



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

*Declaring bankruptcy or making a Consumer Proposal are the **only** methods in Canada for eliminating government debts.*



- Credit counselling can help pay off basic consumer debts such as credit cards, lines of credit and loans.

- The types of debt that can be included in credit counselling repayment plans are severely limited.

- Government creditors (such as Canada Revenue Agency) will not work with credit counsellors.



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.



- Credit counselling is an informal plan with no provision to cut your debt. Generally you are required to repay 100% of your debt.

- Creditors may agree to stop future interest charges, or to charge interest at a lower rate.

- Credit counsellors must negotiate participation with each eligible creditor. Creditors who don't participate need to 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 good standing.



Monthly Payments

- Payments are primarily based on your 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 strictly set by government tariff, not a fee-for-service.



- Typically higher monthly payments 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.



Strategies to Pay Off \$20,000 of Debt Illustrative Comparison: Monthly Payments Over 3 Years

\$664/mo



CONSOLIDATION LOAN

\$556/mo



CREDIT COUNSELLING

\$167/mo



CONSUMER PROPOSAL

\$500 then \$225/mo



PERSONAL BANKRUPTCY

Key assumptions:

Repay 100% of debt with 12% interest consolidation loan.

Repay 100% of debt without interest charges.

Professional fees will be extra.

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

No additional professional fees applicable.

Full forgiveness of all debts.

No surplus income requirements, minimum bankruptcy fees only.

Creditor & Asset Protection

- Bankruptcy legally protects you from ongoing creditor contact or collection action – immediately upon filing.
- 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.



- Creditors participating in your plan usually refrain from contacting you while your plan is in good standing, but you can't enforce this.
- Credit counsellors have no legal authority to force collection action, wage seizures etc. to stop.
- Mortgages, vehicle financing and other secured debts are usually not covered, so you would manage those outside credit counselling.
- Normally assets are not used for credit counselling, but you may choose to do so.

Time to be Debt-Free

- Most people are discharged (released) from bankruptcy after 9 months.
- If your income is higher bankruptcy may last for 21 months; 24-36 months if you have declared bankruptcy before.
- In most scenarios personal bankruptcy is the quickest and least expensive way to legally eliminate unmanageable debt.



- How long your credit counselling repayment plan lasts depends on the size of debt etc.
- Payments can go on up to a maximum of 5 years; 60-month terms are common.
- You can pay off your credit counselling plan early, if you can afford to do so.

Credit Rating Impact

- 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 apply for new credit any time.
- A qualified Insolvency Counsellor will provide one-on-one financial counselling services and support to you.



- In BC your credit history will reflect an R7 rating for 2 years after completion.
- You may be able to use and get new credit, but some credit counsellors may have you sign a disclosure statement that you will not do so.
- Various credit education resources are usually offered.



Debt Help Expertise & Qualifications

- ✓ Licensed Insolvency Trustees are the only professionals legally empowered and endorsed by the Federal government to help Canadians reduce or eliminate their debts.
- ✓ Bankruptcy is a legal process covering virtually all aspects of proceedings, including ethics and rules for Trustees.
- ✓ The Office of the Superintendent of Bankruptcy oversees all matters, ensuring transparency and professional conduct.

- ✗ No specific training or qualifications are legally required to operate as a credit counsellor. Anyone can say they are a 'credit counsellor'.
- ✗ There are no "government programs" or endorsements that include credit counselling debt services. Some credit counselling organizations are registered as collection agencies or debt repayment agents.
- ✗ The Government of Canada has posted 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.

Sands & Associates' qualified Licensed Insolvency Trustees will help you understand and compare all your debt management options so you can choose the solution that's right for you.

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



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Licensed Insolvency Trustees