THE GLASS IS HALF FULL

The Positive Side to Debt Relief

RICHARD KILLEN, LIT, CIRP

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By

Richard Killen, CIRP, LIT

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FOREWORD

When I had the good fortune to be able to start my own insolvency practice in 1992 I was faced with the same problem everyone has setting up a new business: I had to let the world know I was here and was prepared to help them. So I did the only thing available to me at the time, I put a classified ad in the local daily newspaper. But, since I was a new guy I wanted to be different from the other insolvency ads at the time. So I came up with this:

Are You
TRAPPED
by Financial Problems?
You still have some dignified and responsible options.

People began calling almost immediately. Many of them starting the phone call off with “Help, I’m trapped!”. Something about the message resonated with a lot of people - perhaps the helplessness of feeling trapped and sense of futility that goes with it when we have no visible way of fixing things.

This was not altogether a mystery to me at the time. I had spent 17 of the previous 27 years working in both the credit industry and in the insolvency business itself; most of it with the Office of the Superintendent of Bankruptcy. While at the OSB as a Bankruptcy Officer and an Official Receiver I had met thousands of individuals who had filed for bankruptcy. My job gave me an insight into their bad financial situation - how they had gotten into it and their attempts to get themselves out of it. But mostly I knew the psychological and emotional struggle that went with it.

One of the things that stood out to me from meeting and talking to these people was their sense of having been trapped by the financial situation they found themselves in. Most had been quite willing to admit that, to a large extent, they had brought it upon themselves, but that didn’t make it any easier to handle. Maybe even harder.

All that was more than 25 years ago. A lot has changed in our Canadian society since then. A lot has changed in the world of credit, perhaps especially consumer credit. But one thing seems to be a constant. To people reaching the point of insolvency and having to face the reality of it and the steps to be taken to solve the problem, the personal effect hadn’t changed a bit.

The majority of our customers still have to struggle with the same personal issues their predecessors had to face. I guess it's to be expected because human nature doesn't change much, does it?

As a Licensed Insolvency Trustee ***(often referred to as "LIT" or "trustee' in this book)*** part of my job is to meet with people in financial trouble and discuss with them the ways and means of dealing with it. The alternative of ignoring the problem doesn't work at all, at least for anyone who wants to get ahead in life and see something for their efforts. Most of what I have to tell people is just practical common sense, with a large dose of reality, mixed in with some legal administrative stuff. But what we really do for an insolvent person ***(a person who can no longer pay their debts)*** is make them aware of how they can solve their problem - with a reasonable amount of dignity and a sense of doing the responsible thing.

Now someone reading this may think I am trying to say that going bankrupt is a good thing. That being insolvent is nothing. Well, I would say to such a person "Whoa! Try reading it again."

This book is a realization of certain things:

a. That nobody (practically nobody) wants to be insolvent or go bankrupt.
b. Nobody (practically nobody) knowingly sets out to create financial problems for themself.
c. Most of us are trying to do the best we can with our lives, including the financial part of it. It's called being responsible.
d. A responsible person essentially takes responsibility for their situation and their actions, including when mistakes are made and bad things happen.
e. A responsible person faces a problem and tries to solve it, even if it means paying a price. There is nothing free in this life, is there?
f. A smart, responsible person tries to learn from the experience to ensure that any mistakes which have been made are not repeated - ever.

If they're lucky they will see that all the tough things they've been through can be turned into an opportunity to learn, grow and make things better. Take a negative situation and turn it into a positive one. That's what this book is about.

Easy? Not! Though it will be easier for some than for others, it will never be easy. Everything will hinge on their own determination and ability to control their own psychological and emotional outlook. But it can be done and like everything else, it has to start somewhere.

That's why I like the title of this book: "The Glass is Half Full". We have been using this maxim to show that there are different ways of seeing the same thing. The reality is the same - there is always the same amount of water in the glass, it's just that one person will see it positively and another will see it negatively. I think the best way to turn the negative experience of going through an insolvent situation, perhaps an attendant bankruptcy or consumer proposal, is to see it positively and use it that way.

I hope you enjoy the book and get somethiing out of it that can help you.

Make the most of it. See the glass as half full.

Chapter 1

The Evolution of Consumer Debt

Debt in some form has been around probably since humans developed a memory. But debt, as we understand it today, really took off when humans invented money to replace the barter system.

Personal and commercial debt has become so ubiquitous it has begun to shape almost every aspect of modern everyday life. Ordinary folks like us, businesses and even sovereign nations - have been caught up in an endless borrow-and-spend-and-repay cycle that often leads to an ever-increasing debt load of which we are mostly completely unaware until it's too late.

In Canada and most of the Western world today we live in what we call a consumer society. Personally , I truly dislike the word "consumer" because it seems to dehumanize us somehow. As if our entire reason for living is to consume stuff. However, since we're all inured to it by now, let's use it. But first, let's see what we mean by it?

My opinion is that it refers to lifestyle; the way we live. Whether we're rich or poor, or somewhere in between, we apparently all "consume". Everything from food to TV sets, computers and smartphones. Let's look at how we got here.

The Consumer Wheel

It wasn't until the end of WWII that the term consumer started to be heard to describe our society. Before the war, after the decade-long Great Depression that followed the 1929 financial crisis, ordinary people did not have easy access to credit from a bank or lending company. Lending was done with a high emphasis on collateral security.

Bankers used to have a saying that if someone wanted to borrow money they had to "put a gold brick on the manager's desk" for collateral. Then they'd consider lending us some money. Since very few people had gold bricks lying around, an ordinary family which needed a washing machine

had to save up for it. In the meantime they had to live with the old wash-tub and scrub board.

When the war was over and all the soldiers came home, the needs of all those reunited families with their ensuing “Baby Boom” created a huge and urgent demand. Very few of these families had any gold bricks lying around, but they did need something to wash their clothes with, or cook their food, or take them to work.

So there was a large demand for stuff. Remember these were the people who had lived through the privations of the Great Depression as well as the war. They were very eager to get on with a better life than they had lived up to now. Expectations were high.

Meanwhile industry and manufacturing, which had been going full tilt making all that war equipment for the previous 6 years, were converting back to making civilian goods. After a bit of a delay, they started to meet this new and booming demand. By the 1950s they had a lot of stuff to sell and there were a lot of people anxious to buy it. The old Supply & Demand principle. The trouble was, if banks and other lenders went back to the old gold brick system who would have the money to pay for it? The demand couldn’t be met. But old habits are hard to break, perhaps especially for people lending money.

Fortunately, there were other, lesser-known lenders who were primed to step into the lending vacuum. We’ve all heard how nature abhors a vacuum. These “new” players were called “finance companies”. We may remember names like Household Finance, Beneficial Finance and Citizen Finance, three of the more prominent ones. These companies took a different approach. When the family with zero collateral wanted a car, or needed that washing machine, these companies would look at other factors, the main one being income. If the husband had a job, a regular income , chances are they could take on the loan and be able to afford a monthly payment. So the folks got their car, or washing machine, the manufacturer sold what it had produced and the finance company was repaid over time. Everyone was ready for the next need/purchase. The Consumer Wheel was off and spinning.

I shouldn’t portray all this as some kind of negative thing. This arrangement worked pretty well. Still does for most people. For the vast majority of us it raised the standard of living to previously unheard of heights.

When manufacturers sold their products they could make more. That provided jobs for their employees who in turn bought stuff, too. The competition this produced encouraged improvements in both quantity and quality. That allowed them to sell more. Meanwhile the “consumer” (us) had more and better stuff to acquire. And because of consumer financing they didn’t have to wait years to be able to get it. Who wouldn’t call that a win, eh? Compared to previous centuries this was like magic.

Ordinary people, by the millions, were able to obtain credit at more or less reasonable rates and used it to improve life for themselves and their families. Materially we started to live a heck of a lot better than our parents and grandparents. Business and industry were encouraged to keep raising the bar, so to speak. It was worth their while because people were always looking for something new and better. Chances were very good that they’d have no trouble selling what they produced.

The Difference Between Need and Want

However, scientists insist that for every action there is an equal and opposite reaction. Over time this system started changing our attitude and outlook in some unattractive ways. People got quite used to owing money. Where their parents and grandparents would have been doing everything in their power to pay off any debt they had, the new generation kind of got used to monthly payments. No big deal. Everybody does it, right? Well, maybe.

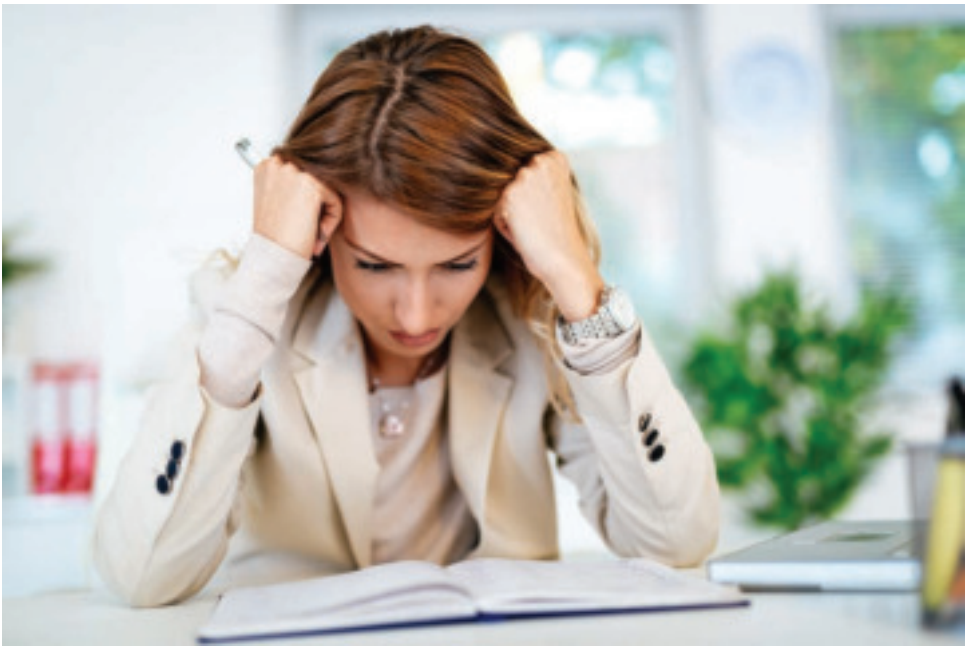
Another effect of this new reality seems to be that making credit “easy” blurs the difference between “need” and “want”, though we should know the difference.

We see some new product, so much more attractive than the one we already have, and think “Gee, that would be really nice to have that one.” This doesn’t necessarily mean we need it, just that it would be nice to have. Our grandparents would probably have asked themselves “Do I really need this?”, because they could not whip out a credit card and simply get it. They would have had to save up for it and when we have to do that we generally become pickier about spending the money we are accumulating. A reluctance to spend it tends to develop. But “easy credit”, a credit card for instance, impedes the development of that restraining influence. Perhaps for most of us that restraint is not critical. But for a lot of people it, or at the lack of it, is very important.

The corollary to this is that if we think we “need” it, then we must need it NOW. The old fashioned concept of saving up to buy things forced us to cool off a little - think it through. Today we can have it NOW. That little piece of plastic in our wallet or purse says so. When it’s that fast and easy it becomes really tough to control the urge to buy and that can quickly become a habit.

I don’t doubt that there are many other pros and cons which can be discussed about the operations of the Consumer Wheel, but from my perspective as a LIT these two developments tend to be the major ones. They combine to sap our self-control and this tends to make us vulnerable to the worse effects of not being in control of our financial affairs.

Not everyone who consults me has followed the specific path I’ve been describing, but almost to a man or woman they know that either they’ve lost financial control, or soon will, and that their debts are about to reach critical mass - maybe already have.



Chapter 2

How People Get Into Debt

Before we get into what people can do about debt problems and how they can turn a negative situation into a positive one, it might be a good idea to look at how people get into these situations in the first place.

In the previous chapter we discussed the Big Picture of how this consumer credit society developed . Let's go from the general to the particular.

When we look at how people get into debt, especially after it's gone off the rails, we should start with the well-known outside factors. you know what I mean, given the extent of the advertising and marketing we see all around us. They all send the same message: "you need this" and "buy it now". They may not also say "and charge it", but they don't have to, it's implied. The advertising always makes acquiring it sound so easy. It would take a massive amount of self-discipline to say "No, thanks."

There isn't very much we can do about the existence of this outside pressure. It's all around us and we know how much control we have over that. Obviously, when it comes to all the advertising and marketing thrown at us every day, the secret will be to control ourselves, not them.

This also includes pressure which comes from closer to hand. Any parent knows how hard it is to refuse their 4 year-old's demand for the latest toy or a 13 year-old's call for a new tablet because everyone else has one and they have to stay connected, don't they? Sound familiar?

Part of our trouble in dealing with our own, or loved one's, "wants" is that we tend to narrow our vision. First we transpose "want" for "need", which eliminates uncomfortable questions. Then, instead of taking a deep breath and making a general review of our finances and weigh the overall pros and cons of our decision, we focus only on **can we afford the payments.** If we have a job and a steady paycheck then why not? Our current payments aren't all that high, so adding this new one won't break us. Where's the risk? (Well, there are always risks.)

But we can't blame everything on advertising and wants instead of needs. There are many much more credible ways of getting into debt. We might be forced by what we think of as necessity to borrow some money. We start having car problems. Repairs are expensive, and getting a new car won't cost that much per month, right? Well, maybe, but I'll bet it will cost more than the repairs, and how many years will it take to pay off that car loan? The repairs charged to our VISA can probably be paid off in a few months.

Then there are unforeseen challenges, like health problems which rob us of a paycheck for awhile. We have to borrow to keep existing payments up to date. Robbing Peter to pay Paul, as the phrase goes. Taking a cash advance on one credit card to make the payments on two others. The end result is that we just went deeper into debt by whatever the interest was on the exchange. Do that often enough and we can dig a very deep hole for ourselves.

Another way to get into debt is to co-sign or guarantee somebody else's debt. This can be a tough one, because the people who ask us to co-sign for them tend to be our nearest and dearest. It makes it hard to refuse. The trouble is, no matter how good their intentions there is no guarantee they will be able to make the payments. If they can't, guess who will have to pay it? That's right, the co-signor or guarantor.

Another very common way for people to get behind the eight ball of debt is to run into problems paying their income tax debts. Though this generally applies to people who are self-employed, it isn't restricted to them. We all know we are supposed to pay our income taxes. It's part and parcel of being a good citizen in a self-taxing society. It's one of our most important civic duties. Where we run into problems is with the management of our income - especially if we are self-employed.

Most self-employed folks understand that when we bill someone for our services we need to do two things: charge 13% more to cover the value-added tax (GST/HST) and when we receive the cheque **it is not all ours.** Some of it is the GST/HST and some of it is the income tax we have to pay on our own income. As an example, when we receive a cheque of $11,300 for our services ($10,000 for the work and $1,300 to cover the HST) it isn't all ours. The proper way to handle it is to immediately set aside the HST portion ($1,300) for eventual payment to CRA and set aside a further percentage *(15%? 25%? 30%? - an accountant can tell us the proper percentage)* for our own income tax payments.

