

Preparing to Be Debt-Free



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Introduction

Has debt got you down? You're not alone. Today, the debt crisis in Canada is at an all-time high, with Canadians owing a total of nearly \$2 trillion—yup, you read that right, *trillion*!

This rampant debt is taking its toll on our national psyche, too. A survey found that 41% of Canadians rank money as their greatest source of stress, and it's driving Canadians to "lose sleep, argue with partners, and lie to family and friends."

A leading market research company did some more digging and found that nearly all Canadians (94%) believe the average household carries too much debt, but yet a growing number (45%) report their spending is now outpacing their income.

Here's a look at the four biggest non-mortgage debts Canadians carry:

1. **Credit card debt (60%)**
2. **Car loans (39%)**
3. **Personal loans (22%)**
4. **Student loans (11%)**

What's even more disheartening is the fact that 40% of Canadians don't expect to ever escape debt in their lifetime. Well, we're here to tell you, it is possible! It just takes some planning, discipline, and a little bit of help.

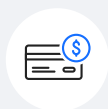
In this guide, *Preparing to Be Debt-Free*, we'll help you better understand and manage your debt, set financial goals, and much more.

So let's get started!



Understanding Debt

Understanding the various aspects of debt will help you strategically attack it. Later on, when you've collected your bills and start putting together a plan of action, this knowledge will come in handy.



Annual Percentage Rates (APR)

These appear on your credit card statements as monthly finance charges, also known as the interest rate the credit card company charges you on a month-to-month basis. The higher your APR, the higher your finance charges and the more of your monthly payment will go toward them.



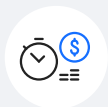
Fixed Interest Rates

A percentage-based fee lenders charge. On loans, fixed interest rates may be built into the loan amount upfront, so you know in advance how long it will take to pay back the loan.



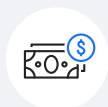
Variable Interest Rates

These may be applied to a loan and fluctuate over time based on a benchmark, such as a bank prime rate. Payment amounts rise and fall along with the benchmark. A common variable interest rate loan can be a mortgage.



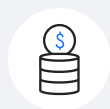
Late Fees

Failure to make on-time payments results in late fees and an APR increase typically after 60 days. Late payments will also stay on your credit report for six years.



Cash Advance Fees

These usually come with a one-time fee and a much higher APR than purchases. Interest accrues immediately, and payments will go toward low APR purchases first, costing you more.



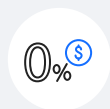
Non-sufficient Funds Fees

If you have automatic withdrawals taken from your debit or chequing account, such as insurance or mortgage payments, and you have run out of funds in your account to cover them all, you could be charged a non-sufficient funds (NSF) fee, which is about \$45. If your account balance is too low to cover a cheque, you will be charged \$45 or even more. Two or more of these NSFs could result in significant charges. These charges can be avoided by having overdraft protection on your chequing account.



Annual Fees

Yearly fees charged by some credit cards, often because of their rewards programs.



Teaser Interest Rate

Credit cards and retailers may offer low-to-no interest rates during a set promotional period of time. Once the period is over, the rate (which is usually very high) is applied.



Understanding Your Credit Report & Score

Your credit report and credit score are two different things. Your credit report offers a complete overview of your debt history: who you borrowed from, when and how much, and the status of the obligation. The credit score is a method of comparing and ranking everyone with a sufficient credit history, using a formula to do so. It divides people into “good risks” and “bad risks”, based on the behaviour shown on the credit report.

Lenders will look at your credit report to determine if you’re a reliable debtor or a risky prospect. They will look at your credit score to predict the likelihood you will make your payments as agreed to and on time if they were to grant you credit or a loan. Based on the information contained in your credit report and your credit score, lenders will also determine the interest rate they will charge you.

A review of your credit report offers context to your overall credit score. Here are the five factors lenders look at on your report and their resulting impact on your credit score.

1. Payment History (35%)

Whether you pay debt on time and if you have any foreclosures, repos, or debts in collections.

2. Credit Utilization (30%)

A calculation of how much credit you’ve used versus how much you have available.

3. Credit History (15%)

How long you have been using credit for. Credit history is an indicator of future spending behaviour.

4. Credit Mix (10%)

The types of credit products you have on your credit report; the more diverse, the better.

5. Credit Inquiries (10%)

Hard inquiries (when you apply for new credit or a loan) negatively impact your credit score, especially if you have many of them on your credit report. Soft inquiries, which includes pulling your own credit report, have no impact on your credit score.





