Fresh Start

A Concise Guide to Living Debt Free

By Douglas Hoyes

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HOYES • MICHALOS
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Introduction

Hoyes Michalos & Associates Inc. is one of the largest firms in Ontario dedicated to helping individuals eliminate debt. Since our founding in 1999 we have helped approximately 40,000 people file a consumer proposal or personal bankruptcy. That's a large number, but even more amazing is the fact we have helped well over 125,000 people deal with their financial problems. Why is the number of people we've helped so much larger than the number of people for whom we have filed formal insolvency proceedings?

Simple.

At Hoyes Michalos we believe that a personal bankruptcy or a consumer proposal are only two possible options for dealing with debt. When you call or e-mail us, and when you meet with us for your free initial consultation, we will explain all of your options. In the majority of cases we will give you advice on how to deal with your debts on your own, or we will refer you to another professional more suited to helping you in your situation (such as a credit counsellor, tax accountant, or mortgage professional).

What are your options?

Read on for the Hoyes Michalos concise guide to becoming debt free.

At any time while reading this e-book you can go to www.hoyes.com and click on the Contact Us button to get our phone numbers and e-mail addresses so that you can talk, one on one, to one of our trained professionals.

There are solutions, so let's get started.

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Crunching the Numbers

Whenever you have a problem, any problem, the logical first step is to attempt to fix it yourself. You don't always need professional help, so the first step is to determine whether or not you can fix your debt problems on your own.

If you have a burned out light bulb, you probably don't need to call an electrician. You can fix it yourself, because it's relatively easy to identify the problem, and to implement the solution (go to the store, buy a new light bulb, unscrew the old one, install the new one).

Are your financial problems so severe that you require professional assistance, or can you fix them yourself? To answer that question, answer these three questions:

Question One: What Do You Owe?

Your list should include everyone you owe money to, including:

- Credit cards
- Bank loans
- Finance Company loans
- Car loans
- House mortgages
- Lines of credit
- Payday loans
- Student loans
- Investment loans (like RRSP loans)
- Taxes
- Loans from family and friends

On your list, write down the name of the creditor (that's who you owe the money to), the amount, the interest rate, the minimum monthly payment, and the security.

If you have a computer and know how to use a spreadsheet, do your list on your computer. If not, use paper and a pencil. The method isn't important; the key is to get a list of all of your debts.

Example: List of creditors

Name	Amount	Interest Rate	Monthly Payment	Security
ABC Visa	$9,500	19%	$200	none
XYZ Mastercard	$5,500	19%	$125	none
Bank Car loan	$15,000	11%	$400	car
Payday loan	$500	60%	$600	none
TOTAL	$30,500		$1,325	

Question Two: What Do You Own?

Question Two is the opposite of Question One; now that you have a list of what you owe, make a list of what you *own*. This list will include anything you own that you could turn in to cash, such as:

- Cash, or cash in a bank account
- Investments (RRSPs, RESPs, mutual funds, TFSAs, etc.)
- Real estate
- Motor vehicles
- Tools
- Electronics
- Furniture
- Clothing
- Household items

Beside each item indicate its value. Cash is easy; for items like furniture or clothing, estimate what you could get if you sold them at a garage sale (which will probably be significantly less than what you paid for them originally).

Question Three: What's Your Cash Flow?

Cash flow is exactly what it sounds like: it's the amount of cash that flows into and out of your house each month. Again, using a spreadsheet or a piece of paper, make a list of what comes in and what goes out.

Here are some practical tips:

1. First, review your bank and credit card statements for the last month or two to be sure you are including all expenses. It's easy to remember things such as rent, but it's the incidental expenses that add up and those are the ones you don't want to forget.

2. Second, include all expenses that don't happen each month. Examples would include birthday presents, Christmas, back-to-school clothing and supplies, and even your annual license plate renewal sticker. For expenses that don't happen every month, divide the expense by the number of months between incurrence, and put that number on your monthly cash flow list. For example, if you pay $120 per year for your license sticker, show $10 per month on your cash flow Chart.