The most common reason we get in trouble with this is a thing called the squeaky wheel syndrome. On a day-to-day basis the HST doesn't have to be sent to CRA immediately. Other bills however often demand immediate payment. So the money we have in hand, even though some of it is supposed to be for taxes, ends up being used to cover these more urgent demands. Sure, the intention is to make it up later, but later never comes. In no time at all we owe the government $12,000 in HST and we do not have it set aside anymore. It went to pay other bills. It's amazing how fast this can build up.

One of the really big problems for us regarding the non-payment of our income tax and HST debts are the penalty and interest factors. It's stunning how fast that $12,000 in unpaid taxes will turn into a debt of $20,000+, with penalties and interest.

These are only some of the ways people get into debt, and perhaps ultimately - debt problems. Too often they reached the problem stage without even really knowing they were there. But, these are not the most common and frequent ways people get into debt. The most frequent is called .... wait for it ..... **credit cards**.

Yes, we knew this was coming, but it's a sad fact. As convenient and useful as credit cards are, they can also be the fastest and easiest and most subtle path to debt problems.

I should probably qualify this a bit. One credit card seldom leads to financial problems. Many credit cards often do. So really we are talking about financial management, or more accurately, mismanagement.

It is a seductive trap, though. I doubt many of us have only one single credit card. But then, if we have one card it's inevitable that we will be offered many, many more. This is where the seduction starts. What's the harm, eh? We don't intend to max them all out, right? Yet, when times are good and we can afford the payments, we seem to find it easy to run up the cards. Mainly it's the convenience. We never have to worry about carrying cash. Sure there are debit cards, but the credit cards don't have to be managed quite as closely. Here's an example. We go into Home Depot to buy two door chimes at $30 each + HST. We're in hurry so there is no time to stop at the bank to withdraw the $68 we'll need to buy them, but we don't have that much cash on us. No worries! Out comes the card and we walk away with the chimes - and we only have to pay the $68 when the credit card invoice comes in. What could be easier and more convenient?

But, the invoice does come in and, of course, we can't quite pay it off completely as we intended. Other things have come up which are more pressing. So now we are paying interest on our card balance. Hmmm? Didn't quite work out like we intended, did it? Oh, well, we can pay it off next month.

But, all too often "next month" never comes and if we have quite a few credit cards, the situation can, and will, replicate itself with the other cards and the next thing we know we're into the rob Peter to pay Paul syndrome again. It is staggering how often this situation is at the root of the problem in which so many of our customers find themselves. Not surprisingly, when we try to help them analyze the situation very few people can identify the turning point. It just seemed to happen.

There are many other ways for people to get into debt - and subsequently debt chaos. There are physical and psychological issues, compulsive behaviour problems, unforeseen unemployment and so forth. Some of these are very difficult to identify and they certainly are difficult to anticipate and control. But the end result is the same: they can't control or resolve it by themselves.

Consumer debt seems to be a necessity in modern life, or at least it appears to be almost inevitable. But does it have to be anyone's undoing? The answer lies generally in how we manage and control it.
How and where does this debt lifestyle start?

For many of us, the journey begins at a very young age. Maybe even as a minor, with someone else signing for us as a guarantor. Then, as young adults we take on a student loan, to pay for an education. Not a bad thing in itself. After all, we are getting an education and no payments are required while we're still in school. *(But payments will ultimately have to be made.)* Then someone talks us into signing up for a "student VISA". Cool! We are responsible adults so we don't plan to go overboard. We'll keep things in order.

After graduation we get a job, though that may not be as easy as it was for the previous generation. So, we'll need a car for the job, but who has $20,000 lying around?

However, with our new salary it looks like we can afford the car loan payments, so we drive away from the dealership with a shiny new car and a

shiny new payment to add to our credit cards and student loan. Hey! It's all OK. We have a job and we make enough to afford it. The car loan people evidently thought so.

This sequence of events may go on for a while as the car gets older and other pressures manifest themselves. Later we may even find ourselves taking on a mortgage for a new home. Beats renting, right? A bank gives us a loan and we feel very confident that we can afford it, because, well, we figure that banks are not in the business of taking big risks with their money so they wouldn't give us a loan if they thought we couldn't afford it, right? Besides, we're doing well at work and we have everything under control and real estate is a good investment.

So we carry on. We pay all our bills on time. Sure, we have to juggle our credit cards sometimes, but we have a tax refund coming and that'll help catch things up. We just got a promotion and raise at work and we are even able to save a little money, like a Tax Free Savings Account. In general, we're doing just fine - nothing to lose sleep over.

We are enjoying our lifestyle. Retirement is still a long way off and why sweat too much over potential problems. Besides, our Beacon Score is over 700.

What we don't realize, probably because we don't step back and take stock of our situation, is that we are living pretty far out near the end of the tree branch. It wouldn't take a very stiff breeze to start shaking our world. What would happen if a storm hit? How about a hurricane?

After a few years of this we find that making monthly payments is becoming not just a drag, but actually more difficult - perhaps almost imperceptibly so. Maybe we're still paying off the last bits of our student loan; the car loan has several years left to go; there's the mortgage to pay and our credit card bills are racking up interest charges that we don't even want to look at and the minimum monthly payments are rising, but we're still coping.

Then trouble starts. The car needs some $1,500.00 worth of repair work to pass the emissions test and we'll have to charge it to MasterCard because we don't have the cash. Then all of a sudden, our daughter needs some dental work, but our insurance doesn't cover it because it's cosmetic (according to them) so the $3,000.00 charge also has to go on our VISA or MasterCard. But then, that's what the card's for, isn't it?

The total debt has increased from a few thousand dollars to a few tens of thousands of dollars and we have trouble understanding how it got there. We look around for a solution. Our Beacon Score is still good, so we get a consolidation loan from the bank to pay off our four active credit cards. Great! Problem solved. We have greatly reduced our monthly payments (that usually happens when we pay off high interest debts like credit cards with a personal loan from a bank) and now we only have 3 payments a month instead of six or seven: the bank, the car and the mortgage. Life is good again!

Perhaps it's only human but, after months or maybe years of constant worry and stress, the chances are that in our new-found euphoria we will stop paying much attention to our finances. All our debt payments are now coming out of our account automatically every month and we don't even notice it. If only we'd remember that this inattention is what got us into trouble in the first place. There is a very good chance the whole cycle will eventually start repeating itself because we haven't changed what's most important: our attitude and our behaviour.

Everything you have read in this chapter reflects much of what I have seen over the years. But there are many other scenarios and combination of events which will lead not only to going into debt, but also to debt problems. Some can genuinely be ascribed to misfortune and there's not much to be said for that because we can't do much about it. But an awful lot of problems result from something other than misfortune or bad luck. This is where our opportunities lie. We can focus our attention on our own choices and decisions and try to change our glass from the half-empty feeling that goes with things being out of our control, to the half-full feeling that goes with empowerment and a situation we can control - at least enough to make things better.

There is never very much we can do to change other people and practically nothing we can do to change how big enterprises like banks and government agencies operate. But we do have a very good shot at changing what we do - our own actions, decisions, behaviour and habits. Let's not kid ourselves, it won't be easy. If it was everyone would be doing it, right? But we know from our own experience that we can do it. Who else can? All we really need is the motivation and a plan of some kind. Yes, a little luck and some support from our nearest and dearest helps, too. But we can do it. In fact, we're the only ones who can.

So when it comes to credit management we have to decide who is going to be in control of our financial lives? We or the credit cards. Our call.

Chapter 3

The Psychology of Debt

Why Debt Can Be a Vicious Cycle

During the over twenty-five years of my insolvency practice, I've seen thousands of good, honest people with problems at the root of which is their inability to deal with credit demands. Though we should never try to blame "the system" for problems which emanated largely from our own choices, I do know that the system does play its part in the plethora of insolvent situations we see today. In a subject like this it should be apparent that the system is extensive and extremely complex, so I won't make any attempt to cover or explain it all, even if I could. I will focus on what I have seen that directly impacts on the reality we see today. I am old enough to have seen quite a bit of it.

First some statistics. I went to work for a finance company in 1967, what most of us in that field later came to realize was the last hurrah of that industry. This was when VISA was known as Chargex and MasterCard was brand new in this country. Very few people had credit cards. We had to be in very good financial shape to get an American Express card. I know, I tried. When people needed money for a purchase they went to a bank or a finance company to borrow it - for a small sum they went to the finance company.

In 1969 I came into contact with my first bankruptcy; one of my loan customers had filed. This was a very rare event. If I read the statistics right, there were roughly 4,000 bankruptcies filed in all of Canada that year; less than half of which were non-business or "personal" bankruptcies. It was the only bankruptcy I ever saw while in the consumer loan business.

A decade or so later, in 1982, I joined the Federal Superintendent of Bankruptcy office. By then bankruptcies had multiplied eight times - over 30,000. Ten years after that, in 1992, they almost tripled again - over 90,000. In 2009 they peaked at something over 150,000. Since then they seem to have leveled off at about 120,000 a year.

Why? Could it have anything to do with our changed lifestyles and the ease with which credit is available to the great majority of us, unlike former times?

I've lived through the whole gamut of change of how consumer credit works. The whole concept of debt is different nowadays. Easy accessibility to credit has made people more familiar with debt. We know what they say about familiarity breeds contempt, eh? Debt seems to have lost its stigma in some way and is now a part of everyday life.

In 1969, when I ran into my first bankruptcy, practically nobody actually knew someone who had gone bankrupt. We just didn't. There weren't that many of them. Oh, we all heard stories of bankruptcy, but none of us actually knew a bankrupt, or former bankrupt. Because the vast majority of us had no personal acquaintance with a person who had filed for bankruptcy it was relatively easy to assume that bankruptcy implied something shady, or devious, or even illegal. Certainly something wasn't right. In other words, we assumed the worst and bankruptcy couldn't help but carry a stigma of, as my old boss said once: shadiness. I know a person who went bankrupt back then usually found it a long hard road to restore their credit rating - their financial reputation.

Today it's a different world. It probably would be harder to find someone today who doesn't know someone else who has gone bankrupt. In the time I have been a trustee close to 10% of the population of the country has filed either a bankruptcy or a proposal. It's no surprise that practically everyone knows someone who has filed. It would also be no surprise to discover that bankruptcy and proposals don't carry the same stigma they did 50 years ago.

Most of us owe money and are paying off debt in some way or another. Seriously, our debt levels today do account for something.

According to Equifax Canada, every Canadian currently carries a debt load of about $22,595 per person in non-mortgage debt, which includes credit cards and many lines of credit. This is a 3.3 percent increase from the year before, 2017, and with continued increase of interest rates and borrowing costs this number could escalate as more and more consumer debtors may eventually find it difficult to keep up with their payments.

Student loans are a debt burden to 67% of Canadians who owe an average debt of $22,084 at graduation, and 62% will still be paying off the loans in the next 20-25 years.

Household debt levels are steadily climbing so that in the coming years even debt-free Canadians could eventually feel the pinch of someone else's credit card and other debt.

People seem to be living in an ever-expanding debt cycle without any real understanding of its consequences and, what's even worse, not seeming to care very much about it. As long as they can make their monthly payments they're OK. They're within their budgets, so they keep spending. Matthew's parable of the wise builder comes to mind. Things haven't changed much in 2,000 years: build our house on a rock and it will likely stand, build on sand and it will wash away the first time it rains.

Continued borrowing and spending is like building on sand. A reckoning will probably come.

I am not talking about anything fancy here. Every day in my practice as a Licensed Insolvency Trustee what I see is ordinary working Canadians struggling with serious debt trouble. Normal individuals and families with median income, getting up every morning and trying to do the best they can for themselves.

Here are some examples of the people we meet:

- A staff accountant who earns an average salary of $49,895 per year with multiple lines of credit, several maxed-out credit cards, a big mortgage, a fairly large home-equity line of credit (HELOC) and a leased car.
- A TTC bus driver with a mortgage and more than $100,000 in unsecured lines of credit and credit cards.
- A senior financial analyst working at a chartered bank with seven credit cards maxed out and the high balances costing thousands of dollars in a year in interest charges.
- Small business owners with chronic tax problems - both personal and HST.
- And, of course, the twenty-something unsuccessfully (so far) trying to find a job in the field they went to school for, but they owe over $25,000.00 in student loans to go with $15,000.00 in credit cards.

While each one of these examples undoubtedly involves a certain amount of misfortune and circumstances which were not entirely in the individual's control, there came a time in every example above where choices were made and decisions taken probably without a great deal of thought for the consequences or likely outcome.

This might seem harsh and probably it's my job that causes it, but it often seems to me that "drowning in debt" has become the default financial mode of today's lifestyle. It seems to be an automatic choice for most Canadians who fall into the trap of believing that "I want" translates easily into "I need" and when I need something, I should get it.

We've all heard over and over again about how people today have developed a habit of instant gratification. There is no time lapse between seeing something, deciding we want it and then getting it. Credit, especially credit cards, makes this possible and after awhile just the way it is. We don't seem to really think about it much. We just do it.

If we think about it, it is really hard not to. We see so much that tantalizes, it would take a tremendous effort at self-control to withstand the temptation. It would take an even bigger effort and motivation to develop the habit of self-control. Some can do it, but from my vantage point they are the exception.

What undermines our efforts is undoubtedly the ease with which we can satisfy these urges. The ready availability of credit - otherwise known as the credit card.

While a combination of factors cause people to suddenly find themselves in debt trouble, like unemployment, medical emergencies and paying for unplanned and unforeseen circumstances, a common culprit for those in significant debt trouble is because they have funded their lifestyle by using credit. Most of the debt they accumulated was taken on when times were good and they had money. They just spent more than they had.

Many of us have made the leap into the cashless society and are living off our available credit. We buy a cup of coffee that costs $3.28 or a $23 double medium pizza and put it on our credit card. Just put it on the card - it's become a way of life. The credit card companies don't make it any easier for us to say "no", what with the array of rewards options such as points and privileges that we are able to exchange for all kinds of goodies: shopping, travel, dining, and, most practical of all, discounts for grocery,

gasoline and movie tickets. It really isn't easy to leave the plastic at home, or at least leave it in the wallet or purse.

Even formerly conservative banks and credit unions promote personal loans and/or credit cards to encourage customers to spend and borrow. They give out special loans such as non-traditional home mortgages and promoting spending sprees with Black Friday and Cyber Monday Deals. They give ATM Cash Bonuses and Skip a Payment promotions that offer members a "free pass" on their loan. All kinds of reasons to use credit and very little incentive not to.

Though most of us don't exactly go on a borrowing binge, we are easily susceptible to the "financial enticements" of aggressive lending. It often sounds so plausible. When we have a credit card granting us bonus points to buy something we haven't really given much thought to needing, but we think we can afford the payments, it's very easy to see how we can end up with a large debt load.

So it's all their fault, right? Our problems are all the fault of those nasty credit cards and easy credit policies of the companies who push them. It's not our fault at all, is it? Well, we all know the answer to that one. In fact I talked about it in the previous chapters; who do we want controlling our financial lives, the credit cards or us. Trust me, with a large amount of debt relative to our means, we are not going to be in control of our financial lives. That will create stress and in turn stress will eventually start having a deleterious effect on the rest of our lives: our relationships, our health, our work performance, etc.

