



Financial Literacy

Participant Handbook

Debt



Module 8 - Debt**ACTIVITY SHEET 8-1****How much is TOO much?****The 20 / 10 rule**

20 Rule : Maximum Balance Owing	
Yearly net income (after taxes):	
20% of yearly net income: (multiply yearly net income by .2)	= Max balance
10 Rule : Maximum Monthly Payment	
Monthly net income: (divide yearly net income by 12)	
10% of monthly net income: (multiply monthly net income by .1)	= Max monthly payment

Does this seem like a realistic amount of debt to carry? Why or why not?

How to find out how much interest you will pay

Use the figures for balance owing, monthly payment, and the annual interest rate. Put the numbers into the debt planner calculator at this address:

<http://cgi.money.cnn.com/tools/debtplanner/debtplanner.jsp>

Does the total interest cost seem affordable to you?

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ACTIVITY SHEET 8-2

Do's and don'ts

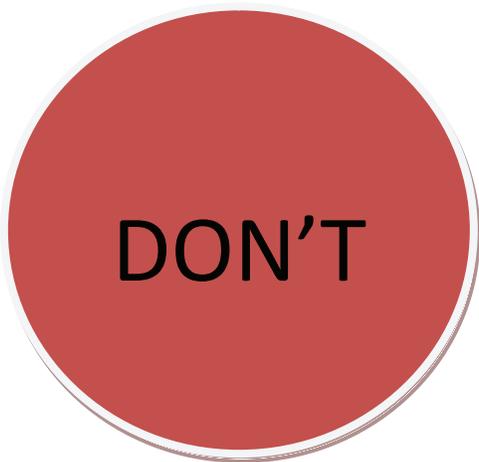
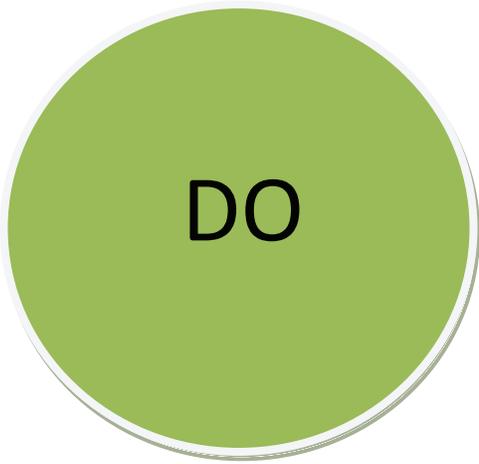
Printing instructions

Print the sheets of statements and the single page of circles three times, one for each group. Cut the statements out individually and place in an envelope. The group package will consist of the page of circles and an envelope of action statements. Print the large circles once for posting at the front of the room.

Prepare a monthly budget.	Sign up for another credit card with a low interest offer and transfer your debt.
Focus on the things that you can do each day to spend less and save more.	Let others make you feel bad about your situation.
Keep a money journal or receipts to track your expenses.	Keep your debt stress a secret from friends and family.
Call your creditors to let them know if you will be missing a payment.	Work out a new payment schedule with your creditors that you can afford.
Think about taking a second job until your debt is paid off.	Ask about a consolidation loan for your debts.
Plan to have only one credit card in the future.	Cash in some investments or use savings to lower your debt balance.
Speak to a not-for-profit credit counselling agency.	Change your phone number or don't answer your phone when creditors call.

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ACTIVITY SHEET 8-2, continued

Make a list of all the debts you owe with balances and interest rates.	Don't open the bill until you have the money to pay it.
Negotiate with creditors to lower your interest rates.	Focus your payments on the highest cost debt.
Be honest with your creditors, explain your problem, and commit to a plan to make payments you can afford.	Borrow money from family and friends to pay your creditors.
Look honestly at your situation and try to figure out how you got into debt in the first place.	Get a loan from a payday lender or finance company.
See a Bankruptcy Trustee.	Focus your payments on the biggest debt balance.
Gamble to see if you can make enough to pay off all your debts.	Keep using your credit cards.