3. Third, for cash purchases that may not show up on your bank or credit card statement, carry a pencil and paper with you or use an app on your phone and record every expenditure you make for a week (or a month). That will help you determine what you spend on hidden items, like coffee, parking meters, etc.

Example: Cash Flow Chart			
Cash out		Cash in	
Rent (or mortgage)	$800	Paycheque	$2,000
Groceries	$400	Child Tax Credit	$200
Utilities (hydro, phone, gas)	$300	Total Cash In	$2,200
Car payment (or bus fare)	$300	Monthly Surplus(Deficit)	($100)
Gas for Car	$300		
Car Insurance	$150		
Coffee	$50		
Total Cash Out	$2,300		

Put It All Together

Now, put it all together using the worksheets on the next three pages. When you're finished you will have three pieces of paper that show you:

- What you owe
- What you own
- How much money you have left over at the end of the month

With this information, you will be able to identify the possible solutions to your debt problems.

Worksheet: List of Creditors

Creditor Name	Amount	Interest Rate	Monthly Payment	Security
TOTAL				
NOTES:				

Your list should include everyone you own money to including:

- Credit cards
- Bank loans
- Finance Company loans
- Car loans
- House mortgages
- Lines of credit
- Payday loans
- Student loans
- Investment loans (like RRSP loans)
- Taxes
- Loans from family and friends

Worksheet: List of Assets

Item Description	Cash Value
TOTAL	
NOTES:	

This list will include anything you own that you could turn in to cash, such as:

- Cash, or cash in a bank account
- Investments (RRSPs, RESPs, mutual funds, TFSAs, etc.)
- Real estate
- Motor vehicles
- Tools
- Electronics
- Furniture
- Clothing
- Household items

Worksheet: Cash Flow Chart

Cash out	Amount	Cash in	Amount
Total Cash Out		**Total Cash In**	
Monthly Surplus (Deficit)			

Here are some practical tips:

1. First, review your bank statements and credit card statements for the last month or two to be sure you are including all expenses. It's easy to remember your rent; it's the same number every month. It's all of the incidental expenses that add up, and those are the ones you don't want to forget.
2. Second, include on your list all expenses that don't happen each month. Examples would include birthday presents, Christmas, back to school clothing and supplies, and even your annual car license plate renewal sticker. For expenses that don't happen every month, divide the expense by the number of months between incurrence, and put that number on your monthly cash flow list. For example, if you pay $120 per year for your car license sticker, show $10 per month on your cash flow list.
3. Third, for cash purchases that may not show up on your bank or credit card statement, carry a pencil and paper with you or use a phone app and write down every expenditure you make for a week (or a month). That will help you determine what you spend each month on hidden items, like coffee, parking meters, etc.

Finding the Right Solution

Solution #1: Fix it Yourself

You have three pieces of paper, showing what you owe, what you own, and what cash you have available to service your debts each month.

Do you own more than you owe?

If so, you may be able to turn your assets into cash that you can use to repay your debts. Here are some examples:

- If you have investments, such as a savings account or GIC at the bank, you could cash in the investment and use that money to repay your debts.
- NOTE: If you have money in an RRSP, you could cash in the RRSP and use that money to pay your debts, but you must pay tax on the money you withdraw. Your bank may only withhold 10%, 20% or 30% of the amount you withdraw, but when you file your taxes at the end of the year your RRSP withdrawal, along with your other income, could push you into a higher tax bracket (up to 50%), so be sure you understand exactly the amount you will end up with, after tax, before cashing in your RRSP.
- If you have a second car, or even a first car that you no longer need, you could sell it and use the money to repay your debts.
- You could have a garage sale and sell all of your extra possessions, and use that money for debt repayment.
- If you own a house with equity, you could sell the house and use the proceeds to repay the debt.

If you owe more than you own, you can’t sell assets to repay your debts in full. You may be able to reduce your debts, but you can’t solve your problems entirely.

