MODULE 8

Steps to debt repayment

Handout 8-4

Step 1 – Stop using credit

If you feel that you cannot manage your debt, the first step you can take is to stop it from growing. Put your credit cards away. Make a promise to yourself that you will not pay for things using credit until you get control of your debt.

Step 2 – Collect your debt information

Gather all of your debt and account information. For each debt, write down:

- the total debt amount
- the minimum monthly payment
- the interest rate
- the term for repayment.

Step 3 – Rework your budget

Look closely at your budget. (You have one, right?!) Is there a way to increase your income or decrease your expenses? Try to rework your budget to free up more money towards debt repayment.

Step 4 – Negotiate and consolidate

Speak with your creditors directly to see if you can get a lower interest rate on your debt or combine all of your individual balances owing into one loan with a lower interest rate.

Step 5 – Make a debt repayment plan

By reworking your budget, and reducing your interest rates you are ready to make a clear plan to pay off your debts. The 'power pay' strategy is a way to organize your debts by interest rate. Focus most of your payment efforts on the debt with the highest rate. Pay minimum payments on everything else. When the first balance is paid off, add that same payment amount to the next highest interest debt.

Continue this way until all debts are gone. Slowly, but surely, you will pull yourself out from your debt. If you have a series of small debts with similar interest rates, clear them off one at a time and get rid of them. Remember to maintain all minimum payments.

Step 6 – Stick to your plan

Once you have decided to get out of debt, the most important thing is to stick to the plan you made. One way to do this is by keeping a calendar with all your payment due dates. You can also set up automatic payments through your financial institution. Then you do not have to worry as much about making your payments on time. You still have to make sure that you have enough money in the bank to cover the payments.

MODULE 8

Steps to debt repayment

Handout 8-4 (continued)

Professional help

If you have tried these ways to get your debt under control and find that you still cannot manage, you can think about three other options: credit counselling, a consumer proposal or bankruptcy. These options have long-term effects on your credit rating. You should avoid these options if you can and try other strategies for repaying debt.

Step 7 – Credit counselling, debt repayment program

You may meet with a credit counsellor from a non profit credit counselling organization. They may recommend you enrol in their debt repayment program. In that case they will negotiate with your creditors for you and you will make one payment each month to the credit counselling society that will be divided among your creditors. This will have an effect on your credit rating.

Step 8 – Consumer proposal

If the amount you owe is less than $250,000, you can work with a bankruptcy trustee. They will help you to put together an offer to your creditors. The offer reduces your balance owing and allows you to pay them off within five years or less.

Each creditor has one vote. Together, they can decide whether to accept or reject your proposal. If they accept it and a Court approves, you can put your plan in place. You are then protected from any further legal action to collect on the debts.

This option requires you to pay a fee that is included in your instalment payments. You must also attend credit counselling. It has a bad effect on your credit history that lasts for three years from the date of your last payment.

Step 9 – Bankruptcy

The rules of bankruptcy are complex. This is a legal process where you declare yourself unable to pay back your debts, or 'insolvent'. You have to work with a licensed bankruptcy trustee. You must also attend credit counselling. The trustee may force you to sell assets, such as art, jewellery, antiques, a car, or even your house. The money is used to pay back your creditors.

The process will 'discharge' you from paying most of your debts. It prevents creditors from being able to take legal action against you. But it has severe and long lasting effects on your credit rating. A first bankruptcy will stay on your record for 6 years from the date of your discharge. A second will stay on for 14 years.

Having a bankruptcy on your record can prevent you from getting credit or loans, buying a home or a car, or even renting an apartment. There is a fee to claim bankruptcy that is paid in instalments over the process. It takes one year or more to complete the process of bankruptcy.