



*Go out in the world and work like money doesn't matter. Sing as if no one is listening. Love as if you have never been hurt, and dance as if no one is watching, but pay all your debts promptly if you want to establish a good credit rating.*

Adapted from a quote by  
Eleanor Roosevelt



## Overview

The material in this lesson will help students become aware of the warning signs of financial difficulties. Most financial problems are a result of overspending, the misuse of credit, and unexpected emergencies.

When difficulties arise, students should first contact their creditors. Next, efforts should be made to revise spending patterns. In addition, assistance from a member of a credit counselling agency might be considered.

What if these actions do not help? In the next part of the lesson, students will examine other actions that might be considered, such as debt consolidation loans and bankruptcy. Students should also be aware of fair debt collection practices and wage garnishment.

## Goal

Analyze the behaviours and circumstances that can lead to financial trouble and identify some of the options and actions available to a person in financial trouble.

## Time Frame

Three 75-minute periods

**Lesson 04.03.01**

Why consumers don't pay

**Lesson 04.03.02**

Debt consolidation, garnishment, collection, repossession

**Lesson 04.03.03**

Bankruptcy

End-of-unit quiz and answer sheet

End-of-unit test and answer sheet

Each lesson includes black-line print masters for overheads and activities.



Lesson 01  
Why consumers don't pay

.01

### Overview

The material in this lesson will help students become aware of the warning signs of financial difficulties. Most financial problems are a result of overspending, the misuse of credit and unexpected emergencies. When difficulties arise, students should first contact their creditors. Next, efforts should be made to revise spending patterns. In addition, assistance from a member of a credit-counselling agency might be considered.

## Goals

Analyze why some consumers end up in financial trouble and identify some of the first steps to take to solve the problem before things get out of control.

## Objectives

Describe some of the ways you can get into trouble using credit.

Explain the first steps to take if you can't pay your bills on time.

Describe the debt-management services provided by nonprofit credit-counselling centres.

## Timeline

|   |            |
|---|------------|
| Classroom discussion<br>(overheads A and B) | 20 minutes |
| Activity                                    | 55 minutes |
| (complete for homework)                     |            |

## Instructions

### Discussion

Before showing Overhead A, Why consumers don't pay, ask students what they think are the top five reasons consumers don't pay their debts (credit cards, car loans, mortgage payments). Discuss with students what they think the warning signs are that a consumer is heading for trouble paying their debts.

Before showing Overhead B, First steps to take if you can't pay your bills, ask students what they would do if they found themselves in a situation where they were having trouble paying their bills.

### Student activity

Have students go to [www.creditcanada.com](http://www.creditcanada.com) for credit-counselling information and have them prepare a report on how this information is helpful to them.

### Note taking

Make handouts from overheads.

## Teacher Notes

Preparation of required materials, prior to lesson (overheads).

Familiarize yourself with the Web site for activity.

## Required Materials

Overhead A, Why consumers don't pay

Overhead B, First steps to take if you can't pay your bills

## Assessment and Evaluation

Collect and check the credit counselling report for formative or summative assessment.

## Supplemental Activities

Have students log in at The Money Belt and review profiles of characters they'll use to explore various financial situations and documents.

## Additional Web Resources

Credit Canada  
[www.creditcanada.com](http://www.creditcanada.com)

The Money Belt (Government of Canada)  
[www.themoneybelt.gc.ca](http://www.themoneybelt.gc.ca)

Financial Consumer Agency of Canada  
[www.fcac-acfc.gc.ca](http://www.fcac-acfc.gc.ca)



# overhead A

## Overhead A

### Why consumers don't pay

04.03.01

#### Loss of income (60%)

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

#### Overextension (36%)

- Poor money management  
(overspending, mismanaged budget, increased cost of living)
- 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.



# overhead B

**Overhead B**  
First steps to take if you can't  
pay your bills

**04.03.01**

## First steps

### 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

### Consumer Credit Counselling Services (CCCS)

- 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.