We will probably all have the need to use credit at some time in our lives. There are many kinds of credit like investments that can add value to our lives and we need to account for that. There's the mortgaged home and financed vehicles, the "musts" of life that need to be planned, such as college costs and retirement, as well as the unplanned possibilities, such as medical emergencies, unemployment and relocation. It's easy to see how debt can build up. But without the necessary self-discipline to manage the debt we incur, especially keeping it within sensible limits, we will spiral out of control.

So, the world of today is not the world of our grandparents. But just like them and every other generation we have to deal with life as we find it - play the cards we were dealt.

We seem to have become a culture of spend, spend, and more spend. But that doesn't mean we have to relinquish control of our financial affairs. We have to decide who is going to be in charge - us or the credit cards.

So, though the psychology of debt is different today than it was in times past, the challenge for us is to recognize that fact and act accordingly. To paraphrase Abbott and Costello, who's in charge?

The Effects of Debt

Today, debt is a fact of life, perhaps even necessary. For some people, usually a temporary situation, it's a means simply to survive and provide the basic needs of food and shelter for their family. For others, it's a source of money to maintain a certain standard of living that they can't really afford, even if it means living in that cycle of debt we spoke of earlier.

Debt can also be a tool that is useful to improve one's lot in life, like buying a house and taking on a mortgage. Who has the cash to buy a house, so a mortgage will be necessary. The smart move is to try to curb the appetite and not go beyond one's means. It may work out if we can truly afford the mortgage payments.

There are probably dozens of other reasons to borrow money. But all of these reasons have something in common. In each case we are giving up some control over our life - our financial life, if we want. When we have a debt it hangs over us, perhaps not as scary as the Sword of Damocles, but it will always represent an onus, an obligation, a restriction and a limitation. The degree to which debts can restrict us will depend on a lot things, but every restriction or limitation in our life represents an impediment - something that hinders or blocks our ability to move forward the way we might want. It's bad enough that in everybody's life these impediments will arise organically. There's little we can do about those, but why go out of our way to create extra impediments. Doesn't make much sense, does it? Don't forget, every such impediment creates stress.

Of course the extent of this stress depends to a large degree on the individual. Some of us may have panic attacks over just $1,000 of credit card debt, while someone else may actually be unconcerned and untroubled by a student loan and credit card balances totaling $70,000; though if it were me I'd be faking a lack of concern. Whatever way the stress created by debt affects a person, there is no doubt that it can lead to a number of issues that can diminish our quality of life.

The effects of debt stress go way beyond just paying bills. Debt actually takes much more from a person than just money. At some point, debt might prevent us from doing what we really want to do in life. Sort of like losing the sense of freedom, like we're running in a hamster wheel, trapped in paying off debt with nowhere to go but to keep paying until the debts are paid. It could take many years.

A lot of us will go through our entire life being in debt in some form. We will spend much of our working life paying off the various debts and as a result many more meaningful things we would want to do with lives will be put on hold. It would be the price we must pay for living too much in the present. It mortgages the future, so when the future becomes the present we find ourselves out of options. The past has caught up.

Debt limits opportunities. It limits our choices. As the bulk of our income goes towards paying off our debts, there's really not much else we can do. So much for any goals and dreams. It's always sad to see people who are deeply in debt when it catches up.

When we speak about the effect of debt, we really need to talk about the heavier costs it imposes. Debt creates stress and stress creates a lot of things, most of them bad. Some of the most common things I see as a trustee are the so-called hidden costs, though generally they aren't so hidden.

One of the most obvious effects of having debts is the negative effect it tends to have on our health and happiness - especially over time. Medical science today knows a lot about the far-reaching effects of stress. A trustee often sees it up close. The broken marriages; the history of physical breakdowns, from ulcers to cardiovascular problems; relationship issues with the kids; employment problems and the list goes on. Not being a doctor, I have no expert opinion, but I can't help feeling that the concern and worry over debt issues must have had some effect.

This is compounded by the downside of debt mismanagement: falling into arrears with the payments or even defaulting. If we haven't personally experienced it our imaginations can easily fill in the gap. How belittling and demeaning it is to receive a collection call at our work, or at home. The collection call is only one of the milder examples of what lies over the edge of the precipice of debt default.

I think one of the main casualties of debt stress is the marriage, partnership and family. Nothing is more intimate and often fragile than the in-family relationships. Of course they can also be very strong, but no matter what, these relationships are extremely vulnerable to pressures that wouldn't even be noticed in other circumstances. It can build resentment, with our spouse or partner, blaming us for losing a job, or not making enough money, or reckless behavior that got us into debt and placing our family in reduced circumstances.

When debt becomes a burden, it can feel like living in a nightmare for the individual carrying the load of debt. The constant worry about money, the immense feeling of being overwhelmed, the hopelessness of seeing no end in sight, the guilt that goes with the knowledge of being responsible for the problem in the first place. They can trigger an array of physical, emotional and psychological issues from binge eating to excessive drinking to experiencing feelings of severe anxiety and depression.

Debt stress is one of the most difficult kind of stresses for anyone to deal with, according to the American Psychological Association, with its repercussions affecting not just our credit score, but also impinging on our financial independence, career choices, well-being and standard of living.

So far we have been talking about the effects of debt, but in doing so it is difficult to ignore the situation when the debts are not paid back as required; in other words debts that actually go into default. The consequences can be truly horrible. Even though most debts do not go into default, it is important to appreciate that all debt creates stress, which can be ruinous to some people. The extent of its effect will depend on the individuals involved, but none of it augurs well.

In any case, the importance of the message in this chapter is that though debt can have beneficial effects on our life, if properly approached and managed, the more common and widespread effect of debt is actually negative - stressful and fraught with consequences most of us would really rather avoid.

The constant message of this book is that we have it in our power to avoid the pitfalls and handle debt properly to achieve positive and desirable results. We don't have to let debt control us.

Chapter 4

The Good, the Bad, and the Ugly - Types of Consumer Credit

There are many reasons for using credit and incurring debts. Obviously some of these reasons will be better than others. I believe many of our problems can stem directly from how we assess these reasons. With apologies to Clint Eastwood, let's call this the Good, the Bad and the Ugly of it.

However, before we start making qualitative judgments about debts, let's make sure we all know the categories of debts and how they operate.

Debts come in different shapes and sizes. Each will carry certain interest rates and terms, depending on the type of debt, and the lenders will have their own criteria for the debtor to qualify for the loan. Let's look at different debts by category:

Secured Loans

This type of loan requires collateral as guarantee or security for repayment of a loan, something valuable that the creditor can take and sell to recover his money in the event we fail to repay the loan. Some common examples of this type of debt include mortgages and secured car loans in which the lender can seize the home or repossess the vehicle in case of non-payment. Pretty well any loan can be secured, regardless of amount or term. Generally secured debts involve larger amounts and have longer or special payment terms. Lenders most often do not ask for collateral for smaller loans. The risk is smaller.

Home equity lines of credit (HELOC) are often classified as revolving debt, but since the HELOCs are secured with a lien on our home, they are really secured loans.

Unsecured Loans

Unsecured loans do not have collateral attached to the loan. Since they are made without any security, there is no protection of any kind for the lender in case the borrower defaults on the payments. The lender's ability to recover what he lent out, plus the accrued interest, is limited to age-old collection methods.

The most common example of this type of debt is the credit card. Credit cards, almost by definition, don't involve collateral security, though they might involve a co-signor or guarantor. The credit card company simply lets us use their money - at our discretion - and we agree to repay it on certain terms that are set out in the contract we signed at the beginning. These terms spell out when the payment is due, how much the interest charges will be, when they take effect and what penalties we will be charged if we don't meet the repayment terms of the contract.

There are other common unsecured debts, such as student loans, pay-day loans, note loans, etc. Unsecured loans typically are made for smaller amounts, but the ceiling is up to the lender. It is the lender's risk. Once he lends us the money he has no absolute idea of whether or not he'll ever see a dime of it back. That's what they mean when they say that lending money is a "risk business".

Revolving Debt

Revolving debt is one of the fastest types of debt to build up and the hardest to pay off. It iis basically a line of credit which allows us to borrow money, pay it back, borrow, pay back and repeat this over and over again without having to make any further application for money - in other words up to our predefined credit limit. It's easy to see why it's called "revolving." The amount we owe keeps going up and own, or round and round, and we'll continue to be in debt as long as we keep using the credit. It will only stop when we stop using it and, of course, we finish repaying whatever we used (plus interest).

The most common example of revolving debt is the good old-fashion credit card. As long as we don't run it up past the credit limit we can use the credit card on pretty well anything we want for as long and as often as we want. Of course we have to keep making at least the minimum monthly payments . They frown on us if we don't.

The impact of each type of debt on an individual's financial situation and quality of life can vary from case to case. Take for example a sizeable student loan. This could be a good debt or a questionable one. Good for someone who can use it to get an education which will provide a fulfilling career that would generate higher earnings . On the other hand, it might be Bad for another person to borrow the same kind money for an education which does not provide the employment and career opportunities to even repay the loan in some kind of reasonable time frame, let alone make for a secure financial future.

Now that we know the definition of the main forms of consumer credit, let's get into the Good, Bad and Ugly of them. It'll be useful to notice that it's not the credit itself which is Good, Bad or Ugly. It's our reasons for getting the credit that matters most. I do acknowledge that there are forms of credit where the charges themselves are rather ugly, but it always comes back to the fact that we are in control of our decisions, so let's stick to that theme.

Why and how do people borrow money? This list is not expansive and all-inclusive, but it will give some idea of what I have seen over the years.

MAKE A BETTER LIFE FOR OURSELVES:

More often than not this might be classified as one of the Good ones.

Student loans and mortgages are good examples of this. We take on a student loan to get a better education, thereby giving us an opportunity to obtain a better job and live a more prosperous life. We abandon renting by purchasing a home and, so taking on a mortgage, can give our families a greater sense of permanence and allow our children to grow up in a more stable environment.

Tough to argue about these goals, so we won't. But we have to be careful. Just because a student loan is intended to get a higher, better education doesn't necessarily assure us of that outcome. A lot depends on the type of education we're going to get and how big a debt we will incur to get it. Taking on a student loan of $100,000 or more might be a good deal for us if we're going to end up being a medical doctor. They generally make a lot of money over their career and can usually repay the debt fairly quickly and go on to benefit from the high earning they will enjoy.

On the other hand there are a lot of jobs out there that might make taking on a $45,000 debt to learn it not be such a good deal. Very few people in those businesses make the kind of money that will allow them to repay the $45,000 - plus interest - in any kind of reasonable time. We could end up being unable to find a sufficiently high-paying job to even have a chance to repay it. I see people in this position frequently.

It might be a good idea to do as much research and analysis as possible before leaping onto the student loan bandwagon. We need to at least try to see if the liability will be worth it to us down the road.

HELP US DEAL WITH THE DAY-TO-DAY:

This can be both Good and Bad - and sometimes Ugly, depending on various factors.

We get a credit card to help us meet our everyday basic needs. If we do this because we're focused on going to school and cannot earn enough from part time work to cover our rent, food and transportation, but we are very careful about how much we use it and never put anything frivolous on the card, we might make it through our schooling, get a full-time job and be able to pay the card off and eventually get completely out of debt. But the key here will be to treat the card with kid gloves.

On the other hand, if we aren't careful and allow the card to escalate by using it for less-than-necessary reasons we will get in trouble. We will be using the card when we do not have the means to meet high payment requirements, but that's exactly what we will end up having to do. Again, I meet people in this situation.

Putting our day-to-day expenses on credit generally only works for stop-gap reasons and even then usually only for a short period of time. It is risky and usually requires practically all our plans go right. If anything goes wrong the whole card castle can collapse.

WHEN WE FEEL WE HAVE NO CHOICE:

Same as the previous one; sometimes Good, sometimes not.

Most of us face these kinds of decisions at least once in our lives. We find ourselves in somewhat dire circumstances, not life or death, but dire to us - and money is needed to deal with it. So we use the credit that's available to us and take a cash advance on our cards. We expect to be able to clear it off when the crisis is over, but that doesn't happen as fast as we planned. Since the debt is significant in relation of our income it drags on. Maybe we can only afford to make the interest payments. Meanwhile the rest of our life has gone on and eventually the carefully balanced situation is upset by a new "crisis" and everything collapses.

It's very difficult to be strictly objective about this kind of situation and the decision that will go with it because a "crisis" usually brings our emotions into play and emotions tend to make things very subjective, don't they? Looking at it clinically we can say that we should make every effort to be objective when weighing the seriousness of the situation and try to be as logical and unemotional as possible when deciding what to do.

If we do decide to incur the debt(s) to deal with the situation then we should try to orchestrate things so that we are in the best possible shape to a) deal with the payments and b) pay it off as soon as possible. Of course that should go for all debts, right?

EMOTIONAL DECISIONS:

Seldom does this not eventually turn out Ugly.

There are certain times in our life when we take on a obligation, often financial, and we know it's not a very smart move, but we just can't help ourselves. One of the most common examples of this has been the automobile. According to government research, for some reason this seems to apply to men more than women; but I guess there are other things which would reverse that application.

Anyway, the automobile tends to lead many people to make really poor value decisions. In some cases it may be that "new car smell", but really it applies to a used car purchase, too. If it only happened once it wouldn't be so bad, but people will repeat this business of going into debt buying a car they can't really afford, though can make the payments.

Here's how it works. They take out the car loan, a 5 year repayment plan, and make the payments for a couple of years, but then the car wears out its welcome. So they trade it in on something newer and need a new loan to cover that. The only trouble is they haven't finished paying for the first car yet and the trade-in allowance they get for the old car is a lot less than is owing on it. After all, they still have 3 years to go. So the new loan not only has to cover the purchase price of the new car, it also has to pay off the balance of the first loan. They will repeat this process every 2 or 3 years because, well ....?

If the purchaser is 20 years old when he buys the first car, 22 when he buys the second, 25 when he buys the 3rd car and so forth, by the time he's 40 he might owe $60,000 on his 10th car loan and the car he's driving is only worth $15,000. That's what comes from financing and refinancing so, in a sense, we perpetuate the debt. We never actually paid off any of the first 9 cars we bought and we have paid interest upon interest - never a good thing.

Emotions have their place, but we need to try to keep them off the new or used car lot. Having been there I can tell anyone it's a lot easier said than done. But, as I have been saying, who is in charge of our financial life

EGO:

Another to be classified as the Ugly.

Something very similar to the emotional decisions we just talked about, but I think a little different, is the matter of our egos. There are certain times and situations in our lives when we just need to make a good impression. Anyone who has ever been in love understands that one. However, here we are talking about money, debt and financial control. Ego can really cause problems in this area.

There is always the proverbial "keeping up with the Jones"'. (I don't know why the Jones' are always picked on for this, but I guess that's why it's called a proverb, nobody knows the reason.)

Anyway, the folks next door get a new car, so the pressure is on. It beats me why, but for some people this matters. We know the rest of the story, don't we?

This story can take on many forms, but the one constant seems to be "ego". Now if we have the means to afford these purchases so much the

better. However, if we don't have the means and we keep using our credit cards, or bank loans, or lines of credit to fund a fancy lifestyle simply to fuel our ego, we will eventually reap what we sow.

