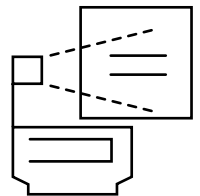


lesson thirteen

in trouble



overheads



why consumers don't pay

loss of income (60%)

- Unemployment/underemployment (36%)
- Illness (16%)
- Other (divorce, death) (8%)

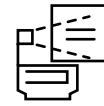
overextension (36%)

- Poor money management
- Emergencies
- Materialism
- Need for instant gratification

fraudulent use of credit (2%)

other (2%)

warning signs of trouble



- You don't know how much you owe.
- You often pay bills late.
- You get a new loan to pay old loans.
- You pay only the minimum balance due each month.
- You spend more than 20% of your net income (after paying rent or mortgage) on debt maintenance.
- You would have an immediate financial problem if you lost your job.
- You're spending more than you earn, using your savings to pay for day-to-day expenses.



first steps to take if you can't pay your bills

take another (close) look at your budget

- Trim your expenses.
- Establish “needs” versus “wants”.
- Be realistic about what you can afford.

contact your creditors

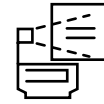
- Tell them why you can't pay, that you intend to pay, and when/how much you will be able to pay.
- You may be able to work out a new payment schedule.
- If possible, continue to make the minimum payments.



credit counselling service (CCS)

- Provincial-based program that offers information on financial and consumer topics.
- Reviews your income.
- Helps you set up a realistic budget.
- May contact your creditors and make arrangements for reduced payments on your bills.
- Helps you plan for future expenses.
- Offers services for a modest fee, or for free if you can't afford to pay.
- Listed in telephone directory under local and provincial government.

consolidating your debts



loan consolidation

- You make only one payment, usually lower than the total amount of your monthly debt payments.
- Best to use only when combined with credit counselling.
- If you own a home, consider your spending habits carefully before you take out a home equity loan. You could end up with a loan and large credit card bills if you don't change your spending habits.

watch out for "credit repair" companies!

- Offer for-profit counselling.
- Offer debt consolidation loans.
- Offer debt counselling.
- Some advertise they can erase a poor credit history (no one can do this!).



collection agencies act and consumer guide

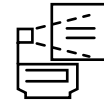
a debt collector must

- Inform you, in writing, of the amount of your debt, the name of the creditor, and an explanation of your right to dispute the debt.
- If you dispute the debt, the debt collector must give you written proof of the debt.

a debt collector may not

- Contact you at unusual times or places.
- Disclose what you owe to anyone but your attorney.
- Harass or threaten you.
- Use false statements.
- Give false information about you to anyone.
- Misrepresent the legal status of the debt.
- Engage in any kind of unfair practice, such as trying to collect an amount greater than you owe.

wage garnishment



what is garnishment?

- A legal procedure that withholds a portion of your earnings for the payment of debt.

the limits of garnishment

- The lesser of 20% of your disposable income or 30 times the federal hourly minimum wage.
- You may be able to get a “Claim of Exemption.”

claim of exemption (basic necessities of life exemption) (only if you meet all of the following conditions)

- Your family is living in the province.
- All the money you earn is needed to provide necessities.
- Debt was for a necessity (food, housing, medical care).
- Garnishment has already been started.

what protection you have

- You cannot be fired for any one garnishment.

how the law is enforced

- Enforced by federal and provincial statutes.



wage assignment and lien against property

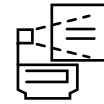
assignment

- Does not have legal force from a court, as does wage garnishment.
- It is a legal agreement between a lender and a debtor.
- Permits lender to collect part of debtor's wages from an employer if debtor fails to make regular payments.
- Employer is not legally compelled to honour a wage assignment arrangement.

lien against property

- If you don't have a job, a lender can get a court order to "attach" or seize some of your property to pay off the debt.

car repossession



rights of creditor

- Can seize car as soon as you default.
- Can't commit a breach of the peace, i.e., use physical force or threats of force.
- Can keep car or resell it.
- May not keep or sell any personal property in car (not including improvements such as a stereo or luggage rack).

your rights

- Can buy back car by paying the full amount owed on it plus repossession expenses.

your responsibilities

- Must still pay the “deficiency balance”—the amount of debt remaining even after your creditor has sold your car.



what is it

- Bankruptcy is a legal process performed under the Bankruptcy and Insolvency Act. Because of your inability to pay your debts, you assign all of your assets, except those exempt by law, to a licensed trustee in bankruptcy. This process relieves you of most debts, and legal proceedings against you by creditors should stop.

