

—When the Paycheque Stops— Creditor Action Plan

Once you have a clear idea of your income and your expenses, it's time to take charge of any shortfall you may have. This Action Plan has two sections:

- Creditor Action Plan (including information about Credit Agencies and Collection Agencies).
- What to do when you just can't pay.



Creditor Action Plan

Step 1—Notify Your Creditors Before You Get Behind

Take your Creditor Worksheet (at the end of this Action Plan) and determine what bills you are going to be able to pay, when and in what amount. Then, notify your creditors before you get behind.

This is very important! Creditors are usually easier to work with when you let them know what's happening before a serious situation arises. But don't be surprised, angry or discouraged if you still have a few problems with unsympathetic or ruthless creditors. They are not all like that.

When contacting creditors, tell them you want to work out a satisfactory arrangement for delaying, reducing or refinancing payments until you return to work.

Contact creditors in writing so there is a physical record of contact to place in your file. Try to type letters to creditors, but readable handwriting is just as good. The letter can be placed in your account file—a phone call may not be noted. Always include your account number and contact information (address, phone and email).

Keep a copy of written correspondence together in a file. Most libraries have coin-operated copy machines. A written record of responsible contact may also be important if legal problems emerge later.

If you do speak with someone, make sure you keep notes about the conversation, including the date, the person to whom you spoke with, and what was said.

Step 2—Contact the Court About Child Support or Alimony Payments

If you are making child support or alimony payments under a decree of divorce, but are unable to meet the payments due to unemployment or severely reduced income, contact the clerk of the divorce court and explain your situation. Under the *Divorce Act*, either party is able to make a request for a variation in child or alimony payments based on a change in circumstances.

Failing to notify the court of your inability to pay can result in legal problems. Follow up with a written letter of explanation. If ordered to court, contact an attorney. Bring documentation (pink slip or lay-off letter from your employer or union) with you.

Stay in touch with your ex-spouse to avoid unnecessary legal action.

Do your best to provide what support you can—and keep records. Missed child support payments ordered by the court must be made up. Talk to your ex-spouse and/or a court officer about a repayment plan.

Step 3—Pay What You Can

Even if you cannot pay creditors the amount they want, make your best effort to pay something regularly. This holds arrears as low as possible and lets the creditor know that you are doing all you can. Partial payment may keep your account from being turned over to a collection agency.

Step 4—Stay in Touch With Creditors

After the initial contact, it's important that you keep in regular contact with creditors—every two weeks or so. This reassures the creditor, shows a responsible attitude toward your obligation and may keep the creditor from “hounding you.”

IMPORTANT: DO NOT IGNORE YOUR MAIL!

Step 5—Protect Your Credit Rating

A credit reporting agency or credit bureau is a company that provides credit information on individual borrowers. This helps lenders assess credit worthiness and the ability to pay back a loan, which can affect the interest rate applied to a loan. Interest rates are not the same for everyone, but instead are based on risk-based pricing, a form of price discrimination based on the different expected costs of different borrowers, as set out in their credit rating.

What is a credit file?

Your credit file is created when you first borrow money or apply for credit. On a regular basis, companies that lend money or issue credit cards to you—including banks, finance companies, credit unions, retailers—send specific factual information related to the financial transactions they have with you to credit reporting agencies.

The credit reporting agencies organize and store this information so that it can be referred to in the future, with your consent. Your credit file contains all the information that a credit reporting agency has received from companies that have extended credit to you.

For example, it might include a listing of your credit cards or lines of credit, along with a history of whether or not you have paid on time. If you have declared bankruptcy, that fact will also appear. If you did not pay a bill and your account was sent to a collection agency, this will also show on your credit file. In summary, your credit file is a report of your financial history and performance with credit grantors.

Why is my credit file important?

When you apply for credit or want to open an account, the credit grantor wants to be sure that if they lend you money they will be paid back. The more your credit file demonstrates that you pay your debts on time, the more desirable you become as a potential customer.

If you have fallen behind in the past, a credit grantor wants to see how you have been managing your debt since then. Your credit file also shows how much you have already borrowed. Credit grantors want to evaluate your financial capacity to make monthly payments. No responsible lender will over-lend or encourage customers to take on more debt than they can pay back.

What is a credit rating?

Every piece of credit history information in your credit file is assigned a rating by the credit grantor. The most common ratings are “R” ratings. These are known as North American Standard Account Ratings and are the most frequently used. The “R” indicates that the item being described involves revolving credit. If you always pay on time, it will be coded an R1. If an amount was written off because you never paid it back, it is coded R9. The R ratings are a coding system that translates “on time,” “one month late,” “two months late,” etc., into two-digit codes.

How can I establish and maintain a good credit rating?