OUR SENSE OF RESPONSIBILITY:

Living up to our responsibilities cannot be classified as anything but Good, but if we aren't careful it can eventually go Bad, though perhaps not often Ugly.

We have a family. We juggle the credit card payments to buy groceries and meet basic needs, so we can set aside some money for our kids' future tuition fees. On the surface it might not seem like a smart move because of the high interest on most credit cards. But in this case, the savings plan is an official RESP where the government kicks in some money in addition to what we put in. If the amount contributed by the government exceeds the interest charges we incur when we put our groceries on the credit cards it might turn out alright: the net result is that we are ahead. As long as we don't let the card balances get out of hand, this might work. Better hope that we don't experience any crises along the way, though. That could upset that applecart. If we're careful, and a bit lucky, this one could turn out Good.

Another example might be if we accept a job promotion though it means moving to a city we had never before dreamed of living in. But our new income will qualify us for a mortgage so we can buy a house, something we couldn't afford otherwise. There are a lot of factors involved in moving a family to a new city, but this could turn out Good.

Any time we do something for the purpose of meeting and living up to our responsibilities we probably are doing the right thing. However, really living up to our responsibilities involves exercising caution and thinking things through, not to mention checking with the others involved where possible.
Whatever the reasons we go into debt, most of us endure the cycle of debt. We do what we have to do to get by, which will mean using and re-using credit. The more we go cash-less, the more credit will represent the way we pay for just about everything in life: from our home and car to even the little daily purchases we make like gasoline and coffee. Over time most of us will become fairly adept at juggling - keeping the payment balls in the air without dropping any of them.

In this sense, perhaps we can further classify the debts themselves to measure what's worth putting on our tab: good debts and not-so-good debts.

Please note, I am not going to use the term "bad debt" here because it has a *specific meaning in the credit world which doesn't really apply to what I am saying.*

Good Debts

A good debt can most often be seen as a sensible investment that we make towards our financial future. It is a good thing because it will or would provide us with something that grows in value and is a reasonably good tradeoff of risk and reward.

A Good debt generally has the following qualities:

1. It is taken on for something that will likely not lose value over time.
2. It will leave us better off in the long-term and provide us with lasting and, with luck, ever-increasing benefits.
3. The debt will not have negative consequences on our present and near-future overall financial position.
4. It will help us manage our finances more effectively.
5. It will help leverage our wealth.
6. The debt is used in a responsible way, with details carefully thought out and with the long term view in mind.
7. There is a clear and specific reason for taking out the debt.
8. There is a realistic plan for paying back the debt as quickly as possible.
9. The debt was obtained through the cheapest and most effective borrowing method available, with the most reasonable interest rate, term and charges.

Not-so-good Debts

Not-so-good debts are incurred when money is borrowed for something that is not really needed and it is often money that we can't afford to borrow in the first place because we aren't sure we'll even be able to pay it back.

We can distinguish a not-so-good debt by several features:

1. It feels like free money.
2. It often provides some form of instant gratification.
3. It will not provide some increase in value to us over time.

4. It reduces our wealth or offers no opportunities to grow wealth.
5. It keeps growing, because of the interest rate and supplementary charges.
6. It seems like it will never be paid off.
7. It may have an unrealistic repayment plan.

As we can see, not all debt is the same. In terms of good and not-so-good, no debt is all one or the other. It always comes back to why are we borrowing it? What is it going to cost us? How easily and quickly can we pay it off? Will it improve our overall financial situation and/or be worth the costs (all the costs) of incurring it? What positive effect will repaying it properly have on our Beacon Score and credit rating? We could go on.

When viewed in this light, we can understand how essential it is to consider the reasons why we need to take out a loan or use a credit card in the first place. What can we gain from doing so, especially over the long-term. There are circumstances and times when it is worth going into debt and there are circumstances and times when taking on a debt can leave us in a big financial mess. It's up to us to figure it out beforehand - as much as possible, even though none of us can actually see the future. We have to try.

The Secret to Using Credit

It should be clear by now that what I am saying about using credit cards is all hinged on how we use them. The ideal way to use credit cards is never to take a cash advance and to pay off all our purchases in full when the invoice comes in. That way we will have the convenience of the plastic society without incurring any interest charges. All we'll pay is the annual credit card fee, if there is one.

Borrowing for a house or car purchase is probably necessary because of the sticker price of these things. Who has that kind of money saved up? But, instead of thinking only of the cost of the item or the amount of the loan or monthly payments, maybe we should think in terms of something called the equity.

Equity is the actual net value of what we are buying after we factor in the cost of buying it: the commissions and other charges, plus the amount we will owe on the loans once we've bought the items.

Here's an example of "equity". Let's say we're buying a car for $30,000. We could try to borrow the entire $30K, but that would mean we have zero equity (real value) in the vehicle. We'd owe what it's worth. On the other hand, if we have a trade-in for which they give us $10,000 we will have to borrow the difference of $20,000 to buy the car.

When we drive away we will have $10,000 equity in that car. In theory we should be able to recover $10,000 if we were to sell that car right now. Like I said, that's in theory. In reality a car depreciates in value, so we probably couldn't get $30,000 if we sold it immediately, but let's not complicate things. After all, I was just trying to explain the meaning of equity.

Equity should be a large consideration in our decision to borrow.

If we use credit with good judgment and with a solid plan to pay it off we stand a good chance of profiting from our borrowing. We should never take out a loan without first knowing its purpose, what long-term aims and benefits it will achieve and how we are going to pay it back and where it fits in our cash-flow budget. We must try to make sensible decisions and only take on debts that will grow our financial worth and/or positively affect our lives.

If we borrow without regard to consequences, we are far more likely to make poor decisions. Debts will quickly pile up which will ultimately have a negative impact on our overall financial position.

Here's the bottom line: It doesn't matter what kind of debt we take on, whether it is secured, unsecured, or revolving debt. If we take it on in a responsible way and carefully think in terms of the future, budgeting carefully and spending wisely, and only taking on the amount that we can afford to pay back, we can improve our chances that it will turn out to be good debt.

If this sounds like we all need the wisdom of Solomon, well, maybe we do. The best way to know how to control debt (and probably most things in life) is to look before we leap. We need to ask ourselves if the credit is necessary, what will it involve, is there a better way to get what we want than by incurring this debt and how fast will we be able to get rid of this debt.

Chapter 5

Understanding Our Total Debt

How Much Debt Do We Really Have?

Good debt or not-so-good debt, there's one thing we can count on - it will eventually cost more than received. We all know what that's called - INTEREST. Whether it's a loan of some kind, or just using a credit card, when we use someone's else's money we're going to have to pay interest. Think of it as renting their money.

Most consumer credit is repaid, along with the interest charges, over a specific period of time. Usually in what are called minimum monthly payments, though sometimes payments are made on a different schedule than monthly; e.g. bi-weekly payments. So we will have to pay it all back, plus interest, over a certain period of time.

Before we go any further, it is important to understand that there is no such thing as a free lunch, as the old saying goes. No matter what you see advertised, no matter how good the deal may sound, nobody, other than a true philanthropist, gives away free money. There's always a cost to the recipient - us.

Some credit, like a consolidation loan, can really improve our debt position by paying off high-interest credit cards or payday loans with a low-interest bank loan. This would definitely be considered a good debt because it improves our overall debt position. And that's what we're going to talk about in this chapter - knowing where we stand debt wise.

There are two ways of viewing our debt position. The first is to ask ourselves how much would I have to pay all my creditors today if I have just won the lottery and I now have the cash to pay them off. We used to call that the pay-out amount. It is essentially the total amount of un-repaid principal of what we borrowed, plus accrued interest to date, plus any additional charges the contract allows the creditor to charge us. Here are a couple of examples of what I mean.

We took out a car loan a year ago and borrowed $30,000.00 at a certain annual rate of interest. We have made 10 monthly payments so far, $500.00 each. In simple form, we borrowed $30,000, paid back $5,000 (10 x $500) and the interest charges over the past year amount to $1,000. So, $30,000 + $1,000 = $ 31,000 - $5,000 = $26,000. We deliver $26,000 to the creditor today and the loan will be fully paid. If we don't deliver the money until tomorrow we will have to pay them a bit more because of the interest charge for the extra day.

Here's another example. Six months ago we used our MasterCard to purchase some furniture and put a $5,000 charge on it. If we don't pay it off in full at the end of the month when we receive our invoice, the MasterCard will start charging us interest on that $5,000 effective the date the purchase went through. We have been making our minimum monthly payments of $200 for the past six months. So here we are with our new lottery winnings and we want to pay off the card balance. So the calculation goes like this: today's balance (which we can get from the card company over the phone) is $4,100. We explain that we want to pay it all off today, so they add on the accumulated interest since our last payment, say $50, and tell us our pay-out amount is $4,150 if we pay it off today.

If we look carefully this last one doesn't compute. How do they get a current balance of $4,100 when we charged $5,000 and paid them $1,200 ($200 a month x 6 months)? The reason for this, of course, is that when we paid the monthly $200 not all of it went to reduce the $5,000 principal balance. There was a monthly interest charge. So when we made our first $200 payment, they (the computer) calculated the interest charge for the first month to be $50, so the $200 payment only reduce the principal balance by $150; down to $4,850. Because this happened every month to our monthly payment the overall principal balance was reduced $900 over the past six months. That's why we owe them $4,100 today.

So if we pulled together this information on all our existing debts today, including our mortgage, we would know what it is we owe TODAY. But, what if we have no intention or no ability to pay everything off today, or any day in the near future. What if all we are looking at is paying everything off over the full term of each contract, whether it takes us 1 year or five to do it. If that's the case, how much do we really owe?

Well, we can forget the pay-out figures I talked about earlier. Now we have to calculate how much interest we will have to pay over the length of each loan or card contract. This is usually not a pleasant bit of math. Most of us are astonished at the amount of interest (rent) we will be paying over the full term of our contracts.

Just to keep it simple, after all I'm basically a simple kind of guy, if I borrowed $10,000 from a bank to be repaid in 1 year (12 payments) at a 12% annual rate of interest, charge on the outstanding or declining balance owing, how much would I have to pay back to the bank? Paying 12% per year (1%) per month on a declining balance (the balance is smaller every month after the payment comes off) will mean (if I remember my tables) that I should pay about $650 in interest for the year assuming I made all my preset payments exactly on time each month. So I will have repaid $10,650 to the bank by the end of the year.

Doesn't sound too bad, right? That's why it is usually preferable to do our borrowing from a bank rather than other companies charging a lot higher interest rates. But remember, I only used their money for a year. What if I had needed 3 years to repay the loan? Again to keep it simple, I would have been charged 3 x $650, or $1,950 and would have had to pay the bank $11,950 over that time.

Now try to imagine what the numbers are going to be if I had borrowed $10,000 on my VISA at 19%, or more? If I could only ever make the minimum payments and managed to pay the card off completely over 5 years - AND I DIDN'T EVER CHARGE ANOTHER CENT TO THE CARD WHILE I WAS DOING THIS - I probably would be paying back a total in excess of $16,000.

So if I'm trying to understand what I owe, it isn't just what I owe today that counts. It's what I will have to pay over the full length of time it will take me to pay everything off. Depending on the various interest rates to which my cards and loans may be subject, I can get to the point where what I really owe is twice as big as my today pay-out figures.

This is something most of us rarely look at, but it is nevertheless true. That's what we will have to pay, so that's what we owe.

Just as an aside, when we buy a house and take on the mortgage loan, amortized over 25 years, imagine how much we are going to pay, even at today's record low interest rates. We seldom go out of our way to face that number, because it will double or triple the amount of the original mortgage. That would be discouraging, so we focus on the monthly payment and the mortgage term, which seldom goes longer than 5 years.

Let's get it straight. The higher the interest rate, the more we owe over the time it will take us to pay it all off. The longer the payment term, the more interest we'll pay and the more debt we'll end up paying. If we miss any monthly payments or pay them late, interest will pile up, increasing our debt over time because we will be paying interest on the previously unpaid interest. This can multiply what we owe very quickly and it can become a real cloud over our head.

Remember what we said at the beginning. There is no such thing as free money. In fact, money can get really expensive very, very quickly. If we go overboard in our borrowing how can we manage the repayment.

I think we saw in our previous chapters how important it is to understand what kind of debts we can get into and how necessary it is to carefully reason out why and how we are taking on the debt at all. Debt in itself is seldom good or bad, but it can be a double-edged sword in that it can have both favourable and unfavourable consequences. It makes logical sense then to carefully take on debts that are more likely to lead to better outcomes, rather than those that may be more harmful.

One way to ensure that our borrowing will be advantageous and beneficial to us is to make sure that we keep them at levels we can manage. To keep things manageable we need to keep track of:

1. How much debt we truly have;
2. Figure out what our resources are (or will be) to allow us to handle what we have; and
3. Prove to ourselves how badly we need any and all credit that we are tempted to take on.

How Much Debt Do We Have

To work out our total debt picture we will need to calculate the sum total of all the money we owe, including both good debt and the not-so-good debt.

Most people can easily add up what they owe simply by totaling up the monthly invoices they receive.

It's important not to forget our mortgage, though we tend to, when we are totaling up what we owe. Most of us tend to think of our mortgage only in terms of the monthly payment. That's fine for budgeting purposes, but if we're going to have to make that monthly payment for the next 25 or 30 years that will be a lot of money. And it will ALL be going out to somebody else, not staying in our pockets.

If we know exactly who we owe we can relatively easily figure how much we owe, either as a pay-out figure or as a total to be repaid over time. If we're not sure who we owe we can also pull our credit report from each of the two national credit bureaus in Canada: ***Equifax Canada*** and ***TransUnion Canada.***

These credit bureaus are companies who carry a file on each of us which was probably opened the first time we applied for a credit card. Pretty well every bit of financial information associated with our name is recorded on our file. This information will most often be supplied by the credit companies with which we do business. These reports will give a fairly detailed summary of our individual credit history including key information on all our financing transactions such as our credit card balances, outstanding mortgage, auto or student loans. It will also note any negative events like a default collection record and bankruptcy or consumer proposal filings, or any other court-related event such as a judgment or garnishee, tax liens and even promissory note defaults from personal loans, sometimes even from friends and family, if they are reported.

The credit bureau report will also provide creditor information if we are not sure because a lot of time has elapsed since we last paid them. If we just need to see what debts we have and how much we owe, looking at our credit reports is a great place to start, though it probably won't be able to provide current amounts owing.

It's a good idea to get reports from both credit reporting agencies, Equifax and TransUnion, because there is no guarantee both will have exactly the same information. Like I said, it's a good place to start, but it's important to know a few things about how this system works and that our rights are protected in every way possible.

In Ontario, where I practice, the credit bureaus are regulated by the provincial government primarily through the Consumer Reporting Act. This law lays out:

- what a consumer reporting agency can report,
- how a consumer's credit report can be used,
- when someone can request credit report, and
- what consumers can do if their files contain any information that is wrong or incomplete.

The Consumer Reporting Act also recognizes that businesses, landlords and employers need to have correct information, but at the same time it must ensure:

- that agencies collect, maintain and report our credit and personal information responsibly;
- our right to know what is being reported about us and to whom; and
- our right to correct (or fix) information about ourselves that is inaccurate.