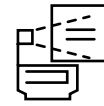
who qualifies

- A debtor who cannot meet his/her financial obligations or is an insolvent debtor.

how it works

- When you declare bankruptcy, your property is given to a trustee in bankruptcy who then sells it and distributes the money among your creditors.
- Speak with a bankruptcy trustee. Before making a final decision, the trustee or administrator will perform an assessment in order to evaluate your financial situation and to provide you with the options available to you.
- If you decide to declare bankruptcy, you will be required to attend a minimum of two counselling sessions with a qualified counsellor.
- The trustee will help you complete several forms which you will have to sign. These forms include an “Assignment” and your “Statement of Affairs”.
- The forms are filed with the Official Receiver. If there is no opposition, the bankruptcy is discharged and, you are legally bankrupt.

bankruptcy (continued)



advantages

- The discharged bankrupt is relieved of most debts, and unsecured creditors cannot take legal steps to recover their debt.
- The bankruptcy generally does not affect your employment.
- You can avoid being harassed by your creditors.

disadvantages

- Some debts are not released such as:
 - alimony
 - spouse or child support
 - debt arising out of fraud
 - any court fine
 - debt or obligations for student loans when the bankruptcy occurs while the debtor is still a student or within ten years after the bankrupt has ceased to be a student.
- You may have difficulty in being bonded.



what is a consumer proposal

- An offer made by a debtor to his/her creditors to modify payments i.e., lower amount each month, but over a longer period of time.

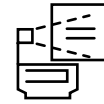
who qualifies

- An insolvent person where debts are less than \$75,000 excluding home mortgage.

how it works

- The debtor seeks the help of an administrator who evaluates the financial situation and gives advice about what kind of proposal may be best for the debtor and his/her creditors.
- The proposal is filed with the Official Receiver.
- Within 10 days of filing the proposal the Administrator files a report containing:
 - an opinion about whether the proposal is fair and reasonable and whether the debtor can perform it.
 - a list of assets and debts and a list of creditors.

consumer proposal (continued)



advantages

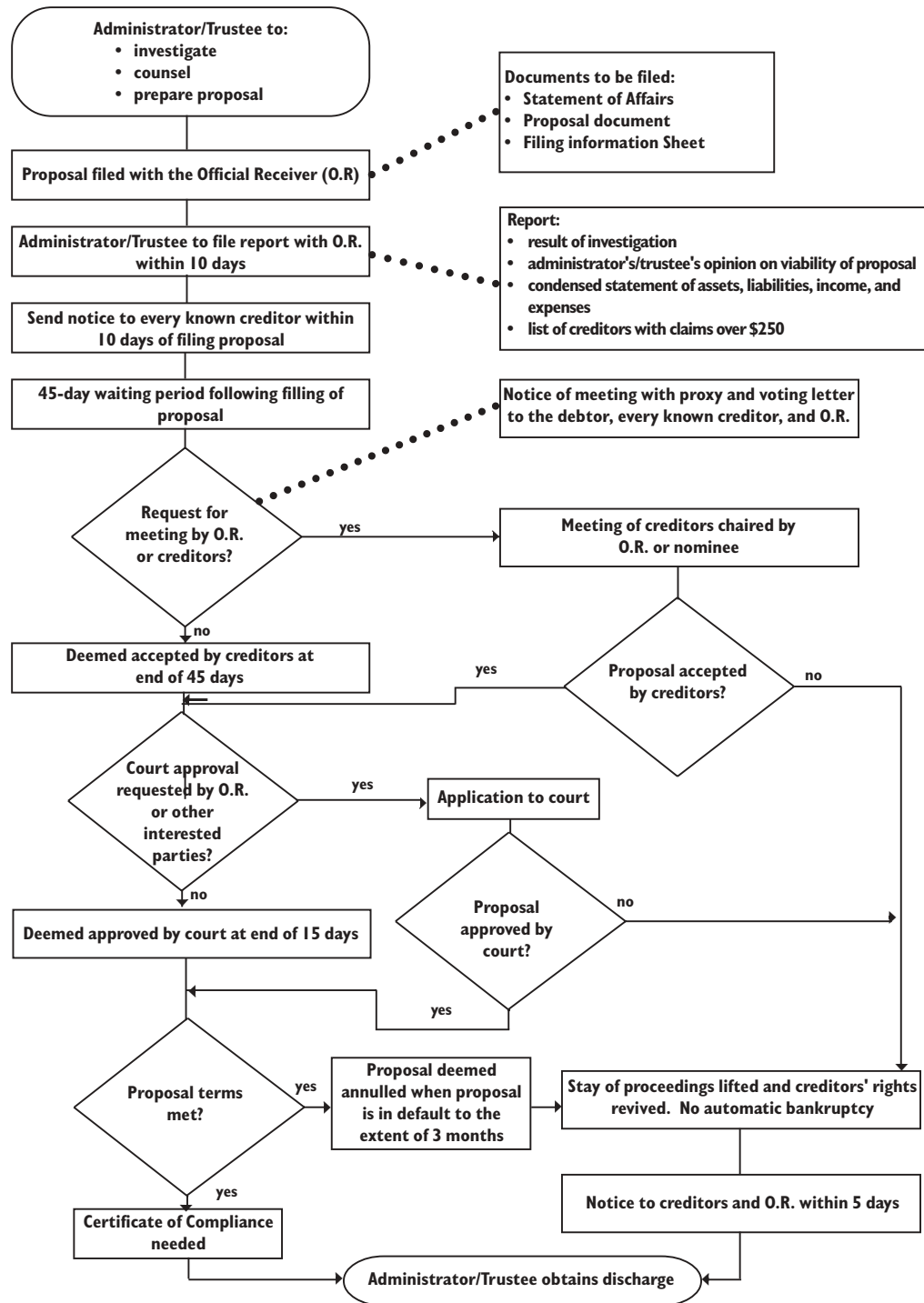
- A better alternative than bankruptcy.
- The potential financial loss to creditors is limited.
- Debtor may be able to hold on to some assets.
- Unsecured creditors will not be able to take legal steps to recover their debts from debtor (such as seizing property) unless the proposal is rejected or annulled.
- When the proposal is fully performed and two counselling sessions are conducted by a qualified counsellor, the debtor receives a certificate of full performance.