»» Time for a Credit Check! ««

You can order your credit report in Canada for free from Canada's two credit reporting agencies (also known as credit bureaus), Equifax and TransUnion, to see exactly what you owe. Checking your credit report can also help you make sure you aren't being dinged for debts that aren't yours or debts that you've already paid off.

» **Equifax, 1.800.465.7166**

» **TransUnion, 1.800.663.9980**

If you find any questionable items on your report, [check out this blog](#) to learn more about your options for disputing items on your credit report.

It's important to understand your overall credit score will not be listed on your credit report; however, you can obtain your credit score through an [Equifax](#) or [TransUnion](#) subscription. Of course, that costs money, so many of Canada's major banks allow you to access your credit score online for free through their online banking platforms. If you're not sure if your bank provides this free online service, it's best to contact them and ask.

To get the most comprehensive understanding of your credit situation, we recommend obtaining a free copy of your credit report from each credit bureau (Equifax and TransUnion) once a year, rotating every six months (e.g. obtain Equifax credit report every January, and TransUnion credit report every July).



Getting Started

Now it’s time to get down to business! You’ll need to collect all of your most recent credit card statements and other debt paperwork, or go online to gather the necessary information to fill out the chart below. If you’ve got your credit report on hand, you can also refer to it to ensure you’re not forgetting any debts.

Once you’ve completed the worksheet, we’ll move onto discussing managing debt on your own, which is covered in the next chapter.

Debt Item	Debt Amount	Interest Rate/APR	Cash Advance Rate	Fixed or Variable? (F or V)	Current on Payments? (Y or N)	Annual Fee? (Y or N)

Managing Debt On Your Own

Now that you've made a list of all your debts, it's time to determine whether you can manage them on your own, and if so, which is the best method of debt repayment for you.



Snowball Method

This involves paying as much as you can toward your smallest debt, regardless of the interest rate, while maintaining minimum payments on the rest of your debts. This allows you to pay off small credit card balances and other small debts quickly.



Avalanche Method

This method involves paying as much as you can toward the debt with the highest interest rate first, while maintaining minimum payments on all your other debts. This strategy can potentially save you thousands of dollars in interest charges.

Are you more likely to stick with a snowball plan because of the quick wins? Or are you a number-cruncher who's okay with sacrificing quick wins for long-term savings? Whichever method you choose, you should feel good because, ultimately, you're paying down debt! If you'd like to see more, our [Debt Repayment Calculator](#) can show you how long it will take to pay off your debt using these different payment strategies.



A couple of other things to consider when managing on your own to reduce your debt faster:



Start budgeting. Our most valuable advice, so we'll talk more about the importance of this (and using our free [Budget Planner + Expense Tracker tool](#)) in Chapter 8.



Negotiate with your creditors. If you have a steady payment history, your creditor may lower your APR and/or your monthly payment.



Liquidate some assets. Selling unneeded items, such as jewelry, electronics, home furnishings or even some stocks or bonds, can help you pay off your debts quickly and easily.



Work part-time or a side gig. A temporary job could earn you some easy cash. Or dive into the gig economy, such as driving for Uber, Uber Eats, or SkiptheDishes, or sell your skills online. Read more [here](#).



Consolidate debt into your mortgage. Roll high-interest debts into a new, lower-interest mortgage and potentially save hundreds each month. There could be consequences, however, so be sure to read more [here](#).



Dip into your retirement funds. If [retirement](#) money can solve your debt situation without creating new ones (such as tax penalties), this may be worth considering.



Use balance transfers. Transfer high-interest credit card balances to low-to-no interest credit cards. Just be sure to pay off, in full, the credit card used to transfer the outstanding balance before any related promotional offers expire. Learn more [here](#).



Get student loan assistance. You may be able to get student loan repayment assistance or extensions, which you can learn more about [here](#).

Assisted Repayment Options

Don't think you'll be able to manage your debt on your own? There are some assisted repayment options available. Some may be helpful, while others we would strongly urge against!



Line of Credit

A line of credit, often obtained through your bank, typically has a lower interest rate than a credit card. Unfortunately, ease of access leads many people to continue borrowing from it, causing them to wind up in more financial trouble. Plus, if interest rates rise, it may become difficult to pay back.

Home Equity Line of Credit (HELOC)

HELOCs come from the equity you've built up in your home, often as a one-time lump sum that must be repaid at a fixed interest rate. Your credit rating or credit score do not typically influence your ability to obtain one since you're using your home as collateral (which also puts it at risk if you should default).

