

PERSONAL BANKRUPTCY VS.CREDIT COUNSELLING

Many people find themselves in difficult situations that leave them struggling financially or unable to repay all their debts as they intended to, despite their best efforts.

Declaring bankruptcy or repaying their debts using a credit counselling plan are common debt management strategies people choose to help deal with debt. If you're considering either of these options, it's important to understand the key differences between them.

Personal Bankruptcy

Credit Counselling

Types of Debt Eligible

Virtually all types of debt may be addressed and forgiven by personal bankruptcy, including but not limited to:

- · General consumer and business debts (credit cards, lines of credit, overdrafts, payday loans, personal debts, etc.)
- · Government debts (taxes, business GST, etc.)
- Student loans (Federal, Provincial, private)
- · ICBC debt
- · MSP debt

Proposal are the <u>only</u> methods in Canada for eliminating government debts.

Declaring bankruptcy or making a Consumer



basic consumer debts such as credit cards, lines of credit and loans.

Credit counselling can help pay off

- The types of debt that can be included in credit counselling repayment plans are severely limited.
- Revenue Agency) will not work with credit counsellors.

· Government creditors (such as Canada



Negotiating Debt

- Most bankruptcies automatically result in full forgiveness for all your debts, with rare exceptions.
- · All debts owing to Canada Revenue Agency (including interest/penalties) can be written-off in a bankruptcy.
- You do not need to seek permission to declare bankruptcy.
- No creditor can prevent you from seeking the protection of personal bankruptcy if you are struggling with debt.



Generally you are required to repay 100% of your debt. Creditors may agree to stop future interest charges, or to charge interest

Credit counselling is an informal plan

with no provision to cut your debt.

- at a lower rate. Credit counsellors must negotiate participation with each eligible creditor.
- be paid separately by you. Creditors can withdraw their agreement at any time, but usually won't do so as long as your payments are in

Creditors who don't participate need to

good standing.

Typically higher monthly payments

Monthly Payments

income. Most bankruptcies call for you to pay the total costs of administration / minimum fees of \$2,300 only, broken up into a manageable payment plan. Licensed Insolvency Trustees fees are

· Payments are primarily based on your

strictly set by government tariff, not a fee-for-service.



- compared to other options, since 100% of your debt is being paid back. Credit counselling plans usually have monthly payments. · You usually need to pay various fees for debt management services on top of your actual
- debt repayment (even if you work with a non-profit organization). Fees may include charges for set-up, monthly maintenance, applications,
- membership, etc. Credit counsellors are part of an unregulated debt repayment industry.
- As such, organizations and companies are free to set their own pricing.

Illustrative Comparison: Monthly Payments Over 3 Years \$664/mo

Strategies to Pay Off \$20,000 of Debt

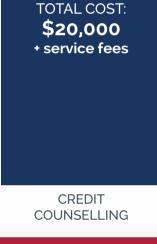


Repay 100% of debt

with 12% interest

consolidation loan.

\$556/mo



TOTAL COST:

\$167/mo



Key assumptions:

\$500

then \$225/mo



Repay 100% of Repay 30% of debt debt without without interest interest charges. 70% written-off.

will be extra.

Professional fees

applicable.

No additional professional fees

enforce this.

No surplus income requirements, minimum bankruptcy fees only.

Full forgiveness

of all debts.

· Creditors participating in your plan usually Bankruptcy legally protects you from ongoing creditor contact or collection refrain from contacting you while your plan is in good standing, but you can't action - immediately upon filing.

Creditor & Asset Protection

- Court proceedings, wage garnishments and bank account freezes will be lifted. Most people keep all their assets, including
- RRSPs, a vehicle and more. You may choose to continue with payments for your car or mortgage.



- · Credit counsellors have no legal authority to force collection action, wage seizures etc. to stop. Mortgages, vehicle financing and other
- so you would manage those outside credit counselling. Normally assets are not used for credit counselling, but you may choose to do so.

secured debts are usually not covered,

Time to be Debt-Free

 How long your credit counselling repayment plan lasts depends on the size of debt etc.

If your income is higher bankruptcy Payments can go on up to a maximum of may last for 21 months; 24-36 months if 5 years; 60-month terms are common. you have declared bankruptcy before.

is the quickest and least expensive way to legally eliminate unmanageable debt.

In most scenarios personal bankruptcy

Most people are discharged (released)

from bankruptcy after 9 months.

- In BC, an R9 rating will be noted for 6 years following your discharge/release
- from bankruptcy. · Various credit products may be available to you immediately following your discharge (if not before) and you may



early, if you can afford to do so.

· You can pay off your credit counselling plan

· In BC your credit history will reflect an R7 rating for 2 years after completion.

· Various credit education

will not do so.

 A qualified Insolvency Counsellor will provide one-on-one financial counselling services and support to you.

apply for new credit any time.

Debt Help Expertise & Qualifications

Bankruptcy is a legal process covering

including ethics and rules for Trustees.

Bankruptcy oversees all matters, ensuring transparency and professional conduct.

virtually all aspects of proceedings,

The Office of the Superintendent of



resources are usually offered.

sign a disclosure statement that you

You may be able to use and get new credit,

but some credit counsellors may have you

- No specific training or qualifications are Licensed Insolvency Trustees are the only professionals legally empowered legally required to operate as a credit and endorsed by the Federal government counsellor. Anyone can say they are a to help Canadians reduce or eliminate 'credit counsellor'. their debts. There are no "government programs" or
 - consumer alerts and noted that some credit counsellors may promote their services over other debt options you might have, since credit counsellors may receive money from your creditors based on what they recover from you.

endorsements that include credit counselling

debt services. Some credit counselling

★ The Government of Canada has posted.

organizations are registered as collection agencies or debt repayment agents.

We take a supportive non-judgmental approach to debt help services and confidential consultations are always free.

options so you can choose the solution that's right for you.