disadvantages

- It is a long process.
- It has some negative effect on credit rating.



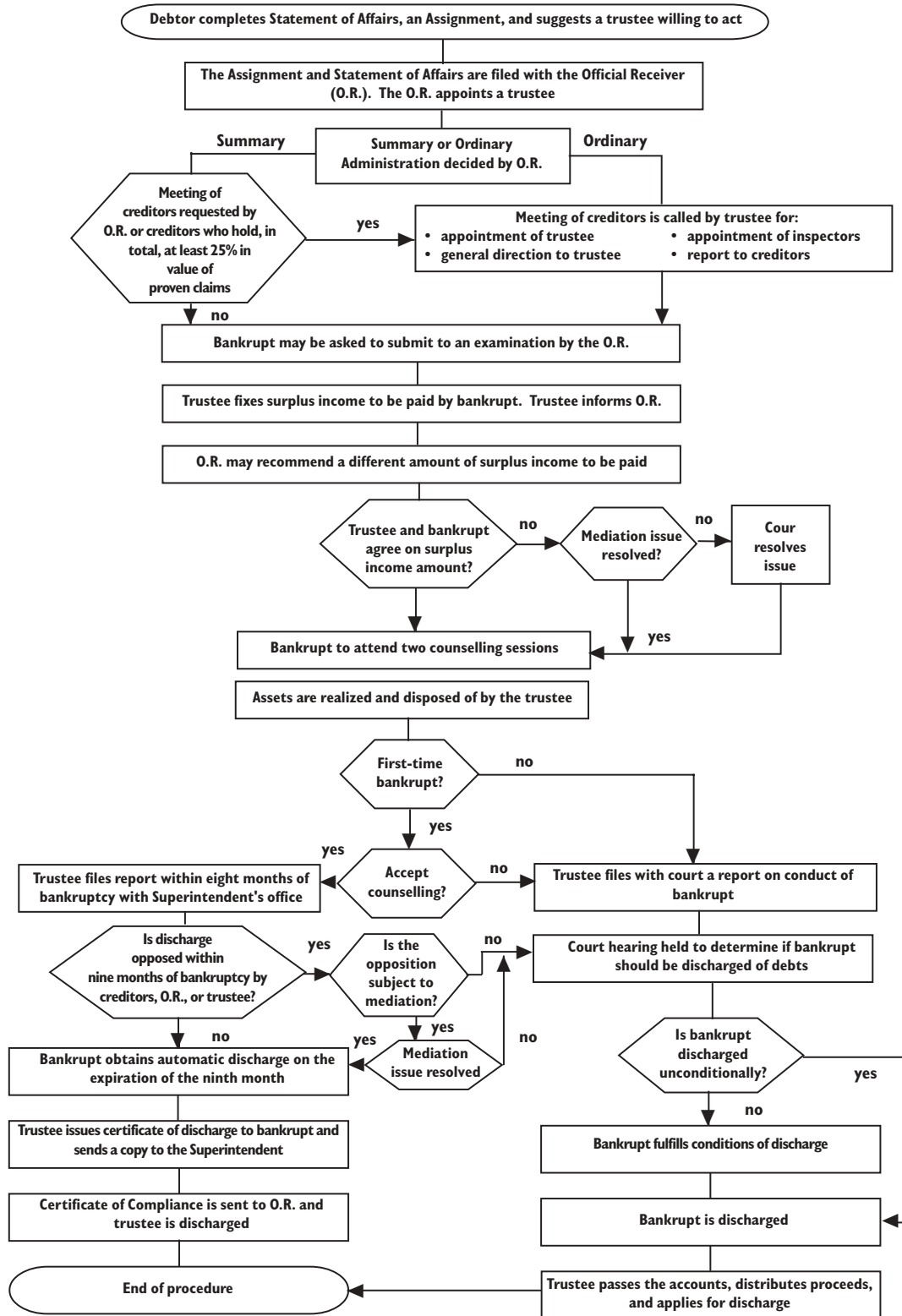
the consumer proposal process



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the consumer bankruptcy process



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lesson thirteen

in trouble



student activities

name: _____

date: _____



test your knowledge of trouble

The following questions are designed to test what you've just learned about dealing with financial woes.



directions

In the space provided, write the answers to the following questions.

1. List three of the most common reasons why consumers don't pay their bills.

2. List five warning signs of financial trouble.

3. List the first steps you should take if you find you can't pay your bills.

For each of the following questions, write a T in the space provided if the statement is true. Write an F in the space provided if the statement is false.

4. ____ A credit repair company can erase a poor credit history.
5. ____ If you pay a bill late, your creditor can report this information to a credit bureau.
6. ____ A debt collector can contact you any time of day or night, except Sunday.
7. ____ If you don't pay a debt, a debt collector cannot legally harass and threaten you.
8. ____ A debt collector must inform you, in writing, of the amount of your debt, the name of the creditor, and an explanation of your right to dispute the debt.
9. ____ The Consumer Credit Counselling Service will help you set up a realistic budget, contact your creditors, and plan future expenses.

test your knowledge of trouble (continued)

