander
Janes & Noseworthy
109 Trans Canada Highway
Toll Free: 1(866) 489-8219
Phone: (709) 651-2160

Grand Falls-Windsor
Janes & Noseworthy
6 Pinsent Drive
Phone: (709) 489-8219
Toll Free: 1 (866) 489-8219

Marystown
Janes & Noseworthy
228 Ville Marie Drive

Phone: (709) 279-3003
Toll Free: 1 (877) 979-0923
St. Johns

Janes & Noseworthy
Suite 201, 516 Topsail Rd.
1 (800) 563-9779
Phone: (709) 364-8148

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