Do You Have Excess Cash Flow Each Month?

Even if you have no assets that you can sell, if your income (cash in) is greater than your expenses (cash out) each month, you could use the extra cash each month to pay down your debts.

If you don’t have extra cash, make some! There are two ways to increase your cash flow:

- Increase your income, perhaps by working overtime, getting a second part time job, taking in a boarder, or finding a higher paying job.
- Reduce your expenses, by eliminating all unnecessary expenses.

Of course increasing your income and reducing your expenses is easier said than done. It's not easy for most people to simply find a higher paying job. If you have two years to go on your car lease, it's not easy to cut your car lease expenses quickly. However, you can review every expense you recorded on your cash flow statement, and explore ways to cut each expense.

For example:

- Phone service: do you need a cell phone and a home phone? Many people have eliminated their home phone, since they have unlimited evening and weekend minutes on their cell phones, and they are never home anyway. If you are keeping your phone, eliminate un-necessary features that you never use.
- Cable/Satellite television: do you regularly watch all 700 channels you pay for? If not, only keep the channels you watch regularly, and save money. Many people have cancelled cable altogether; you can get "over the air" local channels in HD for free, and you can watch most shows on the internet, often for free the next day.
- Eating out: how much do you spend eating out each month? It may take more time, but preparing food at home is significantly cheaper than eating out, and is generally much healthier as well.

That's the process: review every item you spend money on, and look for ways to cut.

But what if you can't cut expenses to increase your cash flow? The next "fix it yourself" option is:

Do Nothing

Doing nothing may not seem like doing something, but it is. If you are unemployed and have no assets, or if you are retired and on a small pension, you may not be able to reduce your expenses sufficiently to generate cash flow to repay your debts.

In that case, you could simply open a new bank account at a new bank (where you don't owe any money), and then stop paying your debts. Your creditors will call you and perhaps even take you to court, but if you have no assets to seize and no wages to garnishee, there is probably nothing more they can do. This is a stressful option, but in some cases it may be the best option.

Of course if you are working and don't want to risk a wage garnishment, and you can't repay your debts on your own, it's time to consider the second solution.

Solution #2: A Debt Consolidation Loan

If you have a job, or a good sized pension, but your minimum monthly payments on your debts are more than you can handle, a debt consolidation loan may be the answer. Here's an example:

You owe $20,000 on four different credit cards; two are bank cards with an interest rate of 19%, and two are department store and gas cards with an interest rate of 25%. Your average interest rate is 21% on your debts.

If you qualify, you could get a $20,000 debt consolidation loan at an interest rate of 10%, and you use the proceeds to repay your credit cards. You have dropped your average interest rate by 11% per year, or $2,200 per year. That's $2,200 extra you now have to repay your debt.

With the lower interest rate on a debt consolidation loan more of your payments are going towards principal, so you get out of debt faster.

Sounds great; what's the catch?

Beware the Finance Company Consolidation Trap

You have $20,000 in credit cards at an average interest rate of 21%, and your minimum payments are $500 per month.

You go to a finance company and they offer to lend you $20,000 to repay your credit cards, and "your payments will only be $350 per month!"

Sounds like a great deal, right? Wrong.

What they haven't told you is that the interest rate they are charging you is 33%, and with all of their extra fees for insurance and processing, you will be paying the loan for the next 10 years!

It would have been cheaper to simply continuing paying your credit cards directly.

The problem with getting a debt consolidation loan is that it's difficult to qualify for a loan. Banks are often only willing to lend money if you have very high income, or low other debts, or if you have a co-signer. As a result, for most people in debt, it's not possible to get a debt consolidation loan.

The second problem is that a debt consolidation loan does not actually reduce your debt. In our example you are trading $20,000 in credit card debt for a $20,000 bank loan. Your total debt remains the same.