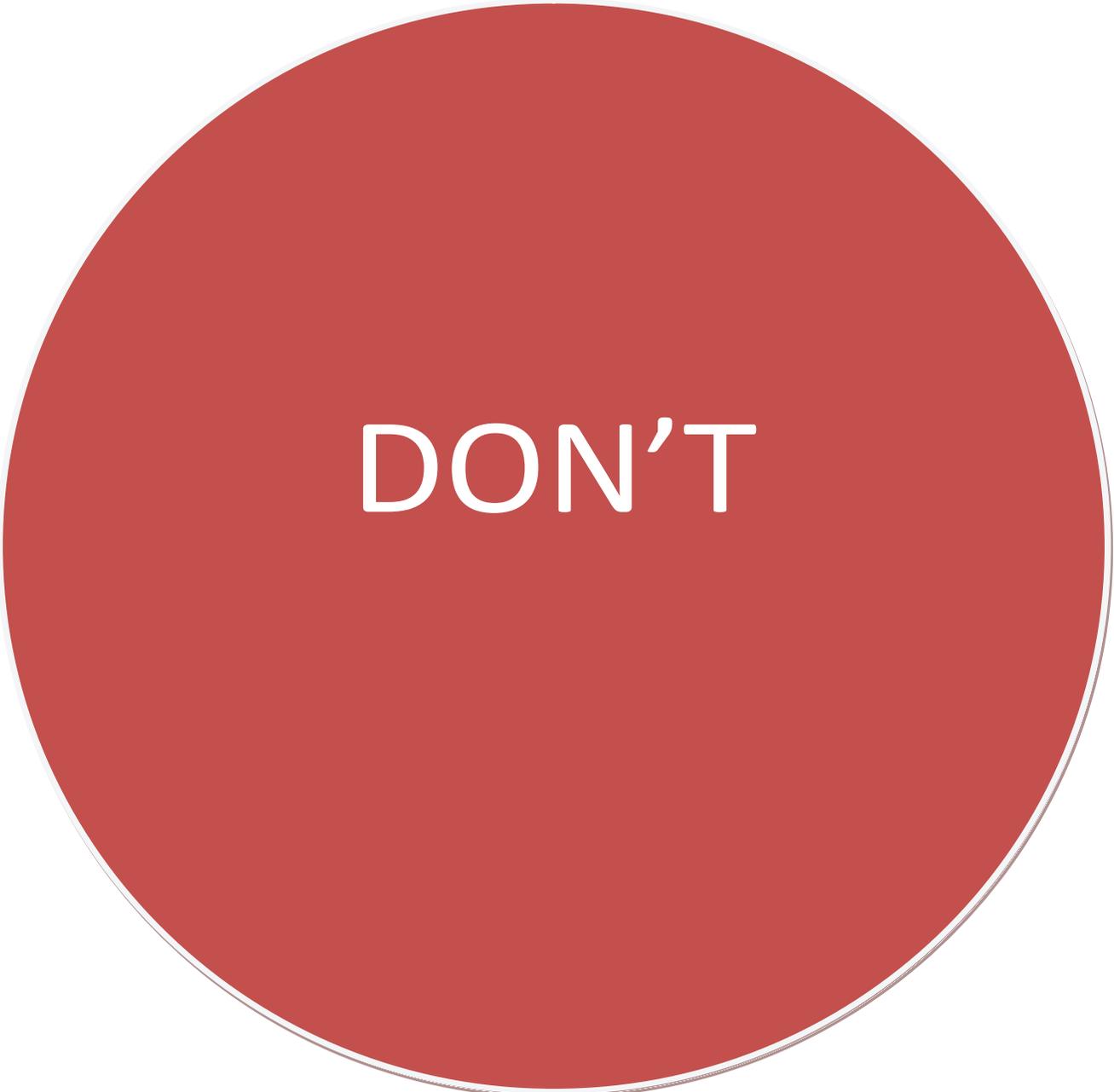




DO



PROCEED
WITH
CAUTION



DON'T

Ladder of Debt Repayment Options

Print these pages and cut into individual 'rungs' for use in the activity.

**Stop using
credit**

**Collect
your debt
information**

**Rework
your budget**

**Negotiate and
consolidate**

**Make a debt
repayment plan**

**Stick to
your plan**

Credit counselling

Debt repayment program

Consumer proposal

Bankruptcy

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HANDOUT 8-4

Steps to debt repayment

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 worry about making sure that you have enough money in the bank to cover the payments.

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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.

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HANDOUT 8-5

Dealing with creditors

Tips for creating a debt repayment plan

Be realistic. Offer to make a payment that you are sure you can afford. Missing a payment could put your proposal in danger. Don't make promises you can't keep.

Be reasonable. Creditors will want to get paid back within a reasonable amount of time. The longest time frames are three to five years. It could be less. It depends on the amount owed.

Be specific. Make the details of your proposal clear. Tell the creditor when you will contact them in the future. Be sure that you follow through.

Dealing with creditors by phone

Speak to someone who is in charge, such as a

- › Bank or credit union branch manager, collections supervisor, or loans officer
- › Finance company branch manager
- › Retail or department store collection supervisor or credit manager

Keep your temper and be polite. Ask for your creditor's help, rather than telling them what to do. If the person you talk with is not helpful, ask to speak to his or her supervisor. Try to deal with the same person each time you call. Keep in touch until the problem is solved.

Keep a record of the conversation. This should include:

- › Company name
- › Phone number
- › Name of the person you spoke to
- › Date and time
- › Description of what was said and any agreements

Ask for any agreements to be put in writing.

Dealing with creditors by mail

In a letter, you could include

- › Your reason for the letter
- › Your employment status
- › A copy of a recent pay stub to show what income you get
- › A monthly expense sheet showing your income and expenses
- › Your reasons why you cannot make payment
- › Your proposed debt repayment plan

Remember

- › Never mail cash
- › Keep a copy of all your cheques, receipts, money orders, and letters

Module 8 - Debt

HANDOUT 8-6

Collection rules

You have the right to

- › Be told in writing that your account has been turned over to collections
- › Confidentiality: A collection agency cannot discuss your debt with anyone other than your creditor or a co-signer, unless you give them permission
- › Ask to be contacted in writing only. The calls will then stop
- › Ask for a statement of account every 6 months that shows the amounts you have paid and the balance you owe

A collection agency has the right to

- › Call you at home or at work
- › Call anytime after 7 a.m. and before 9 p.m., except on holidays
- › Discuss details of your debt with you and the creditor
- › Contact your friends, employer, relatives, or neighbours to get your telephone number and address only
- › Contact a person who has co-signed for the credit that is now overdue
- › Contact a person if you have given permission for them to be contacted

A collection agency cannot

- › Try to collect debt without writing to you first
- › Use threats or language to frighten and intimidate you
- › Pressure you to repay the debt to the point of harassment
- › Give you false or misleading information
- › Add any costs to the debt you owe
- › Contact you on holidays, unless you ask them to
- › Contact you before 7 a.m. or after 9 p.m., unless you ask them to
- › Contact you on Sundays before 1 pm or after 5 pm, unless you ask them to
- › Contact your friends, employer, relatives or neighbours for any information about you other than your telephone number or address
- › Suggest that any of these people mentioned above pay your debt
- › Call your cell phone, unless you ask them to
- › Pretend to be a lawyer or legal authority
- › Take you to court without permission from your creditor
- › Involve police or send you to jail
- › Take your property

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ACTIVITY SHEET 8-7

Collection role play

Volunteer's role

The volunteer pretends to pick up a telephone and answer. Their role is to respond to the collector that is calling in whatever way they think is right.

Collector's script (Deliver this quickly with some measure of force)

- › Is (name) there please?
- › I am calling today to inform you of an outstanding collection owing for the amount of \$_____.
- › You are required to make a payment in full immediately.
- › If you do not pay in full it will be reported to the credit bureau and will further damage your credit history.
- › We may also be forced to commence legal action upon which time you will be required to pay the outstanding balance and any additional costs incurred to collect that balance.
- › I am prepared to collect on the full amount today to resolve this situation.

Tips for improvising

- › If the volunteer offers to make a partial payment, ask for a higher amount than they offer.
- › Improvise responses to the person owing money that keeps the pressure on until you are successful in your collection attempt.
- › You may even choose to do some of the things that collectors are not allowed to do to see if this gets a reaction from the group.