In the space provided, write the letter of the type of payment collection the statement represents.

- a) Wage Garnishment
- b) Wage Assignment
- c) Lien Against Property

- 10. _____ A legal agreement between a lender and a debtor.
- 11. _____ A legal procedure that withholds a portion of earnings for the payment of a debt.
- 12. _____ A court order that allows a lender to seize property to pay off the debt.
- 13. _____ An employer is not legally compelled to honour this arrangement.
- 14. _____ Dollar limit is the lesser amount of 20% of your disposable income or the amount over 30 times the federal minimum hourly wage.
- 15. _____ You cannot be fired for one of these.

For each of the following questions, write a T in the space provided if the statement is true. Write an F in the space provided if the statement is false.

- 16. _____ If you default on even one car loan payment, the creditor has the legal right to repossess your car.
- 17. _____ Once a creditor has repossessed a car, he or she can either keep the car or resell it for the debt owed on it.
- 18. _____ If your car is repossessed, you no longer have any financial obligation to repay your car loan.
- 19. _____ If you want to buy back your car after it has been repossessed, the creditor can set the price at any amount over what you owe.

In the space provided, write the answers to the following questions.

- 20. How many years does a bankruptcy stay on a credit report?



test your knowledge of trouble answer key

The following questions are designed to test what you've just learned about dealing with financial woes.



directions

In the space provided, write the answers to the following questions.