High-Interest Loans from Second-Tier Lenders

These are loans from non-bank, private loan lenders which are generally easy to obtain but can cost you far more than you realize. APRs are often 35% or higher, and in some cases paid upfront.

Payday Loan

Short-term loans of up to \$1,500, with an average loan cost of \$17 per \$100 across Canada, which means payday loan interest rates have an APR equivalent to 442%. If you can't pay a payday loan in full with your next paycheque, more fees are added, which can create a neverending debt cycle.

Debt Consolidation Loan

Interest rates on a debt consolidation loan, which lets you pay off all your debts at once through a single loan, are generally lower than credit card interest rates if you have good credit. Unfortunately, many people continue to use their credit cards once they're paid off in full by the debt consolidation loan, which means they will owe on them in addition to the new loan.

Debt Consolidation Program

A debt consolidation program is not a loan. Instead, it involves working with a certified Credit Counsellor from a not-for-profit credit counselling agency who helps you pay off all your unsecured debt over time by negotiating with your creditors to stop or reduce the interest on your debt, as well as lower your monthly payments.

Consumer Proposal

A consumer proposal is an option for insolvent debtors where you pay back a percentage of your total debt to creditors. This amount is determined by your income, assets, and total debt amount. You can protect your assets in a consumer proposal, which might be especially important for homeowners and those with investments; however it will have a significant impact on your credit report and score. In order to file a consumer proposal you must work with a Licensed Insolvency Trustee (LIT).

Bankruptcy

Filing for bankruptcy is a last resort, and in order to do so, you must work with an LIT who will negotiate the terms of the agreement with your creditors; you may lose assets and it will significantly affect your credit and ability to obtain credit in the future. Learn more about bankruptcy [here](#).



Creating SMART Goals

SMART goals are grounded in reality and exist to help you accomplish realistic goals. Here's a breakdown of the five components of SMART, which you can read more about [here](#).



S: Specific

First, decide **who** needs to be involved in the goal, **what** needs to be accomplished, and **why** achieving this goal is important for improving your life.



M: Measurable

Next, identify the outcomes you expect by achieving your goal in order to give yourself something to work toward.



A: Attainable

Now, be sure your goals are challenging but reasonable to avoid setting yourself up for failure.



R: Relevant

Next, pare down or prioritize your goals. Have you set too many? Which are most important?



T: Time-Bound

Finally, set an attainable target end date to achieve your goal, so you can see a light at the end of the debt tunnel.

>>> Time to Get SMART! <<<

Use this worksheet to fill in your SMART goals. You can make changes as you work through the process and reprioritize items if you need to.

Specific	Example: I will pay off my credit card balance of \$2000 by the end of the year.
Measurable	Example: Taking interest into consideration, will make a \$300 payment each month until it is paid off.
Attainable	Example: There are 8 months left in the year. I can manage \$300 by cutting back on shopping and entertainment and using my tax refund and holiday bonus.
Relevant	Example: I'd like to pay off my car loan too, but the interest is much lower, so I should focus on the high-interest credit
Timely	Example: I will be free from this debt by December 31.

Ways to Get Debt Relief

As stated in the intro of this eBook, becoming debt-free is possible, but it takes some planning, discipline, and a little bit of help. Here are our top three suggestions when becoming debt-free:

Live Frugally

While being “cheap” often means sacrificing quality, value, and time for short-term savings, a frugal lifestyle involves being resourceful to save money in the long-term in order to achieve SMART goals. Living frugally could mean:

- » Cooking more instead of eating out.
- » Taking advantage of coupons and promotional offers.
- » Limiting social outings which involve spending money, including vacations, concerts, and sporting events.
- » Limiting unnecessary expensive purchases (e.g., clothes, cell phone upgrades, electronics, etc.).

Read more (and learn lifestyles of the rich and frugal) in our blog [How Frugal Living Pays Off](#).

Get Financially Savvy

Knowledge is power! By brushing up on your financial know-how, you can begin to take control of your debt and financial plans for the future. Whether you're a reader or a listener, we've put together a list of the best Canadian financial blogs and podcasts that you may want to check out:

- » [Top Canadian Finance Blogs](#)
- » [Top Canadian Finance Podcasts](#)





Credit Canada Budget Planner

Your Net Monthly Income \$ 3,000.00

Other Monthly Income \$ 500.00

How To Use

We're going to make this easy! To get started, either access the "File" tab to make a copy of this planner or to download it as an excel file for your personal use.