So we are all under a microscope of some kind, which in our totally connected computer world shouldn't surprise us a bit. Pretty well every transaction we make, every application we file and every legal action we get involved with ends up on our file for others to see. At least we have the right to make sure what's on there is true and accurate.

Once we know, or think we know, who we owe, it's time to figure out how much. Though there's always pencil and paper, it might go better and faster if we have a computer and an Excel or QuatroPro program. Better yet, a specially designed personal finance program, though I would not go out to buy one if I already have Excel or QP.

Using a spreadsheet we list each of our debts with the lender's name and the type of debt indicated alongside each. Include everything:

- Mortgage payments
- Lines of Credit
- Car loans
- Student Loans
- Credit Card balances
- Personal loans from friends and family
- Special loans such as repaying money we borrowed from our insurance policy
- Any other debt we can think of

Next, we figure out or obtain the balance due on each debt and enter that in the next column to the right of the name and debt type. Some programs can pull out balance information directly from our lenders, but if we are using a spreadsheet we'll have to do all this manually. The monthly payment should probably go in the next column. The number of payments still remaining to be made can go in the next column and program the next column to multiply the monthly payment by the number remaining and we will see how much we still have to pay.

It will be difficult to make that last calculation with credit cards, but we can undoubtedly find out how many months it is supposed to take so these payments will reduce the current balance to zero. I believe it says something about that on the invoice we receive, but we can find out from the company itself.

Do We Have Too Much Debt and Can We Manage More

Most of us, if we were trying to figure out whether or not to incur an additional new debt will ask ourselves the basic question: "Can we afford it?" To answer it we would focus on our monthly income and expenses to see if we can manage the new payment. That's fine, as far as it goes, but I think we need to go a little deeper than that if we are going to truly gain and keep control over our financial affairs.

We can start by asking ourselves what we mean by "affording it". There will be many different ways of asking and answering that question. Let's start with our cash flow.

Our Cash Flow

Our monthly income and expenses, our monthly cash flow, is relatively simple: how much do we have coming in every month, from all sources, and how much do we have going out? If we have properly listed ALL our outgo, including things that aren't paid out on a monthly basis such as car insurance premiums, our water bills and so forth, reduced to a monthly amount, then we may have a pretty good idea if we have the money to take on another monthly payment.

This little exercise is not quite as easy as it seems. If we just wing it and put down only the items we can think of off the top of our heads, we will definitely miss a lot of significant things - mostly expenses. It really helps to take advantage of professionally arranged lists that are available on the internet or at our library.

In any case, I believe that's the place to start because if our income turns out to be equal to or less than our monthly outgo then we'd better postpone or cancel the idea of taking on the new debt. We can barely afford what we have. Maybe not even.

Our DTI

However, if we get a positive calculation and there is room in our monthly budget for another payment, we should move on and try to answer the "Can I afford it?" question on a different level. Let's look at what professionals refer to as our debt-to-Income ratio: our DTI. This is generally used to see how healthy we are financially; if we are carrying a "safe" amount of debt and whether we can actually afford to take on more. Follow these steps to get our DTI:

Step 1 - Monthly debt expenses:

- Monthly mortgage or rent payment
- Monthly alimony or child support payments
- Student loan payments
- Car loan payments
- Credit card minimum monthly payments
- Monthly payments for personal loans or any co-signed loans

- Monthly payments for real estate taxes and for homeowner's insurance (only if they are held in escrow)
- Income Tax Remittance if self-employed

Note - Do not include monthly expenses for groceries, utilities, gas.

Step 2 - Monthly net income.

- Take-home pay
- Bonuses
- Pension
- Dividends
- Social security
- Child support and alimony
- Any other main sources of income in our household

On all of these, make sure we take off any applicable income tax and other remittances. We must know our net income. what we actually see.

Step 3 - Divide our total debt payments by our total income and multiply by 100 to get a percentage result of our debt-to-income ratio.

Step 4 - Now we have a comparative percentage to help us understand how much of our income is used up paying monthly debt payments.

If we end up with a ratio of:

- *35% or less* - Excellent, ideal level. Debts are within manageable levels. We have more than enough income to cover debt payments and still save. Creditors are more than willing to let us borrow money with better interest rates.

- *36% to 49%* - Somewhere in between ideal and critical, a red flag for a potential financial disaster. This means that we're managing our debt to an acceptable extent, but finances may not be able to handle unforeseen expenses and that if we're looking to borrow money, lenders may ask us for additional security to make us eligible. It is highly recommended at this point that we get help before things get out of hand.

- *50% and above* - Critical level - we have too much debt. More than half of our income goes toward debt payments and we do not have enough money left to save or spend. Lenders see us as too high a risk and are likely to refuse us a loan.

Is our debt to income ratio too high? It's not uncommon, really. Many Canadians carry debts at 50% to 80% of their monthly income and only start to realize that they've borrowed more than they can afford when they can no longer meet the payments.

Other Considerations

So we've done some math and maybe things don't look too bad. We are practically convinced that we can do this. But, maybe we get away from the numbers a bit and reflect on a few other aspects of our situation:

a. The reasons for taking on the new debt - the good reasons and the not-so- good reasons;
b. What the benefits will be from doing so;
c. What effect will this new liability have on other members of our household;
d. What other costs will arise from the deal, such as the cost of lost future opportunities because of the need to service this new debt;
e. The psychological costs to both ourselves and others that stem from the existence of the debt and payment burden it creates;
f. And whatever other personal , perhaps non-financial effect all this will impose on us and our family.

If we accept that in today's world it's okay to live with some level of debt, but that having too much can lead to all sorts of issues, then we really should try to determine that the word "appropriate" does apply to us. If we are satisfied with the answers we received to all our questions, good. Maybe even great!

However, my message here is not to encourage anyone to go into debt, but rather to tread warily if that's the direction we're headed. If we allow ourselves to get too comfortable with debts we may very subtly and perhaps without realizing it be giving ourselves permission to keep piling it on, which will eventually prevent us from reaching debt-free land - the favourite destination of essentially all our customers.

Remember, going into debt is a choice. A personal choice, our judgement call. How much can we afford to take on? How long do we want to be living with it? Is our reason for borrowing flighty or well-founded? Is it worth going into debt for?

At the end of the day, numbers may tell something, but a well-researched, unemotional and honest analysis will pay far greater and better dividends to us than all the fancy baubles and lifestyle we can generate through the thoughtless use of credit.


Take
CONTROL
of
Your Life

Chapter 6

What is the Best Way to Get Out of Debt?

The average debt load of Canadians these days is just shy of $22,000 (according to Equifax Canada in a report released Sept. 5, 2017). That's 3.3% higher than the first quarter of 2017.

I've pointed out reasons why debt has become an increasingly worse problem than it was in the past. The lack of awareness of facts, combined with prevalent societal misconception that debt is a normal condition of life and that we can't have the lifestyle we desire without debt are very enticing. It's just plain faulty thinking that everyone makes use of credit and nobody uses cash anymore to pay for things and if we don't get credit then we are somehow missing the boat.

Most Canadians probably believe that a little bit of credit doesn't hurt. They may be right, if it stops there. But if that's just the thin edge of the wedge, well ....? A small purchase can turn into thousands of dollars in debt in the blink of an eye. That is in a large part the trap. Credit camouflages things. Get it now and pay later. Sounds almost free, doesn't it? Well, we know that feeling doesn't last long and as soon as all our spending catches up to us, we won't feel so good.

The stress will be taking its toll.

So all this begs the question; "How do I get out of debt?"

Well, like pretty well every other problem we can think of the first thing to do is admit that it's there and needs a solution. The second thing to do is try to determine the extent of the problem and the third thing to do is find the right solution.

If we have a minimal amount of debt and we have the means to pay, then just do it. This may take time, but if we concentrate on the finish line and all the benefits we will find there, we'll reach it. If it's more like we feel we're drowning in debt and we're struggling to meet the minimum payments , then we may need some help. In either case, being able to establish some control over things will usually provide its own benefits in the reduction of our stress levels.

If we're going to deal with our debts the first thing we will need is a clear plan so we can determine:

- Can we do this using only our own resources, or do we need outside help?
- If we're going to do it ourselves, how much can we afford to put towards paying off our debts?
- How will we find the money to pay our debts?
- How long it will take to pay off our debts?
- If we can't do it ourselves, what help do we need?

Whichever direction we go at this point *(be it making monthly minimum payments, or using our tax refund to pay off the debt, or talking to our creditors to change our payment terms, or getting a consolidation loan),* whether we choose to do it on our own or get professional help, it's crucial that we make the decision to face our problem and then do it.

Getting Out of Debt on Our Own

If it seems like our situation is manageable through our own resources we can take the steps to get out of debt on our own. Here are some tips to help us determine our plan of action:

Step 1 - Itemize our debts

As I mentioned in the previous chapter, an important step toward debt-free land is to have a complete picture of how much we owe.

A. Gather our most recent financial statements for all loans and credit cards.
B. Get a copy of our credit report at each of the credit bureaus.

C. List all our debts on a worksheet or computer program, specifying:
    a. Name of creditor
    b. Balance due
    c. Interest rate
    d. Minimum monthly payment

Remember to include auto loans, payday loans, credit cards and other loans not listed on our credit reports such as family loans and medical bills.

Step 2 - Make out a monthly budget or cash flow plan that works

a. Add up our monthly income after taxes and other remittances.
b. Tally up all our monthly expenses, which will include our rent or mortgage payment, utility bills, childcare, student loan payments, insurance , groceries and other monthly household expenses.
c. Subtract all of our monthly expenses from our monthly income and what's left is the amount we have left to pay off our debts.

The formula would basically run this way: 2a minus 2b = 2c.

If we think the amount going towards the debt payments is too small, we should review our expense numbers and look for ways to reduce our spending. We should also look for ways to bring in more money. The higher 2a is and the lower 2b is the faster we'll be able to pay off our debts.

Step 3 - Plan out our debt payments

Now that we have a real number to work towards, we can plot out in a table our payment goals for each of our debts and also track actual payments we make towards each goal.

So, for example, if we have $700 for our total payoff number:

Debt 1 = 3075	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6 Full payment goal
Payment Goal based on payoff amount in step 3	$500	$500	$500	$525	$525	$525
Actual debt payment made	$500	$500	$525	$525	$550	$475

Debt 2 = 1200	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6 Full payment goal
Payment Goal based on payoff amount in Step 3	$200	$200	$200	$225	$225	$200
Actual debt payment made	$200	$200	$200	$225	$225	$150

Continue doing this cycle each month until we pay off one debt and then move the loose money over to the next highest interest debt. Notice that increasing the amount we pay toward each debt each month will make us pay off the debt faster. We make sure we don't add any new debt to our list and that we concentrate our payments on the most expensive debts - the ones with the highest interest rates.

This process is one approach we can take to reduce our debts and limit the amount of interest we'll have to pay. There are plenty of other ways using a variety of tools and methods. There are tons of books on how to budget and pay debts. The important thing is to plan our strategy carefully and track our progress, so we can make adjustments when necessary. It will get us to the finish line faster.

Step 4 - Try to obtain better terms

Now that we've come up with a clear repayment plan, we can try to negotiate better terms with our creditors. Nothing is necessarily carved in stone. With a good plan we actually have something definite to offer the creditors. One thing is to try to get a more favourable interest rate. That would make the finish line get closer still. It can make a big difference.

Here are some things we can do to lower our interest rates:

- Ask if we qualify for a balance transfer on a zero interest or low rate interest credit card. This can save us a lot of money.
- Check out student loan consolidation and Income-based repayment plans that are exclusive to high level student loan debts.
- Look into whether we can refinance a high-rate auto loan into a lower rate.
- Inquire if we can consolidate our debts into a personal loan or home equity loan.

Are we prepared to do it on our own?

Negotiating with creditors for better terms might not be everyone's cup of tea. Not all of us are comfortable with that kind of conversation. So, trying to do it on our own may not be easy. It will definitely take a lot of work and it will be stressful.

Dealing with creditors and collectors can be stressful and such negotiations can go on for months. It isn't for the faint of heart and will require perseverance and a steadfastness in the face of difficulties and delays. We'll need to be well-informed about tax implications and important dates in the collection cycle so we can plan our time line and settle our debts on time to cut our risk of default and its consequences. The DIY route is not for everybody but if we can do it more power to us.

When to Seek Professional Debt Relief Help

There are a lot of people who don't like the idea of trying to deal with creditors and collectors on their own. There are lots of people who will be very uncomfortable interacting with banks and other creditors, not to mention collection agencies , and will be strongly inclined to hire professional services to do this for them. Others who might be more inclined to

deal with it themselves may not have the right information or knowhow to work these things out, so they too need the knowledge and skill of a debt expert to help them. Then there are those who simply cannot find enough motivation to get on the path to improve their financial situation on their own and need a debt professional to help supply the motivation along with a plan and the expertise to help them go through their debt payoff journey successfully.

One important factor to consider in getting help from a professional is how long it will take to get out of debt. When creating our action plan, we'll be figuring out if our debt problem is short-term or long-term. If settling our debts will take us only a matter of months or maybe a couple of years then we should be able to handle it ourselves.

However, if we determine that it will take longer than three years, then it's highly recommended that we get professional help to properly advise us and help us to stay on the path to debt-free land.

Another big factor to consider in seeking professional services is if we have multiple past-due balances to pay off. When we start to fall behind on our payments we expect that sooner or later we will have to deal with some negative reaction from our creditors. This will no doubt involve being contacted by collectors, which is never a pleasant experience, even if they are quite understanding and nice. In fact, for a lot of people this can become an emotional and psychological nightmare, leaving us scrambling to figure out what to say, let alone what to do. It can be crucial to get expert knowledge so we can achieve the desired results.

Dealing with too much debt will take a long amount of time and a lot of hard work to pay off. We may feel tired, and at some points we may even feel defeated, especially when we come across the many challenges. It is best to consider getting expert help even before we are way over our head. Credit and debt professionals can provide sound advice and suggest various debt-relief solutions like debt management programs, debt consolidation, debt settlement or, if things are way over the edge, consider a consumer proposal or even bankruptcy in order to help us improve our financial situation.

Chapter 7

Professional Services to Help Us Deal With Our Debts

Assuming we do need some expert help to resolve our debt and credit problem, how do we find it and how can we choose correctly?

There are a number of avenues we can go down when it comes to finding the right professional help. There is everything from non-profit agencies supported by government and private subsidies, to for-profit corporations who help get the creditors to agree to settlement terms, to lawyers who have experience in debt settlement negotiations, to legal processes provided by various provincial or federal laws. How to choose?

The first thing we must get over is the idea of talking to a complete stranger about our debt problems. This is often the last thing any of us want to do. That's only natural and quite human. Interestingly, though, we just might find that it can be the best thing for us. At the very least it can help us see everything in a better perspective.

Speaking with a professional in the field can help us get assurance that we're not alone in struggling with money problems. More than half of Canadians are somewhat overwhelmed by debt and the number has not stopped increasing over the past decade . Many people are unable to pay their debts and are considered technically insolvent and have availed themselves of some kind of professional service to help them deal with their financial hardship.

One other thing is that we'll discover that there are many formal ways to clear up our debts. With so many options to choose from, it can be very confusing to know which one is right for us. It's always best to talk things through with an experienced debt professional who explain options to us. Like I've said elsewhere in this book, we should look before we leap. We must get as much information as we can about what we can do and what will happen if we go that route. We need to learn this **before** making any decision.