**Lesson 02**  
**Debt consolidation, garnishment,  
collection, repossession**

**.02**

### Overview

Don't wait for a bill collector to call you. It is very important to talk to your creditors as soon as possible before more serious consequences are taken. In this lesson, students will examine debt consolidation loans, fair debt-collection practices, wage garnishment and repossession.

## Goals

To help students understand there are possible solutions to debt and serious consequences for not paying your debts. To give students the knowledge they need so they are not taken advantage of and to know their rights and responsibilities as a debtor.

## Objectives

Understand the protections provided by the Collection Agencies Act.

List and understand the wage garnishment and repossession rights of creditors.

## Timeline

|  |            |
|--|------------|
| Classroom discussion<br>(Overhead A)               | 10 minutes |
| Classroom discussion<br>(overheads B, C, D, and E) | 20 minutes |
| Activity   | 45 minutes |

## Instructions

### Classroom discussion

Using Overhead A, Consolidating your debts, discuss with students the concept of taking out one loan to pay off many others. Discuss with students why and when a consumer may decide to consolidate debt. This is often done to secure a lower interest rate, secure a fixed interest rate or for the convenience of servicing only one loan. Debt consolidation is often advisable in theory when someone is paying credit-card debt. Credit cards can carry a much higher interest rate than even an unsecured loan from a bank. Warn students to beware of credit repair companies. There are many things you can do on your own to "fix" your credit or to rebuild your credit. Using Overhead B, Collection Agencies Act and Consumer Guide discuss with students the do's and don'ts for a debt collector.

Using Overhead C, Wage garnishment, and Overhead D, Wage assignment and lien against property, discuss the legal procedure of withholding a portion of your earnings, wage assignments and liens.

Before showing students Overhead E, Car repossession, find out what students already know about the rights of the creditor related to car repossession and the consumer's rights and responsibilities.

### Activity

Have students in pairs go to [www.practicalmoney-skills.ca](http://www.practicalmoney-skills.ca)—select: Student, select: Debt, read and summarize in point form the information under the headings, "Getting Out of Debt" and "Credit Counselling." Use the summary to prepare a short role-play of questions and answers related to one of the topics with one student playing the role of the credit counsellor and the other student playing the role of the debtor in trouble. Now pair and share your role-play with two other groups.

## Note taking

Make handout from overheads.

## Teacher Notes

Preparation of required materials, prior to lesson (overheads.)

Familiarize yourself with the Web site for activity.

## Required Materials

Overhead A, Consolidating your debts

Overhead B, Collection Agencies Act and Consumer Guide

Overhead C, Wage garnishment

Overhead D, Wage assignment and lien against property

Overhead E, Car repossession

## Assessment and Evaluation

Collect and check for formative assessment the note summary from activity.

## Additional Web Resources

Human Resources and Skills Development Canada  
[www.hrsdc.gc.ca](http://www.hrsdc.gc.ca)

The Damaged Credit Self-Service Centre (CapitalOne)  
[www.roadtobettercredit.ca](http://www.roadtobettercredit.ca)



# overhead A

## Overhead A

### Consolidating your debts

04.03.02

#### 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 that they can erase a poor credit history. [No one can erase a poor credit history if it is accurate!].

There are many things you can do on your own to “fix” your credit or to rebuild your credit. Follow these helpful tips to get you back on track.

- Pay bills on time.
- Stay within your credit limit.
- Talk to your lender if you are having problems making your payments.
- Talk to a credit counsellor for tips on budgeting and money management.
- Don't apply for any new credit cards until you're back in control of your finances.
- Reduce your debt load.
- Talk to the bill collector
- Know your rights concerning debt collection.
- Contact a nonprofit, charitable credit-counselling service.





# overhead B

## Overhead B Collection Agencies Act and Consumer Guide

04.03.02

### 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.



# overhead C

## Overhead C Wage garnishment

04.03.02

### 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



# overhead D

**Overhead D**  
Wage assignment and  
lien against property

**04.03.02**

## 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.



# overhead E

## Overhead E Car repossession

04.03.02

### Rights of creditor

- Can seize car as soon as you default.
- Can't commit a breach of the peace, e.g., 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.