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ACTIVITY SHEET 8-8

Goal-setting

Example:

Goal: Make a debt repayment plan.	When?
Tasks: <ul style="list-style-type: none"> › List all of my debt information 	On Saturday
<ul style="list-style-type: none"> › Call VISA to see if I can get a lower interest rate. 	Next Monday
<ul style="list-style-type: none"> › Look for ways to rework my budget to free up money to pay debts. 	By the 15th of the month

1. Goal:	
Tasks:	When?

2. Goal:	
Tasks:	When?

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HANDOUT 8-9

Resources

Debt Repayment Planning Calculator <http://cgi.money.cnn.com/tools/debtplanner/debtplanner.jsp>

Office of the Superintendent of Bankruptcy Dealing with Debt: A Consumer's Guide
www.ic.gc.ca/eic/site/bsf-osb.nsf/eng/br01861.html

National Student Loan Services Centre 1-888-815-4514 <https://nslsc.canlearn.ca>

Non-profit credit counselling agencies

Credit Counselling Society 1-888-527-8999 www.nomoredebts.org
BC, Alberta, Saskatchewan, Manitoba

Money Mentors www.moneymentors.ca
1-888-294-0076 Alberta, Yukon, NWT and Nunavut

Provincial Mediation Board Credit Counselling www.justice.gov.sk.ca/PMB
1-888-215-2222 Saskatchewan

Community Financial Counselling Services www.cfcs.mb.ca
1-888-573-2383 Manitoba

InCharge Debt Solutions www.incharge.ca
1-888-424-3404 Ontario

Credit Canada www.creditcanada.com
1-800-267-2272 Ontario

SOS Dettes www.sosdettes.ca
1-866-615-1226 Quebec

Credit Counselling Services of Atlantic Canada Inc. www.solveyourdebts.com
1-888-753-2227 Newfoundland, New Brunswick, Nova Scotia, Prince Edward Island

Credit and Debt Solutions www.creditanddebtsolutions.ca
1-888-738-3328 Newfoundland

Family Service of PEI – Credit Counselling www.familyservice.pe.ca/credit.htm
1-866-892-2441 Prince Edward Island

Module 8 - Debt**HANDOUT 8-9, continued****Consumer protection authorities****British Columbia: Consumer Protection BC** www.consumerprotectionbc.ca

1-888-564-9963

Alberta: Service Alberta www.servicealberta.gov.ab.ca

1-877-427-4088

Saskatchewan: Consumer Protection Branch www.justice.gov.sk.ca/cpb

1-888-374-4636

Manitoba: Consumer's Bureau www.gov.mb.ca/fs/cca/cpo/

1-800-782-0067

Ontario: Ministry of Consumer Services www.sse.gov.on.ca/mcs/en/Pages/default.aspx

1-800-268-7095

Quebec: Office de la protection du consommateur www.opc.gouv.qc.ca/

1-888-672-2556

New Brunswick: Justice and Consumer Affairs www.gnb.ca/0062/rentalsman/index-e.asp

1-506-453-2659

Nova Scotia: Service Nova Scotia and Municipal Relations www.gov.ns.ca/snsmr/access/individuals/consumer-awareness.asp

1-800-670-4357

Prince Edward Island: Consumer Services www.gov.pe.ca/jps/index.php3?number=1002799&lang=E

1-800-658-1799

Newfoundland and Labrador: Trade Practices Division www.gs.gov.nl.ca/cca/tp

1-877-968-2600

Yukon: Consumer Service www.community.gov.yk.ca/consumer

1-800-661-0408 ext 5111

North West Territories: Consumer Affairs www.maca.gov.nt.ca/operations/consumer_affairs/index.html

1-867-873-7215

Nunavut: Consumer Affairs

1-866-223-8139

Module 8 - Debt

HANDOUT 8-10

Glossary

assets: Things you own that have value, such as art, jewellery, antiques, a car, or a house

bankruptcy: A legal process where you declare that you cannot pay back your debts

collections agency: A private company that creditors pay to collect unpaid debts. The person who calls you about your debt is a collections agent.

consolidation loan: A loan that combines all of your debts, at a lower rate of interest. You use the loan to pay off all of the high-interest debt. You make regular payments on the lower-interest consolidation loan.

consumer proposal: A legal process where you work with a bankruptcy trustee to make an offer to pay your creditors less than you owe them. If they approve the offer, and the Court approves the plan, you must pay your creditors within five years or less.

debt repayment plan: A realistic plan for getting your debt under control

discharge: Being relieved of your debts through bankruptcy

harassment: Using fear and pressure to make you pay your debt. Creditors are not allowed to harass you.

insolvent: Unable to pay your debts

leverage: Using other people's money to build your own financial health in the long term

renegotiate: Work with a creditor to change the terms of a debt so that it is easier for you to repay

wage garnishment: Taking money from your wages. Some loans have terms that allow the creditor to garnishee or take money directly out of your paycheque if you have failed to pay a debt.