Nearly half of the people in debt problems admit that getting advice from a debt professional has helped them change their preconceptions about the best way to deal with their own situation. The right knowledge is a great thing.
What kinds of debt relief options are available to us?

Here is a look at each of the formal and official debt relief services that are out there and how they might provide an effective and/or legal solution. We divide them into two categories: statutory *(the power of* a *law is used to solve the debt problem)* and non statutory *(no particular law is used, just deal-making and persuasion) .*

Non-Statutory Options

Credit Counselling

Credit counselling provides a range of services, mainly:

- General budgeting
- Housing counselling
- Student loan counselling
- Debt management plan

The services offered are mostly information-based and are focused on coaching and training on managing our money, using credit and handling our debts. For the most part, the most predominant feature of credit counselling is the Debt Management Plan (DMP), a program that arranges the distribution of monthly payments to our creditors.

This service tends to be more effective for people whose debt situation has not yet gone off the rails and they are more in need of budget and financial management assistance.

PLEASE NOTE in selecting a credit counselling company we need to take extra steps to check out the company with which we are dealing. We must be careful, since the industry is not fully regulated and there few safeguards for us.

Something to keep in mind is that “reputable” credit counselling organizations have professionally certified counsellors on staff to provide services to their clients. These credit counsellors hold OACCS Certified Credit

Counsellor designation, the highest professional designation level available to not-for-profit Credit Counsellors in Canada. They are also required to become certified through the Accredited Financial Counsellor Canada Program (AFCC) which is administered by the Association for Financial Counselling and Planning Education. We should always verify the credentials of a credit counsellor before availing ourselves of any service. That should ensure that we are working with a reputable agency.

When we consult with a credit counsellor we expect them to go over our financial situation thoroughly and to discuss several options that are available to help us pay off our debts. They shouldn't just be discussing a debt management program or plan (DMP). If this happens and we feel that we are being pressured to sign up for a program, then we should take it as a warning sign and walk away.

Debt Management Programs

A Debt Management Program is one of the services offered through a credit counselling agency. It's basically a repayment plan that will eliminate our debts without the need for us to take on a new loan. It is a formal, voluntary agreement between us and our creditors to reduce our monthly payments and pay off our debts.

A DMP is generally structured in this way:

- It can cover all of our unsecured debts, such as credit and charge cards, personal loans and, sometimes, collection accounts.
- Our counsellor calculates how much we will pay to our creditors in 3 to 5 years.
- We pay the same amount each month, until all the unsecured debts are paid.
- We send our monthly payment to the counselling agency which in turn distributes this to our creditors on a schedule to which they agreed.
- Our counsellor sends us a progress report each month, or something similar.
- We undertake to not acquire any new debts until we complete the program.
- When we have extra funds we can pay more - and get out of debt faster.

Official and reputable credit counselling organizations typically have preset arrangements with creditors. This gives them greater effectiveness in making arrangements with our creditors to lower our interest rates and fees, all of which will make it easier for us to meet the new payment terms.
However, if we have accounts with creditors with whom the credit counselling company has no arrangements, these creditors may not agree to any concessions and our counsellor may not be able to negotiate any repayment deal to our advantage, such as a lower interest rate or reducing payment amount. We would perhaps have to pay that creditor back 100% of what we owe them.

Consolidation Loans

This can be one of the most effective ways to obtain debt relief. In this type of arrangement we combine several of our existing unsecured debts, such as credit cards, medical bills, personal loans, payday loans, etc. into one new loan. We pay them all off with a new loan under new loan terms. In essence, we are replacing many debts with one new one, This kind of solution most often results in a lower interest rate and smaller monthly payments. Consolidation loans fall into two categories:

1. Secured loan - the loan is tied to a valuable asset , such as our house, car, or piece of property, that the lender uses as collateral and they can liquidate (sell) it in the event that we default on our loan.
2. Unsecured loan - the loan is not tied to any asset and is based largely on our credit rating and credit history.

Generally, the type of loan we can get depends on how much we need to borrow and how good our Beacon Score is. The more we need to borrow to consolidate our unsecured debts the more likely the lender will be to ask for some security for the loan. Here are some examples of ways to pay off an assortment of high interest consumer debts:

- Home equity loans
- Moving our many other credit card balances to a card offering zero-interest, or low-interest, balance transfers. These may have a limited time factor built in.
- Personal loans from a credit union, bank, finance company or other personal loan lender.

There are a few key features to note in order to make a debt consolidation loan really work

1. The new loan should have a fixed interest rate that is lower than what we are paying for all our existing debts.
2. It should not require us to make new payments that are higher than our budget says we can afford.
3. The new loan should allow us to pay all our existing debts in full and reduce our monthly payment to just the one new loan, so we can focus on paying it off as soon as possible.
4. It should be an open contract allowing us to make extra payments so we can pay it off faster.
5. The account should be fully credited on our credit bureau file which will improve our credit score over time if we handle it correctly.
6. All loans require discipline and organization from us to be repaid correctly. This means we cannot run up new debts after we have obtained the consolidation loan. If we do, we will be right back where we were before we consolidated, except now we will owe a lot more.

Debt Settlement

A Debt Settlement program is another long-term financial strategy to help us get out of debt, though it is a much riskier strategy. When we sign a contract with a debt settlement company , we will stop making our existing payments to our creditors until our account is severely delinquent. Yes, we will be getting delinquent notices and phone calls. During this time, we will be making monthly payments to the debt settlement company building up as large a sum as possible in a holding account. After some months, the company will start contacting our creditors to try and negotiate a reduced payout amount to settle the debt. If they are successful each of our debts will eventually be paid off for less than what we truly owe.

As I said, this is high risk. It kind of reminds me of poker. It relies on the debt settlement company being able to convince our creditors that they will never be fully paid, so they may as well settle for something. The trouble is the creditors weren't born yesterday and they know they still have their regular collection options available to them. We may end up getting sued and/or garnisheed. However, if the plan works it should result in our getting out of debt for only a portion of what we really owe - not counting the fees the settlement company will charge us.

Statutory Options

Consumer Proposal

If we are insolvent *(we can no longer keep our monthly amounts up to date, or generally keep our creditors happy),* but we do not want to declare bankruptcy, we need to make an arrangement, a settlement, with our creditors. Unlike any of the other settlement programs that we've just discussed where our creditors are not obligated to negotiate with us, a consumer proposal forces the unsecured creditors to at least listen to and consider any settlement offer we want to make to them. They have no choice.

Of course this doesn't mean they have to accept our offer, but it does mean they can't do anything else until they decide to accept or reject our offer. They are prevented by the Bankruptcy and Insolvency Act from suing us, or garnisheeing our pay. They can't even call us for payments. They have to listen to what we offer. If they like it, great!

They can vote to accept it and all our unsecured debts will be consolidated into one monthly payment which will be made to the Administrator of the consumer proposal (the LIT). It's sort of like the consolidation loan, but without the need to find someone who will lend us money.

If the creditors don't like our offer they can ask us to increase it. We can then consider doing that. Sometimes this can go back and forth a bit, but while all this is going on the creditors still cannot do anything else but focus on our proposal conversation.

When the proposal finally comes to a vote all it takes for acceptance is a simple majority (50% + 1 vote) and after court ratification the proposal will be binding on **all our unsecured creditors** *(though there are some exceptions),* even if they did not vote in favour. Majority rules.

Consumer proposals have become one of the fastest growing and most popular debt relief programs in Canada nowadays for several reasons:

- It is a legal process, so it has the authority of law and the courts behind it.
- It is regulated by the Federal government.
- It is part of the Bankruptcy & Insolvency Act, so it has the protection of that law.
- It is handled by an Administrator who is also a Licensed Insolvency Trustee

- Settlement negotiations are made through the Administrator with all our creditors collectively. Separate deals do not have to be made with each creditor.
- A consumer proposal is generally made on the basis of what we can afford, not what we owe.
- We can offer to pay the proposal amount over a period of up to 5 years, which means we can make sure we can afford the monthly payment.
- It immediately gives us legal protection from our creditors; i.e. no more interest charges, wage garnishments, collection calls, or lawsuits against us.
- We don't lose any of our assets, unless we actually want to. *(Sometimes* a *person will decide that the car payments he will have to make for the next 4 years are too high anyway and it will help him make the proposal work if he gives back the car right away. Usually* a *smart move.)*
- All monthly payments go through the Administrator (a LIT), who legally distributes money to the creditors according to a pre-set schedule specified by the proposal.
- The creditors are protected by the administration of the LIT and the authoritative oversight of the court and OSB.
- The proposal also provides the creditors with an equitable distribution of the proposal money - they all get paid the same percentage of their debt.
- The creditors are also provided with legal closure of the matter.

A consumer proposal is specific to the individual's financial situation; sources and level of income, living expenses and other obligations and, of course, their debts. LITs are obligated by the Federal law to provide a formal assessment to each individual debtor who consults them .

This assessment will cover:

- A review of the debtor's assets, liabilities and cash flow status.
- The identification of the most immediate and pressing problem(s).
- An analysis of the depth of the financial problem as well as the solvency status of the individual and an explanation of the definition of the term "insolvent person."
- A review and explanation of every available option:
  - the non-statutory options: consolidation loans, credit counselling, debt management programs, direct negotiations with the creditors, etc.
  - Statutory options: proposals (consumer or regular) and bankruptcy
- An in-depth review of the possible and foreseeable consequences of each option, given all the assessed factors.

The trustee cannot and will not recommend that a person use one of the statutory options. They can suggest investigating any of the non-statutory options and will always suggest obtaining independent legal advice - a basic legal right we all have.

In spite of refraining from any direct recommendation of a course of action, the trustee's assessment should go a long way to clarify the person's situation, their problem and the probable consequences of each of the available options.

Bankruptcy

Similar to a consumer proposal, a bankruptcy is a statutory (legal) option designed, among other things, to relieve debt problems. It, too, can only be administered by a Licensed Insolvency Trustee. Like a proposal it immediately stops creditors from charging further interest and late fees, prevents them from making harassing collection calls, and most importantly immediately stops or prevents creditors from taking legal action, such as a lawsuit, to seize our property - including wage garnishees.

The basic difference between a consumer proposal and a bankruptcy is this:

- When we file a bankruptcy we offer up all our property to the court *(actually to the trustee, as the officer of the court)* in return for which we ask the court to discharge us *(release us)* from our *debts.(this is somewhat over-simplified. Normally we don't have to give up all our property and there are some special debts that do not get released by the discharge, but let's not quibble for now.)*

- In a proposal, regular (Division I) or consumer (Division II), we are not offering our property to the court or anyone else. What we will offer to the creditors in a proposal is money. If we can get them to accept our offer, and we succeed in paying the proposal off in full, we will be released from all our debts, just as if we had received a discharge in a bankruptcy.

In other words, both a bankruptcy and a proposal are legal vehicles which, from the insolvent debtor's point of view, are designed to get us out of our debt problems. In fact, if done properly both of the them will get us out of debt - period.

In order to be able to file for bankruptcy we must:

1. Owe at least $1,000.
2. Be unable to pay our debts as they generally come due, which means being unable to keep all our creditors happy all the time using our own resources.
3. Reside or carry on business, or the bulk of our property is located in, Canada.

If we meet all these requirements we are deemed to be insolvent and may file a bankruptcy or a consumer proposal.

One final point with respect to all these solution options. I believe I have listed them, more-or-less, in the order the vast majority of the people who have consulted us over the years have viewed them. It's no surprise that bankruptcy is listed last. In fact with many people who come in for a free consultation the first thing out of their mouth is "I don't want to go bankrupt."

This isn't to say that there is anything wrong with going bankrupt. It's just that in our minds, perhaps conditioned by our upbringing, but perhaps mainly informed by the psychological implications of the word, bankruptcy belongs at the end of the list.

Nevertheless, when we are confronted by a problem, financial or otherwise, and we take the most responsible path we can find that actually resolves the problem, we've probably done the right thing.

Choosing the Right Debt Expert

We may choose to achieve debt freedom on our own with budgeting and other DIY solutions, but it's often beneficial to partner up with a debt professional, who can negotiate with lenders to protect our rights or recommend solutions that can put and keep us on the right course.

It is a well-known fact that, with few exceptions, the credit or debt consulting industry is highly unregulated. As such, almost anyone can claim to be a debt or credit expert. Since the word "expert" signifies knowledge and experience, many non-accredited people might very well qualify as an expert. However, in Canada there are only 2 types of professionals officially recognized and accredited to evaluate a person's financial status and discuss the relative merits of various options and, in some cases, make recommendations.

Certified Credit Counsellors

Credit Counsellors typically hold an undergraduate degree in accounting, finance, economics or in any field that provides them with an understanding of complex financial matters in order to help clients solve their financial problems. They may even hold other degrees in psychology, social work, human ecology or counselling, which may provide them with skills useful in providing advice and guidance to clients dealing with sensitive financial and personal issues. It is important to remember that formal credit counsellors are required to be certified through the Accredited Financial Counsellor Canada Program, which is administered by the Association for Financial Counselling and Planning Education to ensure that they are among the highest qualified counsellors in our country. In Ontario, all official credit counsellors must obtain the OACCS Certified Credit Counsellor designation given by the Ontario Association of Credit Counselling Services (OACCS), which includes the Accredited Financial Counsellor Canada designation and the Insolvency Counsellor's Qualification Course designation.

A Certified Credit Counsellor may provide information and offer recommendations with respect to all the options we have spoken of thus far. However, they cannot implement the statutory options and, in fact, are limited in the extent that they can discuss the implications and consequences associated with the statutory options. For that we must go to a Licensed Insolvency Trustee.

Licensed Insolvency Trustees

Licensed Insolvency Trustees (LIT) can and do provide many, perhaps most, of the solution options we have been discussing in this book. However, they are the only debt solution experts licensed by the Federal government (the Office of the Superintendent of Bankruptcy) to administer the services provided under the Bankruptcy and Insolvency Act (BIA): proposals and bankruptcies. These two are called the statutory options. No other accredited or non-accredited professional can provide these statutory solutions.

Other professionals may be able to provide some information about a consumer proposal or a bankruptcy, but they will eventually have to refer the person to a LIT for proper assessment in order that the person may avail themselves of the protection and results offered by these options.