"Your legal responsibilities regarding repayment of the deficiency balance are governed by consumer protection and other legislation and may vary by province/territory. Please ensure that you seek legal advice regarding your rights and responsibilities as a debtor."



Lesson 03  
Bankruptcy

.03

## Overview

Bankruptcy is a legal process performed under the Bankruptcy and Insolvency Act to help a person cope with a financial crisis. A decision to file for bankruptcy is a serious step, and in many cases, it doesn't wipe your credit slate clean or give you a fresh start. It also stays on your credit report for six years from the date of discharge. Its presence there could affect your ability to buy or rent a home or even to obtain car insurance.

## Goal

To help students understand bankruptcy, what it is, who qualifies and how it works.

## Objectives

Understand the difference between straight bankruptcy and the consumer proposals.

Understand the disadvantages of using bankruptcy as a solution to debt.

List the types of debt that are not affected by bankruptcy.

## Timeline

|  |            |
|--|------------|
| Classroom discussion<br>(overheads A and B)                | 15 minutes |
| Activity A   | 20 minutes |
| Activity B<br>(complete for homework or in class next day) | 40 minutes |
| Quiz   | 10 minutes |

## Instructions

### Classroom discussion

Using Overhead A, Bankruptcy, explain to students what bankruptcy is, who qualifies, how it works and the advantages and disadvantages of declaring bankruptcy.

Using Overhead B, Consumer proposal, explain to students what a consumer proposal is, who qualifies, how it works and the advantages and disadvantages.

### Activity

Have students complete Activity A, Test your knowledge of trouble.

Have students complete Activity B, Are they in trouble?

### Note taking

Make handout from overheads.

## Teacher Notes

Preparation of required materials prior to lesson (overheads and activities).

Make three copies for each student of Activity B budget worksheets

## Required Materials

Overhead A, Bankruptcy (two pages)

Overhead B, Consumer proposal (two pages)

Activity A, Test your knowledge of trouble (two pages and two-page answer sheet)

Activity B, Are they in trouble? (four pages)

Quiz (and answer sheet)

## Assessment and Evaluation

Any combination of the activities can be used as summative assessment.

Have students complete Quiz, In Trouble.

## Supplemental Activities

Invite an accountant who deals with bankruptcy or a bankruptcy trustee to the classroom to give examples of how people get into financial trouble, and the solutions available.

Check out [www.themoneybelt.gc.ca](http://www.themoneybelt.gc.ca).

## Additional Web Resources

Industry Canada  
[www.strategis.ic.gc.ca](http://www.strategis.ic.gc.ca)

BankruptcyCanada.com  
[www.bankruptcycanada.com](http://www.bankruptcycanada.com)

The Money Belt (Government of Canada)  
[www.themoneybelt.gc.ca/theCity](http://www.themoneybelt.gc.ca/theCity)



# activity A

## Activity A

### Test your knowledge of trouble

04.03.03

name: \_\_\_\_\_

date: \_\_\_\_\_

#### 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.

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2. List five warning signs of financial trouble.

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

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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 can 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.

# activity A

## Activity A Test your knowledge of trouble (continued)

04.03.03

name: \_\_\_\_\_

date: \_\_\_\_\_

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





# activity A

## Activity A

### Test your knowledge of trouble (answers)

04.03.03

#### 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.

- f A credit repair company can erase a poor credit history.
- t If you pay a bill late, your creditor can report this information to a credit bureau.
- f A debt collector can contact you any time of day or night, except Sunday.
- f If you don't pay a debt, a debt collector can legally harass and threaten you.
- 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.
- t The Consumer Credit Counselling Service will help you set up a realistic budget, contact your creditors, and plan future expenses

# activity A

## Activity A Test your knowledge of trouble (answers continued)

04.03.03

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

Six years from the date of discharge



# Activity B

## Are they in trouble?

04.03.03

name: \_\_\_\_\_

date: \_\_\_\_\_

### 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 include:

- \$850 on a major department store credit card, on which 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 paycheque, 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 paycheque to get his car fixed.

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

# Activity B

## Are they in trouble? (continued)

# activity B

04.03.03

name: \_\_\_\_\_ date: \_\_\_\_\_

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.