1. List three of the most common reasons why consumers don't pay their bills.

*Loss of income (60%)
Overextension (36%)
Fraudulent use of credit (2%)*

2. List five warning signs of financial trouble.

*Don't know how much you owe.
Late paying bills.
Take out a new loan to pay an old loan or to pay debts.
Pay only the minimum balance due each month.
Spend more than 20% of net income (after rent or mortgage payment) on credit use.*

3. List the first steps you should take if you find you can't pay your bills.

*Take a close look at your budget (trim expenses, be realistic about what you can afford, remember the 20-10 guideline).
Contact your creditors. Tell them why you can't pay, that you intend to pay, and when and how much you can pay.
If possible, continue to make small but regular payments.*

For each of the following questions, write a T in the space provided if the statement is true. Write an F in the space provided if the statement is false.

4. f A credit repair company can erase a poor credit history.
5. t If you pay a bill late, your creditor can report this information to a credit bureau.
6. f A debt collector can contact you any time of day or night, except Sunday.
7. t If you don't pay a debt, a debt collector cannot legally harass and threaten you.
8. t A debt collector must inform you, in writing, of the amount of your debt, the name of the creditor, and an explanation of your right to dispute the debt.
9. t The Consumer Credit Counselling Service will help you set up a realistic budget, contact your creditors, and plan future expenses.

test your knowledge of trouble answer key

In the space provided, write the letter of the type of payment collection the statement represents.

- a) Wage Garnishment
- b) Wage Assignment
- c) Lien Against Property

10. b A legal agreement between a lender and a debtor.
11. a A legal procedure that withholds a portion of earnings for the payment of a debt.
12. c A court order that allows a lender to seize property to pay off the debt.
13. b An employer is not legally compelled to honour this arrangement.
14. a Dollar limit is the lesser amount of 20% of your disposable income or the amount over 30 times the federal minimum hourly wage.
15. a You cannot be fired for one of these.

For each of the following questions, write a T in the space provided if the statement is true. Write an F in the space provided if the statement is false.

16. t If you default on even one car loan payment, the creditor has the legal right to repossess your car.
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18. f If your car is repossessed, you no longer have any financial obligation to repay your car loan.
19. f If you want to buy back your car after it has been repossessed, the creditor can set the price at any amount over what you owe.

In the space provided, write the answers to the following questions.

20. How many years does a bankruptcy stay on a credit report?

Up to 10 years

name: _____

date: _____



are they in trouble?



directions

After reading through each of the following scenarios, list the steps you would take if you found yourself in the same situation. Then, using the attached budget sheets, rework the troubled budget. After reworking the budget, in the space provided, explain what you changed and why you changed it.

1. Sergei's monthly net income is \$1,642.

His monthly fixed expenses include:

- \$550 for rent
- A school loan payment of \$232
- A car payment of \$152
- An insurance premium payment of \$112

His flexible monthly expenses include:

- Utilities and telephone bill, which average \$125
- \$120 for food
- \$50 for personal and household items
- \$50 for gas and oil
- \$100 for entertainment

His current credit obligations are:

- \$850 on a major department store credit card
- The minimum monthly payment is \$42
- \$1,200 on his major credit card, which he accrued from taking out a cash advance
- The minimum monthly payment is \$65

Sergei keeps meaning to open a savings account and deposit a small portion of each paycheck, just in case he has an emergency and needs extra cash. But he just hasn't gotten around to it yet.

Sergei's car breaks down on the way home from work. His mechanic tells him that it will cost about \$1,200 to get the car running again. Sergei needs his car to get to and from work. He just got paid so he uses most of the money from his paycheck to get his car fixed.

If you were Sergei, in the short term, what would you do about your present financial situation?

are they in trouble? (continued)

Using one of the attached budget sheets, rework Sergei's budget. When you're finished, use the space below to explain what changes you made and why you made them.

2. Carmen has a monthly net income of \$810.

Her fixed expenses include:

- \$150 for rent (she shares an apartment with two friends)

Her flexible monthly expenses include:

- \$45 for her portion of the utility bills and the telephone bills
- \$95 for food
- \$50 for personal and household items
- \$50 for bus fare
- \$40 for entertainment

Her current credit obligations include:

- \$232 to the local department store, with a minimum monthly payment of \$25

One of Carmen's roommates decides to move out, two days before the next month's rent is due. Carmen and her other roommate are able to come up with enough money to pay the rent, but this leaves Carmen without enough money to pay her portion of the telephone bill, the utility bills, and her credit card payment.