Though most LITs hold an undergraduate degree, likely in a financial field, and have at least five (5) years of relevant experience in the insolvency field, obtaining the Federal licence is an education in itself. It takes the following:

- Pass a minimum 3-year course of study given by the Canadian Association of Insolvency and Restructuring Professionals (CAIRP) - known as the CIRP Qualification Program (CQP),
- Pass the written National Insolvency Exam (CAIRP) *(technical knowledge)*
- Pass an oral board examination administered by The Office of the Superintendent of Bankruptcy. *(Practical knowledge)*
- Pass an investigation by the RCMP and the OSB *(integrity* & *honesty)*

Please Note: All Licensed Insolvency Trustees are listed on the OSB website. If anyone advertises himself as a LIT and we can't find their name there, we check with the OSB

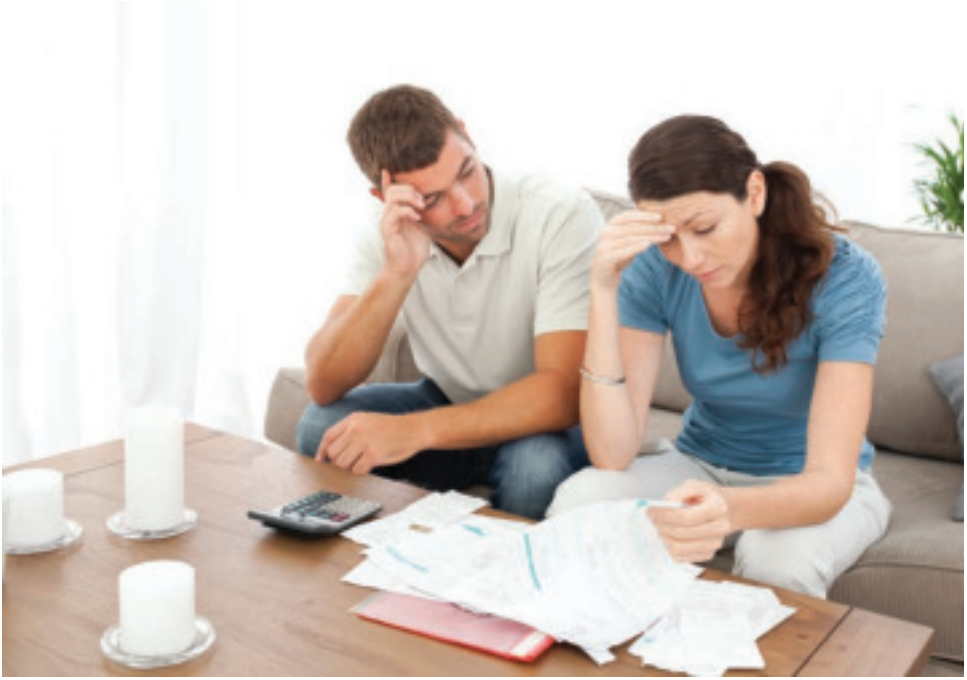
This comparative chart will help us distinguish between a duly Licensed Insolvency Trustee from an unlicensed, unregulated debt consultant:

LICENSED INSOLVENCY TRUSTEE	DEBT CONSULTANT
Usually provides free initial consultation	They ask debtors to sign a fee agreement for consulting services
Can administer a consumer proposal	Cannot file a consumer proposal
Can administer a bankruptcy	Cannot file a bankruptcy
Licensed by the Federal government	They do not require a Federal license
Experience and qualifications are regularly assessed by governing bodies, including the OSB and the Canadian Association of Insolvency and Restructuring Professionals	They are not subject to formal training or professional development standards.
Fees are generally regulated by the federal government and approved by the court	May charge significant up-front fees
Immediately implement the stoppage of all legal action against us, including garnishees	They have no statutory authority to stop garnishments or collection lawsuits

Are subject to a formal complaint mechanism by the OSB for the integrity of the insolvency system and to protect the rights of consumers	No formal complaint mechanism in place
Must provide insolvency counselling within federal standards	Usually do, but may not provide budgeting and money management services

If we're struggling, we shouldn't be reluctant to ask for help in dealing with debt. Thousands of Canadians are faced with seemingly insurmountable debt issues. We are certainly not alone. We may feel embarrassed, fearful, or even too proud to ask for help and advice. But really, we need to set aside these feelings and take the steps to find the solution we need.

Since the only truly irresponsible option is to avoid the problem and hope it goes away, we should take the plunge and talk to someone - be it a LIT or another professional. Our creditors themselves want to see us deal with our situation. In getting professional help we're taking the best course of action to allow us to find the most responsible and dignified solution. We must make that call.



Chapter 8

How Can I Stay Out of Debt

We have come a long way towards understanding consumer debt and how to make it our servant instead of our master. We have seen how consumer credit developed, what it is today, how people use it, even how they misuse it and get into debt trouble. Most importantly we have examined what we can do to get out of debt, especially when it gets out of our control.

In fact, what we've really talked about is the idea that no matter how much our financial life may have jumped off the rails, we always have the power to get it back on track and regain control. We've also seen how much of a role our attitude plays in grasping that empowerment. Seeing the glass to be half-full rather than half-empty can make all the difference in the world.

If we can manage our credit wisely we can enjoy the many benefits it offers. We know credit can be a very useful tool. It can help accomplish important life goals, boost our overall net worth over time and enhance our quality of life as long as we remain the one in charge.

If we need more convincing, imagine what else we can do with our money if we're not paying off debt! The benefits of living debt free are marvelous and go beyond the tangible. It can improve our self-esteem, lead to better health and generally put us in a comfortable, hopefully, happy state. The effects trickle-down to improved relationships, better work performance and a more positive connection with the people around us - people we care about. And let's not forget what might be the biggest benefit of all - reduction, if not elimination, of stress in our lives. So how do we reach this nirvana of financial existence?

So far, we have explored consumer credit and its attendant problems and how to solve them. The next logical question should be "What can I do to make sure the problem doesn't come back?" In other words "How do I stay out of debt, and if I can't completely, how do I control it?"

Of course the short, flippant answer is: don't borrow. That's OK as far as it goes, but as we've seen in today's world of instant gratification through easy access to credit, the majority of us may see abstention as too lofty a goal. It can be done, but very few of us will be in the envious financial position of having the money to satisfy all our needs, and our wants, without borrowing. Then again, not everyone will have the discipline and willpower to live a life of ascetic restraint and simply do without. Since we cannot isolate ourselves from the invasive consumer world that surrounds us, we can accept that from time-to-time we will need to use credit. The trick will be to manage it properly and not allow the debts to take control. We need to be in charge and a positive attitude will play a huge part in helping us be in charge. We must always try to see the glass as half-full.

The Various Kinds of Credit

So let's identify the types of credit we will most likely use during the course of our lives. I think we can start with the biggest single transaction we'll get to make: buying our own home. Since very few of us have the money to pay cash and we will probably be fairly limited in how much of a down-payment we can come up with, we will have to take out a big mortgage loan. This will probably be the largest single debt we ever have to carry.

How can we do this effectively so that we remain in control?

Even though we might be taking on a huge obligation when buying a house, most people don't see it in those terms. We don't look at the total debt, say $600,000, but rather we look at how affordable it will be - the monthly payments. We tend to rationalize this in two ways:

1. There is going to be a monthly outgo no matter what we do. We will either be paying off a mortgage, or we will be paying rent. With a mortgage at least, we will be building equity in the house as we pay down the principal amount of the mortgage loan over time; and
2. Real estate has traditionally been a very good investment, with the value of property generally going up pretty consistently over the years.

The second kind of credit are other loans that we take out for reasons that don't make such good business sense, but rather because they are practical necessities. A good example of that is a car. In today's world who doesn't need a car? It provides us with convenience, independence and

status. So what if it depreciates in value over time and when we want to replace it with a newer model it's only worth a fraction of what we paid for it. We still see it as a relatively good trade off.

The third kind of credit we take on because we think it will improve our lives in the long run. Student loans are a good example of that. We take on a debt that can go into six figures on the basis that the education we get will allow us to join the high-earner club after graduation. We can then earn plenty of money to pay the loans off quickly and have a high-income future. It's a good plan, but it carries some inherent risks and can, in many cases, backfire - leaving us unable to find those high-paying jobs with a large loan to pay back. Not a happy situation.

The fourth way we take on debt is less thoughtful and more of a trap than any of the others. It stays below our radar a bit because so many of these transactions are small and lack significant consequences in themselves. Let's call it impulse credit. A great example of this is when we put a restaurant meal on our credit card, or when we succumb to the urge of buying that sweater online with no more inconvenience than taking our credit card out of our pocket and typing in the account number and expiry date. The sweater will be there within 48 hours. The bill will come in at the end of the month. It always seems inconsequential at the time, but these things tend to add up - quickly.

There are other kinds of credit and other ways to go into debt (not paying our income taxes for instance), but these four are enough to work with here.

Owning our own home

Let's face it, this is one of the most positive purchases we can make. It's a goal most families have, and it has so many positive elements associated with it that great sacrifices are often made to achieve this goal.

But we are trying to control our overall finances, so let's look at the mortgage loan debt. The key here is relatively straightforward: stay within the limits of what we can afford. I am not simply talking about the mortgage payment. When we buy a house, whether a freehold or a condo, we will have a number of other things to pay every month. This is not something renters are terribly familiar with.

For instance, there's heat, hydro and in most cases water/garbage. Perhaps cable/internet. There's property taxes and property insurance, and let's not forget maintenance; after all there's no landlord to come and fix things. Some of these items may be included in our mortgage loan payment, but there are always a lot of extras. In fact it may be safe to say that these extras can easily add 50% to our basic mortgage payment.

If we buy a condo many of these things will be covered by our condo fees, but in the end it's the same difference.

Then, of course there is the actual purchase itself. When we buy a house, we will usually find ourselves bidding against someone else. Depending on whether it is a buyer's or a seller's market the bidding may be really active and intense, or it may be laidback and passive. Either way we will have to make an offer that is accepted by the vendor. This will involve a certain amount of money to be paid "up-front" as a deposit payment. It is supposed to show that our offer is a serious one. If for some reason our offer is accepted, and we subsequently can't come up with the rest of the financing to close the sale, we will probably lose this deposit. The deposit can be anywhere from $5,000 to $50,000; more in some cases.

But the amount we put down as a deposit doesn't necessarily represent our total down payment. Essentially a house purchase consists of the sale price; which is divided into two components,

1. the down payment, including the deposit, and
2. the balance of the purchase price.

The first will consist of how much cash we can lay our hands on and the second will end up being the part we had to finance with a mortgage on the property, in other words the main mortgage loan.

So there we go. We've bought a house (or condo). Now we will have a monthly outgo of the following:

a. Mortgage payment to the bank.
b. Property taxes *(sometimes this is included in the mortgage payment)*

c. Heat *(gas company)*
d. Hydro
e. Water *(sometimes billed bi-monthly)*
f. Garbage *(sometimes collected as one payment with the water bill)*
g. Telephone and internet bill *(maybe it used to be part of our rent)*

On top of this will be our out-of-pocket maintenance costs. This will add up, even if we buy a new home. High winds can play havoc with the roof. There will be months where maintenance costs are very small, or even zero. But there will also be months where it all catches up in a hurry. That's why we have to budget for it by setting aside money each month for that contingency.

Then there's the situation where we didn't have enough money saved for a big down payment so we had to borrow some money, sometimes privately, to top it up. That loan will have to be repaid, too. Probably with a monthly payment.

These are some of the realities of buying and owning a home. We need to do a lot of sharp pencil figuring before we plunge into this kind of situation, because if we don't, we will become what is often referred to as being "house poor." Yes, we have our own home, but we can hardly afford to buy groceries because every penny we earn seems to have to go to paying all of the above. Look before we leap, right?

The debt of necessity

Like I said earlier, there are some loans we take out because we see them as necessary evils. We need a thing for our daily life, but have to borrow to get it.

Let's use that car I mentioned earlier. That's a pretty common reason we borrow. This is especially true of a family situation, where kids are involved. There are so many demands on a parent's time that a car, maybe a minivan, is more of a necessity than a simple convenience.

So we need a car. This is often the second largest purchase we make after the house. A new car today can start at $15,000 and go up to where there is no limit, I guess. But here, just like the house, we probably won't have the funds to buy the car for cash, so we will have to finance (borrow) the bulk

of the purchase. This could amount to a car loan of $20,000 to $60,000, depending on our tastes and our budget.

If we take out a $30,000 car loan, repayable over 5 years, what will the monthly payment be? Repaying the principal alone will cost us $500.00 a month ($30,000 divided by 60 months= $500.00) Tack on the interest and we're probably talking north of $600.00 or $650,00 a month. Add that to the overall monthly outgo.

There are compelling reasons to borrow for certain items and from a purely business point of view it won't be a "good deal", but we will do it anyway. But, if we are going to let's do it with our eyes open.

Quality of life loans

Student loans and other personal improvement debts have their own logic. The key is to make sure we do not proceed emotionally. The same thing can apply to car purchases, but when we are talking about things like educational loans, we are faced with a much more difficult assessment. Determining the value of any given educational direction smacks of crystal ball gazing. Who knows what the future might bring. Nobody can be sure which jobs will be in demand 10 years from now. So how are we to assess the value of any given educational program?

Obviously, the employment and earnings opportunities provided by the professions (doctor, lawyer, etc.) are fairly predictable, at least in terms of being good-paying. The same can be said of the main-line trades (plumber, electrician, etc.). But how predictable are future opportunities in the more esoteric lines of work? Hard to predict, eh? There are so many factors involved in figuring any of this out, it may be easier to just guess.

There's also another problem. There is the question of how much debt do we want to take on to learn certain skills, when all indications are that wages are traditionally low in that field. We can find ourselves $15,000 in debt having learned a certain trade but when we get out into the working world we find it will take us 15 years to pay off the debt.

Investigation and assessment are a must if we are to take on any kind of educational debts.

Impulse credit

We probably don't have to go into this too deeply, we know what this means and we know we shouldn't do it. We are also human, emotional and have a tendency to be less than as disciplined as we know we should. The only remedy, assuming we succumb to the urge, is to get mad at ourselves and make sure we pay it off in full when the bill comes in. This includes all the various kinds of impulse buys, even a pizza.

This kind of credit is the one which most easily gets out of control. Maybe it's because the individual charges are relatively small, maybe it's because of the way we think of credit cards, or maybe it's because of the volume of temptation there is around us and the ease with which we can implement our decision. Whatever the case, there is only one way to handle this situation - say no. How do we do this?

The best way I know is to override the impulse with a more compelling urge - maybe by setting a specific, doable goal. If we want the goal badly enough, we might learn to override our impulses and learn to say no.

A Goal, a Plan and a Routine

The Goal: It's hard to accomplish anything in life without knowing what it is we want to accomplish. The same holds true here. Saying that our goal is to get out of debt and get control of our financial life is a very intangible target. If we said our goal was to be able to buy a fancy car, or get our own home, we'd see it - practically taste it. Setting financial independence as a goal is tough to define, let alone see or taste.

It might be best therefore, to set a tangible and attainable goal as the end product of our efforts. It can be pretty well anything, but it has to be something meaningful to us. Not the other guy - US. It will pay huge dividends to do some serious self-examination to try to determine what really matters to us. But whatever it is, it will really help if it is tangible - something we can see. A house, a car, a specific balance in our bank account, our daughter's university tuition - whatever. Make it real.

There is a *really useful little paperback written by Alan Lakein called* ***"How to get control of your time and your life"*** *that can help people discover what is truly important to them. What they really want. It can be obtained online.*

The Plan: This will depend on our situation and our means. We discussed at length elsewhere in this book what we can do to get ourselves out of debt. If our situation is dire in this respect, then our plan will need to focus immediately on addressing that fact. We have to prioritize. If our situation is not-so-dire our approach can be different. If we're in great shape, then we will be able to charge forward towards our goal.