The final problem is that debt consolidation loans are very dangerous. If you use your loan to pay off your credit cards, but you don't *cancel* your credit cards, you know have a $20,000 loan, and the ability to borrow another $20,000 on your credit cards.

If you aren't careful you could find yourself with $40,000 in debt, so you are worse off than you were before getting the loan.

If you don't qualify for a reasonable interest rate debt consolidation loan, but you want to repay your debts, what can you do?

Read on…….

Solution #3: A Debt Management Plan

A debt management plan is a plan offered through a credit counsellor where you repay your debts in full, over a period of two to five years, generally at a reduced or zero interest rate.

For example, if you owe $20,000 on four credit cards, under a debt management plan you might pay $500 for 40 months, or $400 for 50 months, and repay your debts in full.

If you are currently paying $700 per month in minimum payments, a $400 per month debt management plan may be a good solution. You have one monthly payments, and your debts are repaid.

What's the catch?

For many people, there is no catch, and a debt management plan is the correct solution. If you are interested in this solution, contact your local Hoyes Michalos office and we will give you the name of the not for profit credit counsellor in your area, and they can advise you on whether or not a DMP is the right solution for you.

Note that we said "not for profit" credit counsellor. There are many "for profit" companies that advertise themselves as "credit counsellors". They advertise on the radio, or run large ads in the newspapers, and they promise to "reduce your debts by half". Unfortunately, they also charge large upfront fees, and there is no guarantee of success. Again, call your local Hoyes Michalos office and we can recommend a not for profit agency in your area.

One of the disadvantages of a debt management plan is that it is not legally binding on all creditors. If your credit counsellor can negotiate a deal with three of your four creditors, but the fourth one refuses to participate and threatens to take you to court, the entire plan will probably fail.

Another disadvantage of a debt management plan is that you must repay your debts in full. If you can only afford to repay a portion of your debts, this option won't work for you.

So what can you do if you want to repay your debts, but can't afford to pay your debts in full?

Read on for the best kept secret in debt management in Ontario.

Solution #4 – A Consumer Proposal

A consumer proposal is similar to a debt management plan; you make a monthly payment to settle your debts. However, there are two main advantages:

First, once a majority of your creditors accept the proposal, it becomes legally binding on all creditors. It's not necessary for all creditors to agree.

Second, in most consumer proposals you only repay a portion of your debts, not the full amount.

Here's an example of a typical consumer proposal:

> ## Consumer Proposal
>
> *You owe $20,000 on four credit cards.*
>
> *Based on your monthly cash flow, even after cutting some expenses, you can only afford to pay $300 per month.*
>
> *Your consumer proposal administrator at Hoyes Michalos negotiates a settlement where you pay $300 per month for three years, or $10,800 in total.*
>
> *Once you have paid the $10,800, the balance of your debt is eliminated. You are debt free!*

Sounds great; what's the catch?

First, you must be able to make the payments each month; so, if you are unemployed, or on a small pension, a consumer proposal may not be possible. Many people we meet with at Hoyes Michalos who are unemployed wait until they are back to work before filing their proposal.

Second, a consumer proposal only works for unsecured debts, like credit cards, bank loans, taxes, payday loans, and lines of credit. If you have a mortgage or a car loan, and you want to keep your house or car, you would be required to continue making those payments. Child support, spousal support, student loans less than seven years old, and court ordered fines and restitution orders cannot be included in a consumer proposal.

Third, a majority of your creditors must agree to the proposal. Each creditor gets one vote for each dollar you owe, so the larger creditors will have more power to accept or reject your proposal. Certain banks and credit card companies are more likely to accept your proposal than others. At Hoyes Michalos we file thousands of consumer proposals every year, and we maintain an up-to-the-minute database of current bank voting patterns, so in most cases we can advise you on how much you will need to offer to have your proposal accepted.

Visit hoyes.com for more details on consumer proposals.

If you can't afford to make monthly payments over a period of time, or if your creditors will not accept a proposal, it's time to consider the last resort … personal bankruptcy.

