

# Credit Counselling Services – Financial Options

## Debt Management Program

- Process is handled by a Credit Counsellor, who records income, assets and liabilities.
- A detailed budget is created, analyzed and, where appropriate, adjusted.
- Debts (i.e., unsecured loans, credit cards, closed utilities) are reviewed to determine which may be included in the program.
- Monthly payments and the length of time to repay are set according to funds available for repayment (as determined by budget).
- Repayment proposals are sent to all creditors to obtain their agreement to accept these monthly payments.
- Participation in a DMP will not affect ownership of assets, provided any payments associated with those assets are maintained.
- Co-signors on debts are still liable. They are not included in DMP without their consent.
- Creditor participation is voluntary.
- Many creditors will waive or reduce interest charges.
- Collection activity stops, provided payments are being made.
- The credit counselling agency retains a small set-up fee (maximum \$100) and 10 per cent of the monthly payments. This funds program management, counselling and advocacy.
- On completion of DMP, repaid debts will show as R7 on a Credit Bureau rating. This information will be purged two years after repayment.
- Immediately after successful repayment, the Credit Counselling agency may be able to help the client obtain a fully secured credit card through a major bank to re-establish credit.

## Bankruptcy

- Process is handled by a Bankruptcy Trustee who records income, assets and liabilities and creates a detailed budget.
- Debts are reviewed to determine which may be cleared in bankruptcy. Student loans less than 10 years old, child support arrears and debts resulting from criminal action are not cleared.
- All assets are turned over to the Trustee. The Trustee may choose to sell assets to pay creditors. The Trustee may allow the bankrupt to retain the assets if their value is negligible or if the bankrupt can offer a settlement (e.g., a monthly payment) to keep the assets.

- Creditor participation is mandatory.
- Collection activity stops.
- Interest will continue to be charged on debts that are not cleared (e.g., child support arrears).
- Co-signors on debts are still liable.
- Bankruptcy Trustee fees cost upwards of \$1,000. Bankrupts pay all income that is considered surplus to what is needed to maintain a reasonable standard of living to the Trustee until they are discharged (approximately nine months). Upon discharge, these funds are distributed to the bankrupt's creditors.
- Bankruptcy is recorded on the Credit Bureau as a Public Record and will remain there for six years after discharge.
- Bankrupts are required to attend two mandatory counselling sessions before receiving their discharge.
- Bankrupts are responsible for re-establishing their own credit.

### **Consumer Proposal**

- Process is handled by Bankruptcy Trustee, who records income, assets and liabilities and creates a detailed budget.
- The Trustee makes settlement offers to creditors. The repayment period may extend to maximum of five years.
- The Trustee files the Consumer Proposal with the Office of the Superintendent of Bankruptcy.
- Creditors vote on whether or not to accept the proposal. Once the majority of the creditors accept, the agreement is binding for all.
- Collection activity stops.
- Interest accrual and regular payments stop.
- Co-signors on debts are still liable.
- Trustee fees are collected from clients before payments are made to the creditors.
- Three missed payments will cause the Consumer Proposal to be in default. If this happens, all collection and legal action by creditors may resume.
- Repaid debt will show as R7 on Credit Bureau. This will be purged three years after completion of Consumer Proposal.
- Clients are responsible for re-establishing their own credit.

## **Consolidation Loan**

- Process is handled by Lending Institution, which records income, assets, liabilities and associated repayments.
- Amount of loan and payment are based on the amount requested, the client's debt services ratios, the lending institution's scoring system and the collateral the client is able to offer. Debt service ratio is the ratio of household debt payments to disposable income.
- Monthly repayment of principal and interest, usually to a maximum of five years.
- Loan may be secured or unsecured.
- The lending institution may demand a co-signor for added security. This person is liable if the borrower does not repay as agreed.
- Usually no fee for set-up. The lending institution may charge a fee to register against collateral for the loan, life insurance and/or disability.
- The client's Credit Bureau rating will correspond to his or her repayment history (i.e., if paid as agreed).