

DEALING WITH DEBT

Are you currently in debt?



Are you working toward managing your debt?

Options are available to help you repay what you owe. Your options can include a **debt management plan**, a **consumer proposal** or **bankruptcy**. Talk to a non-profit credit counsellor today to help you choose the right option for your debt repayment or to refer you to a licensed insolvency trustee.

Read below for a short summary on **debt management plan**, **consumer proposal** and **bankruptcy**, including what they are, how they work and what you need to know.

What is a debt management plan?

An informal offer that a non-profit credit counsellor makes on your behalf to the legal businesses and/or people to whom you owe money, allowing your debts to be combined (consolidated) into one monthly payment.

HOW DOES IT WORK?

- You will meet with a non-profit credit counsellor to create a budget based on how much you have (income assets) and what you are responsible for (liabilities).
- The credit counsellor will then tell you if a debt management plan is right for you and give you tips on how to move forward.
- You and your credit counsellor will create a plan to combine your debts into one monthly payment (known as debt consolidation). The plan may also include requests for low or no interest payments and/or for more time for repayment (up to a maximum of 5 years).
- The credit counsellor will then send your plan to all the legal businesses and/or people to whom you owe money (known as creditors) for approval.
- If approved, you will start making your monthly payments to the non-profit credit counselling organization, which will pay creditors on your behalf.

WHAT DO I NEED TO KNOW?

- When a debt management plan is in place, collection activity and legal actions stop.
- What you own (assets) will not change unless your payments stop (e.g., mortgage).
- Co-signers on debts and creditors are included in a debt management plan only with their consent.
- Canada Revenue Agency debts, student loans, car loans and mortgages cannot be included or paid off in a debt management plan.
- Credit counsellors take a small set-up fee (maximum \$50) and 10% of the regular monthly payments to help with their costs. They may also take an application fee, membership fee, upfront fee and/or fee for each creditor involved.
- A debt management plan will be cleared from your credit report 2 years after successful repayment.



What is a consumer proposal?

A formal, legal proposal made by a licensed insolvency trustee on your behalf to the legal businesses and/or people you owe. It offers to repay debts over a longer period of time and/or at a lesser amount.

This option is considered when you are not eligible for a debt management plan.

HOW DOES IT WORK?

- A licensed insolvency trustee will meet with you to create a detailed budget that specifies what you make (income), what you own (assets) and what you owe (debts).
- You and the trustee will then create a proposal, detailing how much you will pay back and how long it will take (up to a maximum of 5 years). Often this includes paying less than what you owe (known as debt settlement).
- The trustee will file the proposal with the Office of the Superintendent of Bankruptcy Canada.
- The proposal will then be sent to the legal businesses and/or people you owe (known as creditors), who vote on whether or not to accept the proposal (within 45 days). The consumer proposal is accepted if the majority agrees.
- If accepted, you start making your monthly payments to the licensed insolvency trustee, who will pay creditors on your behalf.
- You must also attend 2 mandatory counselling sessions within the first 6 months of the proposal to learn about money management.

WHAT DO I NEED TO KNOW?

- Once a consumer proposal is filed, collection activity and legal actions stop. Interest payments stop as well.
- What you own (assets) will not change.
- Co-signers on debts and creditors are included in a consumer proposal only with their consent.
- Trustee fees are collected from clients before payments are made to creditors.
- Student loans less than 7 years old, child support/alimony and debts from criminal action (e.g., fraud, fines and penalties) will not be included in the consumer proposal. Interest will continue on debts that are not included.
- Three missed or past-due payments may cause the consumer proposal to be cancelled. If this occurs, collection activity and legal action by creditors will start up again.
- A consumer proposal will be cleared from your credit report 3 years after successful repayment.



What is a bankruptcy?

A legal process where you sign over what you own to a licensed insolvency trustee, allowing them to either sell or transfer your assets in an attempt to repay the legal businesses and/or people you owe.

This option is considered if you are not eligible for a debt management plan or consumer proposal and/or you can no longer afford to pay your debts.

HOW DOES IT WORK?

- A licensed insolvency trustee will meet with you to create a budget based on what you make (income), what you own (assets) and what you owe (debts).
- Your debts will be reviewed by the trustee to determine what can be cleared in bankruptcy.
- Your trustee will then file for bankruptcy with the Office of the Superintendent of Bankruptcy Canada on your behalf.
- Once accepted, what you own (assets) will be turned over to the trustee. The trustee may choose to sell or transfer the assets to help repay debts. Some assets are excluded from this sale, including those needed for daily life (e.g., household items, your car, personal belongings, tools of your trade and pension/retirement savings up to a certain amount).
- If you are making more income than needed to cover your basic needs (known as surplus income), you may be required to make monthly payments to the trustee to help repay creditors.
- You must also attend 2 mandatory counselling sessions to learn about money management.

WHAT DO I NEED TO KNOW?

- Once you have filed for bankruptcy, collection activity and legal actions stop.
- Creditors and co-signers will be notified once you have filed for bankruptcy. Co-signers may be approached for payment of debt(s).
- Student loans less than 7 years old, child support/alimony and debts from criminal action (e.g., fraud, fines and penalties) will not be included. Interest will continue on debts that are not included.
- Trustee fees are more than \$1,000. If you have surplus income, you will make monthly payments to your trustee to help repay creditors. The payment term is 9-21 months for a first-time bankruptcy.
- If this is the first time you are filing for bankruptcy, it will appear on your credit report for 6 to 7 years after you are discharged from bankruptcy.



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