Solution #5 – Personal Bankruptcy

Most people think of Hoyes, Michalos & Associates Inc. as a personal bankruptcy firm, so they are surprised to learn that when you meet with us, bankruptcy is the *last* option we discuss. We strongly believe that bankruptcy is the *last resort*, an option to be considered only if all other options won't work in your situation.

You read that correctly: we believe that bankruptcy should only be considered if you can't fix your debt problems yourself through cash flow management, or doing nothing, or through a debt consolidation loan, a debt management plan, or a consumer proposal. However, if all other options won't work, we also believe that personal bankruptcy may be necessary to prevent your wages from being garnisheed, and to give you a fresh start.

What is Bankruptcy?

Bankruptcy is a legal process where your licensed insolvency trustee, Hoyes Michalos, distributes your assets to your creditors, and your debts are eliminated. Once you file bankruptcy your creditors are not permitted to take you to court, or sue you, or garnishee your wages. Your unsecured debts are eliminated.

What Does Bankruptcy Cost?

The cost of bankruptcy is different in each case. There are five main "costs" of bankruptcy:

- Initial Cost or "Up Front Fee": In most cases Hoyes Michalos does not charge an up-front fee. However, in certain cases (such as past criminal activity, or no on-going source of income) an initial cost may be charged.
- Minimum Monthly Contribution. In most cases you are required to make a minimum monthly contribution to cover the administrative costs in your bankruptcy. If your situation is complicated (such as a self- employed person) the minimum monthly cost could be $250 per month, for each month of your bankruptcy. In simpler cases the monthly cost is lower.
- Surplus Income: You are required to pay half of your "surplus income" each month as defined by the government. Your Hoyes Michalos professional will review this calculation with you prior to filing your bankruptcy. If you do not have surplus income, you are not required to make this payment.
- Tax Refunds: When you file bankruptcy you automatically lose your tax refund for the year of bankruptcy, and for any prior years if you have not already received your refund. When you receive your T-4 slip and other tax information Hoyes Michalos will file your tax returns, and the resulting refund will be distributed to your creditors.
- HST Refunds: Canada Revenue Agency automatically forwards all HST

credits to your trustee at Hoyes Michalos. Under certain circumstances your Hoyes Michalos trustee is permitted to return these HST credits to you; your trustee will explain whether or not you will lose your HST refund when you have your free initial consultation.

- Assets: Most things you own, such as your household furniture, clothing, RRSPs, and one motor vehicle worth less than the provincial exemption limit are exempt from seizure, so you don't lose them when you go bankrupt. However, if you own a house with equity over $10,000, or if you have made contributions to your RRSP within the last year, or if you have a valuable car or investments, you may lose them when you file bankruptcy. Your Hoyes Michalos trustee will explain this to you in more detail at your no charge initial consultation.

Is Bankruptcy Right For Me?

The answer depends on your situation. If your income is over the government limit, requiring you to pay surplus income each month, or if you are expecting a large tax refund, or if you have other assets, a consumer proposal may be a better option for you.

If you have no assets, or if your income is low, or if your debts are simply too large to be dealt with in a consumer proposal, a bankruptcy may be necessary.

What Should I Do?

As you can see, for most people there is no obvious solution to their debt problems. That's why the professionals at Hoyes Michalos are available to answer your questions over the phone, or by e-mail, or in person. We have grown to become one of the largest personal insolvency firms in Ontario because we treat you with respect.

We realize that sometimes bad things happen to good people. We understand that job loss, divorce, or medical problems can lead to debt.

There is hope. You can be debt free.

Call your local Hoyes Michalos office (call 310-PLAN, that's 310-7526, no area code required in Ontario) or go to www.hoyes.com and e-mail us with your questions and one our debt management professionals will be in touch with you in minutes during regular business hours. We will answer your questions over the phone (anonymously if you prefer), and we will meet with you in person to review your options.

There is hope, and there is a solution to your money problems, but you need to make the call, so give us a call, and let's get started.

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