We also have to work within our means. It's going to be difficult to accomplish our goal if we can't pay our rent. We talked about this in earlier chapters. It will always come down to dealing with reality. Politics has been defined as the art of the possible. Getting control and managing our finances is the same thing. No wishful thinking. No focusing on unrealistic matters. We have to stick to what's real and get it done.

I'd like to make a note here that even if we are out of work or suffering some other earnings setback having a Goal, Plan and Routine can still help. Being organized and focused provides benefits of its own, and it will be very valuable to have developed the right habits when the tide turns, and we are earning again.

Here's an important consideration. If our debt situation is draining our income, leaving us unable to deal with our necessities, then we have to get help. That's the time to see a LIT or a debt counsellor. For instance, a consumer proposal filed with a LIT can reduce our debt payments by 90%. That would certainly change the math of our cash flow, wouldn't it? We can't let pride or embarrassment stand in the way of accomplishing our goal.

The Routine: There are any number of practical ways of approaching this subject. Books are written about it all the time. So the one we pick simply has to be something we understand and can fit into our daily life with the minimum of disruption. Preferably it will require the least amount of change to our normal habits.

My own approach to managing my cash flow is covered by an old adage: "Keep It Simple, St----". The KISS principle. We can all fill in the last S-word whatever suits us. *(I've provided* a *pretty good idea of the one I use for myself)*

The method I have laid out below is one I have used and it has worked. But anyone is welcome to play with it as much as they want or use something else entirely. The only thing we can't fiddle with is that we must apply it consistently and work at it diligently, every day, especially in the early stages.

Managing and controlling our cash flow

Cash flow is the term financial people use to describe what comes in and what goes out. Many people will say income and expenses. We will use cash flow.

Let's be clear, there is no magic formula for doing this. Controlling anything requires a system. Finances are no exception. Any kind of a system for managing our cash flow is going to involve writing things down. So perhaps a good place to start would be making a detailed and well-researched budget of our current income and our expenses, our outgo. If we don't know what we have been spending how can we figure out what we should be spending. Maybe most of what we have been spending is necessary? Maybe it isn't? Until we analyze it we won't know.

The most convenient and practical format is to make it a monthly budget. What we have coming in and what we have going out every month?

So we list every known source of income and their amounts. This will probably be fairly straightforward. We generally know what's coming in. It will be a lot harder to be accurate about what goes out - our expenditures. But with a lot of digging and some honest and intelligent guess work we can probably come up with a good picture.

The results may shock us, or they may be more or less what we expected, but the key is to write it down. So we can start by getting ourselves a good old-fashioned ledger book, or use the Excel spreadsheet, but we'll need 5 columns: Date, event or item description, income, outgo and running balance.

That will be our template. When we first do this our budget may not balance. We may have more going out than coming in. If so, we will have to adjust, and that may be very difficult to do - maybe even impossible for a while. No matter. If that's our reality, then that what we deal with. Like I said earlier, having a good system in place will help now and, in the future, when we are making more money.

This, by the way is the key to all budgeting. Deal only with facts, not wishful thinking or make-believe numbers. If we have a negative budget, we have to find a way to change it. That might mean implementing some of the techniques we've already discussed in earlier chapters; techniques such

as consolidating loans, or debt management or even consumer proposals or bankruptcies. We may be able to attack any such monthly shortfall by finding a supplementary or newer source of income. The only way to balance books is to earn more and/or spend less.

But whether we break even every month, see a positive balance or negative one, getting and keeping control over our finances requires that we keep a good record of everything that happens - everything that comes in and everything that goes out. We write it down, no matter how big or small - every day. I always found the best time to do this was at the end of the day. Most of the information was still fresh in my mind and I could usually find the time to do it.

A simple way is to use the bookkeeper's system of credits and debts, but we'll call it income and outgo. Start the month with whatever balance we ended last month, positive or negative. Then add this month's income and subtract this month's outgo - as it happens. That's why it's an everyday job. That's also why it's called a running balance.

When we get paid and the money goes into our bank account we write it down in our ledger or spreadsheet as income. If we are in the habit of buying 2 large coffees a day at Timmy's, we write it down as outgo, though we can combine them into one $4.00 purchase in our ledger or spreadsheet.

By the way, after we see how much we're spending on coffee every week we might start getting a little angry with ourselves. We might start asking ourselves if there aren't better things we could be doing with all that money *($20.00* a *week, $86.67* a *month, $1,040.00* a *year).* Cutting it down to one coffee a day would free up $520.00 a year to put towards our real goal.

We can call this system basic bookkeeping for amateurs. We don't have to be professionals to add and subtract. What will make this system work is the diligence and accuracy with which we apply it. Every bit of income and outgo is written down. This is the fundamental basis for getting control of our finances - know what and where everything is.

If I'm any example, discipline and routine are not everyone's strong points, but I have made it work and the hundreds of people I've explained it to have agreed. It worked for them, too.

The glass is half-full

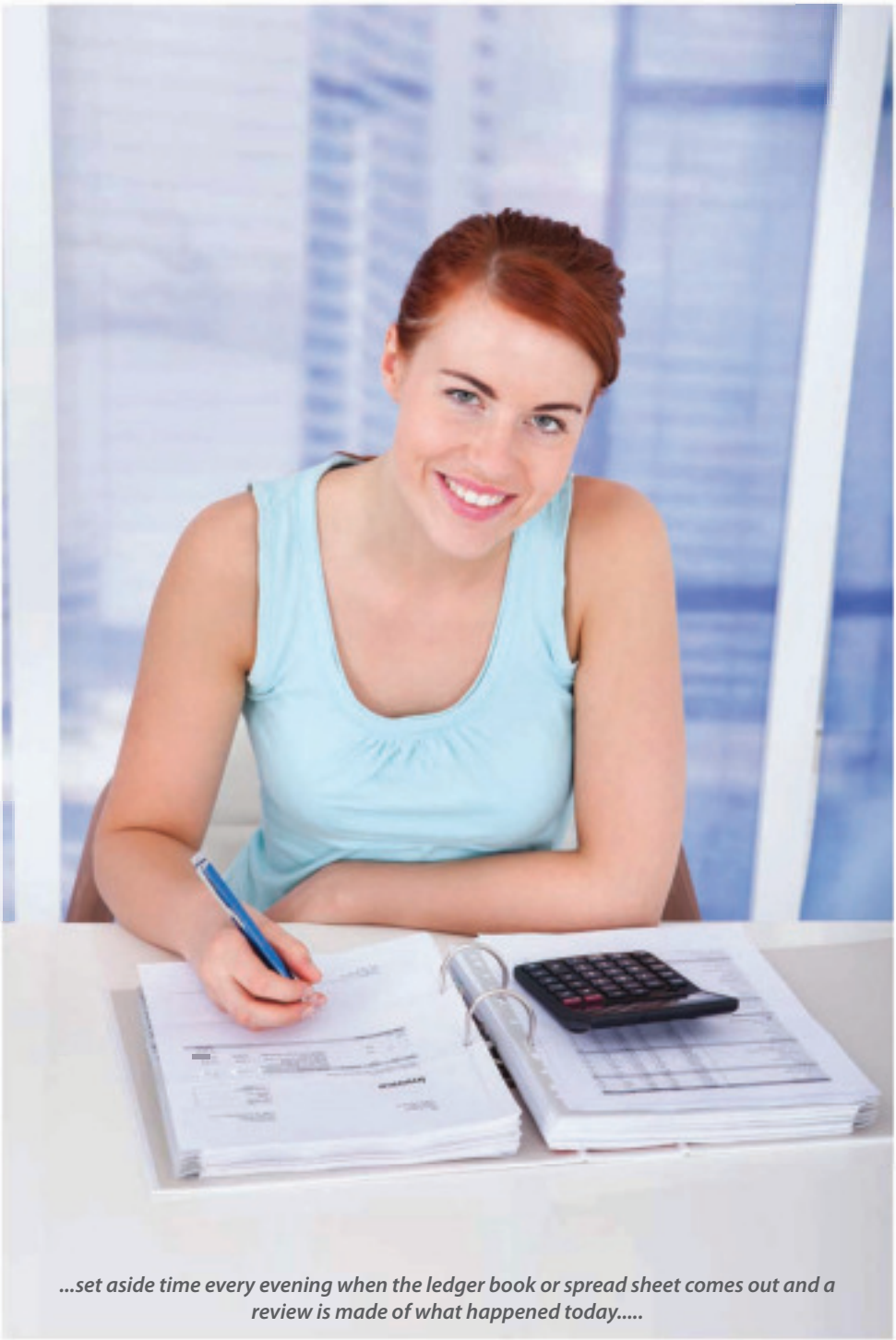
I believe that we can accomplish more things by seeing the glass as half-full rather than half-empty - the positive, rather than the negative. I think the best way to motivate ourselves to follow a disciplined routine is to set some kind of target that we really want to hit. It could be something we want to buy, something we want to do, or some status we want to reach. In fact, it could be anything, but it should be tangible and achievable in what we might call the short-to-medium run. Let's use an example. Let's say our target is to reach what I call debt-free land - that wonderful state of being where we have zero debts to pay. Bills yes, debts no. *(I don't see phone bills as debts and I don't see our VISA invoice as a bill).*

So at the top of each monthly page in our ledger book, or the top line of the spreadsheet file, we will write "Debt-free Land". It will act as a reminder, staring us in the face every time we make an entry.

Then, keeping our eye on our Goal, we will implement the Plan and apply the Routine. Like anything else we'll have to get into the habit of doing our daily review and entries. We all have routines. Most people do them by rote. We have a "morning routine" which usually involves a number of actions that are usually performed in the same order, often at the same time. What happens if we are distracted by something. There's a good chance our routine will be all messed up, right?

So we have to develop the same kind of thing for our record keeping. Set a time every evening when the ledger book or spread sheet comes out and a review is made of what happened today. Like most new exercises it will be tough at first, but if we have the motivation we can develop the habit. Once we have the habit it will become easy.

Here's something else I've discovered when following this regimen. If we keep at it the whole thing will take on a life of its own. It will become something we look forward to doing, especially after we start seeing some practical results. Once we get into the habit of tracking our finances **we will see results** - maybe small at first, but they will grow.



...set aside time every evening when the ledger book or spread sheet comes out and a review is made of what happened today.....

CONCLUSION

All financial debts come attached with an agreement to pay it back over a certain period of time and under certain terms. Otherwise it wouldn't be called a debt, would it?

If we default on our debt payments there will be negative consequences: collection calls, lawsuits, credit rating nosedive and so forth. All bad stuff, but not as bad as the intangibles that go with it - like stress increase and all the extra baggage that goes along with that.

One of the main reasons I wrote this book was to address one of those extras - something I have seen an awful lot of over the years. I'm talking about the tendency of so many people to let their debt problems define who they are, at least in their own eyes. The fact that we find ourselves in financial trouble **shouldn't define who or what we are.** That has never seemed true, logical or fair to me. We're all human and we will make mistakes. What we're supposed to do is figure out what we did wrong and fix it - or make sure we don't repeat it.

The reality is these debt problems give us a chance to make a truly meaningful and positive change in our life. It's really a golden opportunity. If we can figure out what we may have done to contribute to the problem, we have a chance to make changes that can make our life better. If we apply this across the board maybe every future mistake we make will be a new one.

But, to accomplish this we need to believe we can do it. The skills which allowed us to be successful in the past are still there for us to use. By seeing the glass as half-full, by being positive, we can make something happen. As the song goes, we need to

"Ac-cent-tchu-ate the positive, e-lim-i-nate the negative." The glass half-full is the better way to go.

So here's a to-do list:

1. **We need to stay positive;**
2. **We must be honest with ourselves in assessing what went wrong;**
3. **We should get help from an expert to know all the solutions available;**
4. **We should not let pride stand in our way - others have gone down this path before us;**
5. **We must see the reality of our situation and our options; and**
6. **We must make a decision - without action there will be no solution.**

What is the next step?

Since I am the one who wrote this book, I'll say that the next step should be to schedule a FREE and CONFIDENTIAL consultation with Richard Killen & Associates Ltd, a Licensed Insolvency Trustee . That's us.

If the stress has been building and our finances are getting totally out of control, or will soon be there, we need to see someone who can put everything into perspective for us. We at Richard Killen & Associates can do that and we don't charge for the consultation, it's FREE. We try to be as convenient as possible for you, having offices in various parts of the GTA and we even offer evening appointments.

So if you need to know what options you have and how they will impact on you, contact us today. Here are the links:

Scarborough West
Scarborough East
Toronto Danforth
Etobicoke
Richmond Hill
Brampton
Erin Mills
Cooksville
Georgetown
Pickering
Oshawa

Or just call our toll-free number **1 (888) 545-5365.**

Since 1992 we have helped thousands of people *(let's not called them consumers)* in basically the same boat you may be in. We'll sit down and talk with you, not at you. We will:

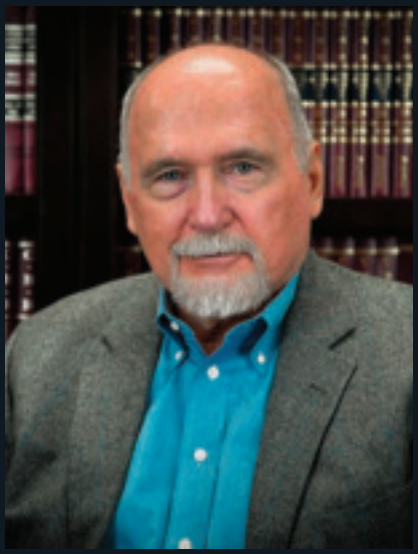
1. Formally assess your circumstances;
2. Answer all your questions;
3. Provide you with the full range of solution options;
4. Explain what we see will be the consequences of each option.
5. Empower you to be able to solve your debt problem.

If you decide to go forward with either of the statutory options, we will put the solution into effect and get you under the umbrella of the BIA as soon as you want. You can depend on us to give sensible and realistic advice that will really help you take the next steps to get your financial life back on track. Call Richard Killen & Associates. The power is in your hands.

The glass is half full!

"I was asked once to explain in one sentence what it is that we at Richard Killen & Associates do for our customers. After thinking about it for a while I decided that the biggest thing we do is empower people to solve their own debt problems.

Sometimes we can provide people with a direct solution, such as if they decide a bankruptcy or a proposal is their best option. But often we help them find their best option simply by showing them their situation from a different perspective. Maybe they had the tools needed to solve their problem themselves, or with conventional financial assistance. But whatever their decision, they came in to see us with a sense of hopelessness and helplessness and they left with a sense of control and power. We helped them find that control."



Richard Killen

There are many sides to the business of consumer credit and Richard has had the relatively unique experience of seeing it from 3 of the main ones: consumer loans, government regulator and, since 1991, as a Licensed Insolvency Trustee; helping people deal with their debts when ordinary repayment has ceased to be an option. As he is fond of saying, it gives him a perspective not available to many. Richard tries to provide that perspective to each of his customers.

Over the years Richard has seen the sense of futility and hopelessness that dominates people's thinking when they are faced with debt problems that seem to have no solution. His experience tells him there is nearly always a solution and his job allows him to help people find theirs – turning a negative situation into positive results.

Richard truly believes the glass should always be seen as half-full. He tries here to explain why, if you are having debt problems, you should, too.

Richard Killen & Associates Ltd.
Licensed Insolvency Trustee

www.rkillen.ca

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