If you were Carmen, what would you do?



are they in trouble? (continued)

3. Yannic's monthly net income is \$1550.

His fixed monthly expenses include:

- \$600 for rent
- \$262 for his car payment
- \$210 for his car insurance premium

His flexible monthly expenses include:

- \$20 for the telephone bill
- \$120 for food
- \$75 for personal and household items
- \$50 for gas and oil
- \$100 for entertainment

His current credit obligations include:

- \$2,000 on one of his major credit cards
- The minimum monthly payment is \$120.
- \$1,500 on another credit card, which he recently accrued from taking out a cash advance. (He needed it because he didn't have enough to pay rent last month, and he wanted to buy a new piece of stereo equipment for his car.)
- The minimum monthly payment on this credit card is \$110.

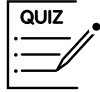
Yannic doesn't have any savings.

What do you recommend Yannic do in the short term regarding his financial affairs?

Using one of the attached budget sheets, rework Yannic's budget. When you're finished, use the space below to explain what changes you made and why you made them.

name: _____

date: _____



lesson thirteen quiz: in trouble

true-false

1. _____ Financial difficulties are commonly caused by overspending.
2. _____ People with financial difficulties may obtain assistance from the Consumer Credit Counselling Service.
3. _____ Consolidation loans are mainly used to finance the starting of a new business.
4. _____ Debt collectors are usually allowed to call you at home before 8 p.m.
5. _____ Bankruptcy is suggested for people who are a few weeks behind in their credit payments.

multiple choice

6. _____ **A common cause of financial difficulties is:**
 - A. poor money management habits.
 - B. a need for additional career training.
 - C. preparing your tax return late.
 - D. not having enough life insurance.
7. _____ **A nonprofit organization that provides financial counselling is:**
 - A. the Canada Deposit Insurance Corporation.
 - B. the Consumer Credit Counselling Service.
 - C. the Better Business Bureau.
 - D. the National Credit Union Administration.
8. _____ **The purpose of a consolidation loan is to:**
 - A. deduct amounts owed from a person's paycheque.
 - B. pay off one credit card amount before others are paid.
 - C. combine several debts into one payment.
 - D. reduce the amount owed for federal income taxes.
9. _____ **A example of a fair debt-collection practice would be to:**
 - A. pretend to be a salesperson to attempt to collect a debt.
 - B. threaten to take legal action to collect the money owed.
 - C. call a debtor at work even if personal calls are not allowed.
 - D. call a debtor at home before 8 p.m.
10. _____ **Bankruptcy refers to the process of:**
 - A. obtaining permission to be late with credit payments.
 - B. obtaining assistance from a credit counselling service.
 - C. using court action to reduce or eliminate your debts.
 - D. using court action to have payments owed deducted from your paycheque.

case application

Matt recently missed a few weeks of work due to illness. This resulted in lost pay and he has fallen behind in paying his bills and credit accounts. What actions would you recommend for Matt?

Please use a separate sheet for your answer.

lesson thirteen quiz: in trouble answer key



true-false

1. t Financial difficulties are commonly caused by overspending.
2. t People with financial difficulties may obtain assistance from the Consumer Credit Counselling Service.
3. f Consolidation loans are mainly used to finance the starting of a new business.
4. t Debt collectors are usually allowed to call you at home before 8 p.m.
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multiple choice

6. A **A common cause of financial difficulties is:**
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 - B. a need for additional career training.
 - C. preparing your tax return late.
 - D. not having enough life insurance.
7. B **A nonprofit organization that provides financial counseling is:**
 - A. the Canada Deposit Insurance Corporation.
 - B. the Consumer Credit Counselling Service.
 - C. the Better Business Bureau.
 - D. the National Credit Union Administration.
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 - A. deduct amounts owed from a person's paycheque.
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 - C. combine several debts into one payment.
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 - B. threaten to take legal action to collect the money owed.
 - C. call a debtor at work even if personal calls are not allowed.
 - D. call a debtor at home before 8 p.m.
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 - A. obtaining permission to be late with credit payments.
 - B. obtaining assistance from a credit counselling service.
 - C. using court action to reduce or eliminate your debts.
 - D. using court action to have payments owed deducted from your paycheque.

case application

Matt recently missed a few weeks of work due to illness. This resulted in lost pay and he has fallen behind in paying his bills and credit accounts. What actions would you recommend for Matt?

Matt should start by contacting his creditors to explain his situation. If this doesn't work, he should contact a credit counselling service to help him plan his spending over the next few months. This would help him catch up on bills and pay off his debts.