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

Her fixed 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 monthly payment to the department store.

If you were Carmen, what would you do?

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**Activity B**  
**Are they in trouble? (continued)**

# activity B

**04.03.03**

name: \_\_\_\_\_

date: \_\_\_\_\_

3. Yannic's monthly net income is \$1,550.

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, on which 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?

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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.

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**Activity B**  
Budget worksheet

# activity B

**04.03.03**

**MONTHLY EXPENSES**

|                    |                    |                     |
|--------------------|--------------------|---------------------|
| Name _____         |                    | Case Number _____   |
| Initial Date _____ | Revised Date _____ |                     |
| Counselor _____    |                    | Copy Received _____ |

(W) - Weekly  
(M) - Monthly  
(O) - Occasional  
Indicate Here

|                             | INITIAL | REVISED |
|-----------------------------|---------|---------|
| <b>HOUSING EXPENSES</b>     |         |         |
| First Mortgage PI PIT ..... |         |         |
| Second Mortgage .....       |         |         |
| Property Taxes .....        |         |         |
| House Insurance .....       |         |         |
| Rent/Condo Fees .....       |         |         |
| Telephone .....             |         |         |
| Hydro .....                 |         |         |
| Water/Sewer .....           |         |         |
| Heat - Gas / Oil .....      |         |         |
| Wood / Electric .....       |         |         |
| TV Cable/Rental .....       |         |         |
| Internet .....              |         |         |
| Misc Contracts .....        |         |         |
| Misc IMM. NEEDS .....       |         |         |
| .....                       |         |         |
| .....                       |         |         |
| <b>WORK EXPENSES</b>        |         |         |
| Transit - Applicant .....   |         |         |
| Transit - Spouse .....      |         |         |
| APP Lunches/Breaks .....    |         |         |
| SP Lunches/Breaks .....     |         |         |
| Daycare .....               |         |         |
| Special Clothing .....      |         |         |
| .....                       |         |         |
| .....                       |         |         |
| <b>SUB-TOTAL</b> .....      |         |         |

**INSTRUCTIONS/COMMENTS**

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Total Forward .....

**LIVING EXPENSES**

- Food .....
- Personal Travel .....
- Clothing .....
- Alimony & Support .....
- Auto License/Misc .....
- Insurance - Auto .....
- Life .....
- OHIP .....
- Medical/Doctor .....
- Prescription Drugs .....
- Dental .....
- Laundry/Dry Cleaning .....
- Pets .....

**PERSONAL EXPENSES**

- Tobacco .....
- Alcohol/Beverages .....
- Recreation .....
- Babysitter .....
- Personal Grooming .....
- Barber/Hairdresser .....
- Magazines/Newspaper .....
- Gifts .....
- Religious Donations .....
- School Expenses .....
- Donations .....
- Allowances .....

**TOTAL EXPENSES** .....

**DEBT PAYMENTS** .....

**DEBT PAYMENTS** .....

**TOTAL** .....

|       | INITIAL | REVISED |
|-------|---------|---------|
| ..... |         |         |
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**SUMMARY OF FUNDS AVAILABLE**

NET INCOME FROM ALL SOURCES .....

LESS TOTAL EXPENSES.....

FUNDS AVAILABLE .....

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|--|--|
|  |  |
|  |  |
|  |  |



# overhead A

## Overhead A Bankruptcy

04.03.03

### 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 that 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.**

## 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 being bonded.





# overhead B

## Overhead B Consumer proposal

04.03.03

### What is a consumer proposal?

- An offer made by a debtor to his/her creditors to modify payments e.g., 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.

**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.



name: \_\_\_\_\_

date: \_\_\_\_\_

### True/False ( 5 marks)

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 (5 marks)

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 ( 5 marks)

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.*



### True/False ( 5 marks)

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.
5. f Bankruptcy is suggested for people who are a few weeks behind in their credit payments

### Multiple Choice (5 marks)

6. A common cause of financial difficulties is A.
  - 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 B.
  - 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 C.
  - 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 D.
  - 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 C.
  - 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 ( 5 marks)

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.