Then, simply insert your monthly net income (top, right-hand corner), fill in how much you spend on housing, living, work, and personal expenses (green boxes below), and then you'll get an instant snapshot of your financial well-being (white and blue boxes at the bottom).

Once you have an understanding of what's coming in, it's easier to know what you can afford to send out.

If you're looking good, congratulations! But if you might need some help, we're here for you. Give us a call at 1.800.267.2272 and we'll set you up with a free counselling session with a certified credit counsellor who can review your budget and help you find savings.

HOUSING EXPENSES	
First Mortgage Pmt	\$ 1200.00
Second Mortgage Pmt	\$ 300.00
Property Taxes	\$ 120.00
Home Insurance	\$ 50.00
Rent/Condo Fees	\$ 25.00
Telephone	\$ 20.00
Hydro	\$ 50.00
Water/Sewer	\$ 25.00
Heat - (Gas, etc.)	\$ 25.00
TV Cable/Rentals	\$ 20.00
Movie Contracts	\$ 20.00
Movie Intm, Music	\$ 20.00
Cellphone	\$ 50.00
Internet	\$ 50.00
Other	\$ 50.00
Total	\$ 1,815.00

LIVING EXPENSES	
Food	\$ 123.00
Personal Travel	\$ 200.00
Clothing	\$ 30.00
Alimony & Support	\$ 30.00
Auto License / Mtc	\$ 30.00
Insurance - Auto	\$ 30.00
Insurance - Life	\$ 30.00
Insurance - OHIP	\$ 30.00
Medical/Doctor	\$ 50.00
Prescription Drugs	\$ 50.00
Dental	\$ 80.00
Laundry/Dry Cleaning	\$ 80.00
Pets	\$ 80.00
Other	\$ 80.00
Total	\$ 483.00

WORK EXPENSES	
Transit	\$ 80.00
APP Lunches/Meals	\$ 80.00
Total	\$ 80.00

PERSONAL EXPENSES	
Tobacco	\$ 200.00
Alcohol/Beverages	\$ 200.00
Total	\$ 200.00

Start Budgeting and Expense Tracking

Creating and maintaining a budget is one of the best ways you can begin managing your money and recover from debt, and we've made it easy. With our [free Budget Planner + Expense Tracker tool](#), you just plug in some numbers, do some tracking, and the tool does the rest for you, providing a clear picture of what you have to spend based on your monthly income and expenses. It also helps you determine areas where you can spend less, so you can put more money toward paying off debt.

Studies show Canadians who budget are better off than those who do not, as they are less likely to fall behind on their financial commitments, are more effective at managing their monthly cash flow, and less likely to have to borrow or use credit to cover day-to-day expenses due to being short on money. So, with the free Budget Planner + Expense Tracker, you have nothing to lose—and a lot to gain! Instructions on how to use it are included with the download.



How Credit Canada Can Help You

If you're struggling with debt, there are three ways we can help set you up for success:

Credit Counselling

- » A certified Credit Counsellor assesses your finances and develops a debt solutions plan.
- » Learn better money management skills, so once you're debt-free, you'll stay that way.

Debt Consolidation Program

- » A certified Credit Counsellor negotiates with your creditors on your behalf to reduce or stop the interest on your debt and accept lower monthly payments.
- » You make one affordable monthly payment that gets distributed to all your creditors on the Program, and a set completion date for when you'll be 100% debt-free.

Credit Building

- » A certified Credit Counsellor works with you to help you rebuild your credit and create a positive credit history, providing tips along the way that can help you increase your credit score.
- » Learn how to access your free credit report and credit score, how to prioritize debt, and sign up for a secured credit card to start rebuilding your credit immediately.

Why Choose Credit Canada?

For more than 50 years, we've been helping millions of Canadians find financial freedom, resolving over \$350 million in debt. We are:

- » A non-profit agency with your best interests at heart
- » Accredited by Credit Counselling Canada
- » An A+ rated agency with the Better Business Bureau
- » The 12-time Consecutive Winner of the Consumer Choice Award for debt and credit counselling

Of course, we know you may have your doubts, and we totally get it! So, check out our [client testimonials](#) and [get to know our Credit Counsellors](#).



Still Have Questions? Give us a call or contact us online today.



1.800.267.2272



www.CreditCanada.com



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