There are a few simple ways to keep a solid credit rating. First, pay your bills promptly and always meet payment due dates. Borrow only the amount you can afford to repay. Draw up a budget to control your spending. If you have debts, pay them off as scheduled or even ahead of schedule. And finally, review your credit file regularly to stay informed about the details in your credit file.

What is a credit score?

A credit score is a numeric value assigned by credit grantors to indicate how likely someone is to pay back a loan or credit card according to the agreed repayment terms. It is an indicator of the level of risk that a borrower might represent. It is used as a predictor of future performance.

Much like a life insurance company that reviews your medical history to determine the insurance risk when you apply for a life insurance policy, credit grantors review your financial history to determine your credit risk. Credit grantors often use an automated scoring process to help make that risk assessment. The credit-reporting agencies Equifax and TransUnion use a scale from 300 to 900. High scores on this scale are good. The higher your score, the lower the risk for the lender.

A credit score is only one piece of information credit grantors use when evaluating your application for credit. Some credit scores may be based solely on information in your credit file. Other scores may be based on a combination of credit file information and other information you supply on your credit application. Generally, scores use your past credit history to help predict how you might manage credit in the future.

What is a credit counselling agency?

This is an agency that can help you with your financial problems. Credit Counselling Canada is a non-profit organization that provides assistance through counseling, debt repayment programs and education at no or low cost.

Step 6—Know Your Rights—If Your Account Goes to a Collection Agency

While rules vary across Canada, generally collection agencies are forbidden from doing the following:

- trying to collect a debt without first notifying you in writing or making a reasonable attempt to do so;
- recommending or starting legal or court action to collect a debt without first notifying you;
- communicating with you or your family in a way that the communication amounts to harassment, or calling to collect a debt at certain prohibited times (which vary from one province or territory to another);
- implying or giving false or misleading information to anyone;
- communicating or attempting to communicate with you without identifying themselves, saying who is owed the money and stating the amount owed;
- continuing to demand payment from a person who claims not to owe the money, unless the agency first takes all reasonable steps to ensure that the person does, in fact, owe the money; and
- contacting your friends, employer, relatives or neighbours for information, other than to get your telephone number or address, except when any of these people have guaranteed the debt or if you have asked the agency to contact them to discuss the debt or, in the case of your employer, to confirm your employment, your job title, and your work address.

If you have concerns about the actions of a collection agency, contact your provincial or territorial consumer affairs office.

Last Resorts When You Can't Pay

At the federal level and in all provinces and jurisdictions:

Bankruptcy is a legal process performed under the federal *Bankruptcy and Insolvency Act*. Because of an inability to pay your debts, you assign all of your assets, except those exempt by provincial law, to a licensed trustee in bankruptcy. This process relieves you of most debts, and legal proceedings against you by creditors should stop.

A **consumer proposal** is an offer made by a debtor (through a trustee in bankruptcy or a person appointed by the Office of the Superintendent of Bankruptcy to administer consumer proposals) to his or her creditors to modify his or her payments.

PLUS

In Alberta, Saskatchewan, Nova Scotia and Prince Edward Island:

Orderly Payment of Debt (OPD Program)

If you are unable to manage your current debts, you can voluntarily seek out a legal proceeding to help you make your payments.

In Quebec:

Voluntary Deposit Service

Voluntary deposit is a measure contained in the *Quebec Code of Civil Procedure* that allows you to repay your debts by depositing with the Court a portion of your earnings determined by law. The amount deposited is then distributed to creditors proportionally to their claims. By opting for voluntary deposit, you avoid having to declare personal bankruptcy. Another feature to consider is the fact that you are protected from seizure of your salary or wages, or your earned income if you are self-employed. This protection extends to the furniture in your main residence used by the family as basic necessities (refrigerator, stove, table, chairs, beds, etc.).

Credit counselling agencies can provide you with more information about these options.



Creditor Worksheet

Acct with	Acct #	Balance owed	Monthly payment	Interest rate	Date due	Contact person	Address	Phone/ Email
The Bay	XXXXX	\$200	\$10	17%	15	Mary Smith	555 Main Street, My Town, Canada	(555) 555-5555 msmith@sympatico.ca

Sample Letter to Creditors

I am temporarily out of work because of a (lay-off, closure, strike) and my income has been cut severely. I am asking for your cooperation during this difficult period. Until I return to work, I need to cut back on all my regular payments. I am proposing to pay \$_____ to you for a temporary period, instead of my regular payment of \$_____. This is the fairest thing I can do under the circumstances. When I return to work, I will cooperate with you to develop a plan that will catch up on my payments.

Thank you for your understanding.

Name:

Account Number:

Address:

Phone:

Email:

