



Second Counselling Stage

Identification of Road Blocks to Solvency and Rehabilitation

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CONTRIBUTING CAUSES OF INSOLVENCY

Financial problems occur from events unexpected or external to families and from their own mismanagement. Financial problems resulting from unexpected changes occurring partly or wholly from outside the control of the family necessitate an evaluation of the management and use of resources. When changes occur due to reduced income, wrongful debt obligation, loss of health or family tragedy, you may become overwhelmed and financial problems may appear insurmountable.

A financial crisis may be the final result of poor management over time; insufficient income or inappropriate spending patterns.

FINANCIAL PROBLEM ANALYSIS

Listed below is a comprehensive list of factors which have may have contributed to your financial difficulty:

- Illness or disability? Accident or natural death?
- Divorce or separation?
- Major or unexpected house or car repair?
- Lawsuit?
- Purchase of a house?
- Events or celebrations of friends/relatives/children with unusual expenses?
- Underestimating expenses because of inexperience, few or no records?
- Forgetting incidental costs or purposely minimizing costs to justify expenditures?
- Overestimating income by not considering pay cheque deductions and taxes withheld.
- Being overwhelmed with bills and expenses to the point of being afraid, yet doing nothing?
- Lack of planning or staying with a realistic plan?
- Not designating one person to assume responsibility as the main manager to control money flow, keep records, meet financial obligations, and communicate financial position to others?
- Counting just the monthly payment and not the total cost over a period of time?
- Buying and then trying to plan how to pay, rather than vice versa?
- Lack of a system for paying bills or business organization?
- Forgetting to get promises in writing?
- Promising to pay more in repayments than income and expenses allow?
- Poor handling of money, such as not keeping chequebook up-to-date?
- Using ineffective consumer complaint procedures and lack of knowledge of consumer or legal rights?
- Change in income level due to a lower paying job or change in employment status?
- Unscrupulous or fraudulent advice, practice or scheme?
- Elderly or younger relative(s) moving into the home or their prolonged dependency?
- Premature death of spouse?
- Birth of child?

CAUSES OF FINANCIAL DIFFICULTY

Consider and reflect what you think caused your financial difficulty.

Consider what you've done to put yourself on the road to financial stability. What sort of things can you do to avoid finding yourself in financial difficulty again in the future?

QUESTIONS TO ASK BEFORE BUYING ON CREDIT

The use of credit is very prevalent in our culture. Here are some suggestions of the things to consider before you buy an item on credit:

Is this a need or a "want"?

Do I need it now?

Is it worth the extra credit cost to have it now?

Is it worth the risk of losing the money I have put into it if I don't/can't meet the payments?

Will this purchase help achieve a family or personal goal?

Is the interest cost reasonable?

Will I still be using the item when I have finished paying for it?

Will this purchase meet with family approval?

Am I buying it from a fair and honest person or business?

Can I buy it without committing an anticipated increase in income?

Do I usually make payments on time?

Have I been able to pay charge card statements in full and thus avoid finance charges?

Can I make these payments without skimping on necessities?

Do I have a saved emergency fund to take care of unforeseen expenses?

Is my credit good enough so that I can borrow in case of illness or emergency?

Have I avoided dipping into savings to meet regular expenses?

Do I avoid borrowing to pay off other credit or debts?

Am I always honest with myself, my spouse or others about my expenses?

Am I always current in my rent or utility payments?

Are my assets greater than my debts?

The best and safest way to deal with consumer credit is to immediately put some money aside after buying the goods or services or, ideally, always make sure that the money is already saved before buying something.

FACTORS AFFECTING FINANCIAL STABILITY

The Superintendent of Bankruptcy's office has developed a list of key factors believed to be the most common contributing causes of insolvency. Their research has shown that it is not uncommon to see more than one factor present in a debtor's insolvency and it is not unusual to see as many as six or seven. Some of these factors are as follows:

Family Role Models

Family life is important in our daily lives and children need good role models so they will learn the tasks of adulthood. If good role models are not available, children may be unsure of themselves when they get older. As adults, they will lack confidence in themselves, and they will lack the necessary money management skills to become responsible and self-sufficient.

Early Marriage and Relationships

Individuals who marry at an early age may lack the skills which will make the relationship last. Not only do these young people have to learn everything about their new partner, but they are still learning about themselves. Most have difficulty in discussing their needs and wants, as well as their goals. If both partners do not share common needs, wants and goals, then disagreement and arguments develop. Adding children or other responsibilities to this equation increases the stress and eventually the family unit starts to disintegrate.

Marital Breakdown

On breakup, there is the requirement to support two households rather than one, still using the same family income as before. This is seldom the true cause of insolvency and partners need to look for the real reason why the marriage or relationship broke down in the first place. This reason will likely be the significant factor that has contributed to financial insolvency.

Alcohol and Drug Abuse/Gambling

Substance abuse and gambling can lead to financial difficulty because all or a good portion of the family income is being used to support the habits. In addition to financial problems, physical and emotional problems develop for the user and other family members. If these factors are not dealt with through professional counselling, the financial problems will resurface again and again.

Compulsive Spending

The enjoyment of spending money and having certain things is compelling. Impulsive shoppers buy now and think later, not realizing what they are doing. People buying on impulse are usually feeling down or they don't feel good about themselves at all. They buy things to feel good, in their own eyes and in the eyes of others, instead of thinking about the reasons why they are feeling down or bad.

Lack of Education

Millions of Canadians have difficulty in reading and writing and, specifically, understanding what they are reading. In order to be financially stable, debtors must understand how credit works.

Loss of Employment

Loss of job income can be devastating to the family unit, often pushing it over the edge beyond recovery. As a cause of financial difficulty, it can be divided into two groups - beyond the control of the debtor such as job changes, layoffs, plant closures; and within the control of the debtor, such as substance abuse, chronic unemployment, lack of education.

Bankruptcy is often the inevitable conclusion of not knowing how to change your situation. The information we have provided may help you to understand the factors that may have affected how you have dealt with money in the past.

Included in this handout is a list of the most common agencies which you can contact if you feel you have a problem in any of the areas that were discussed today. If you require the names of further agencies, please contact us.

RE-ESTABLISHING YOUR CREDIT RATING

Whether you're trying to establish credit for the first time or re-establish credit after experiencing financial difficulties, a lender will be looking for assurance that you can pay back the money you borrow. You must be able to show:

1. Stability - You must prove that you can hold a steady job with a dependable income and that you have lived in the same place for a certain length of time.
2. Ability to repay - You must be able to demonstrate that your income exceeds your expenses.
3. Assets - Lenders will look more favorably on your application for credit if you have assets such as a home, car or savings account that can serve as collateral on your loan.
4. Credit report and credit score - Lenders will look to see if you have credit references and a good credit standing. You can obtain a copy of your credit rating from either Equifax Canada Inc. or Trans Union Canada. Their contact information is at the end of this handout.

You should make yourself familiar with the reference manual Understanding Your Credit Report and Credit Score that is published by the Financial Consumer Agency of Canada. A link to this publication can be found at <http://www.fcac-acfc.gc.ca/Eng/forConsumers/topics/creditLoans/Pages/CreditRe-Dossierd.aspx>. A sample credit report is attached to this handout.

The following steps apply whether you're trying to establish credit for the first time or you're rebuilding credit:

- Open a checking account - Balance your checkbook each month so that you can be sure never to overdraw your account.
- Open a savings account - Make regular deposits and try to avoid taking money out of your savings account. To help you establish credit, some banks will allow you to take out a small personal loan secured by your savings account.

- Establish good credit references - Even if you've never had a credit card or installment loan, you can still demonstrate your creditworthiness by having a stable relationship with a bank or credit union and a record of paying your rent and utility bills on time.
- Apply for a RRSP loan- You can help re-establish your credit by making your monthly payments as well as reduce your taxable income, helping generate income tax refunds and save for your retirement.
- Apply for a secured credit card – You need to provide the credit card issuer with a deposit. Usually, the amount required for a deposit is equal to the credit limit for the credit card. When you make payments on the balance of a secured credit card, it will be reported to the credit reporting agencies in the same way as a regular credit card. This can help you build a credit history or rebuild a poor one.
- Apply for a gasoline or department store credit card - These types of credit cards are usually easier for first-time card holders or those re-establishing credit to obtain because they offer lower credit limits. By using this card and paying on time each month, you can develop a positive record with the credit bureaus.
- Obtain a copy of your credit report once a year (there is no charge by mail). **We strongly recommend you obtain a copy of your credit report BEFORE you apply for any credit.** Errors or omissions on your file should be corrected before any of the credit grantors review your file. As you set about trying to build or rebuild a good credit history, remember not to apply for too much credit at once. Each time you apply, a lender submits an inquiry to the credit bureau. Too many inquiries serve as a red flag to lenders, who may then deny your application. The order forms can be found at these links:

Equifax:

<http://www.consumer.equifax.ca/ecm/canada/EFXCreditReportRequestForm.pdf>

Transunion:

http://www.transunion.ca/docs/personal/Consumer_Disclosure_Request_Form_en.pdf

REFERRAL SOURCES

Understanding Your Credit Report and Credit Score

<http://www.fcac-acfc.gc.ca/Eng/forConsumers/topics/creditLoans/Pages/CreditRe-Dossierd.aspx>

This website provides information about your credit report and credit score and how they work.

The Red Book Online

2-1-1

<http://redbookonline.bc211.ca/>

A searchable directory of community resources serving the Fraser Valley, Metro Vancouver, Squamish-Lillooet and Sunshine Coast regional districts

BC Housing Registry

(604)433-2218

<http://www.bchousing.org/>

Affordable housing is available for families, seniors and people with disabilities. Generally, people are eligible for housing if their rent exceeds 30 percent of their incomes. Demand is high, so each applicant's need for housing is assessed.

CREDIT BUREAU CONTACT INFORMATION

Equifax Canada Inc.

Consumer Relations Department
Box 190 Jean Talon Station
Montreal, QC H1S 2Z2

Online: www.equifax.ca

Tel: (800) 465-7166
Fax: (514) 355-8502

Fax discharge papers to: (800) 323-2598

Trans Union Canada

Consumer Relations Centre
P.O. Box 338, LCD 1
Hamilton, ON L8L 7W2

Online - www.transunion.ca

Tel: (800) 663-9980
Fax: (289) 288-0030

If you have any questions regarding the information in this booklet kindly contact our office at (604) 605.3335 or please ask us at your second counseling session.