Got Debt Problems?

Centre for Public cplea Legal Education Alberta

Mortgages, car payments, credit cards, lines of credit, loans, utility bills, support payments, overdrafts, payday loans and personal loans. These are examples of debt. If you are making your payments on time, debt is manageable. But if you fall behind on your payments, issues can pop up.

"What happens if I do not pay my bills?"

If you stop or miss making payments, your **creditor** (the person, business or bank you owe money to) may take steps to collect the amount you owe. What your creditor does depends on the type of debt and the agreement between you and the creditor. Your creditor may:

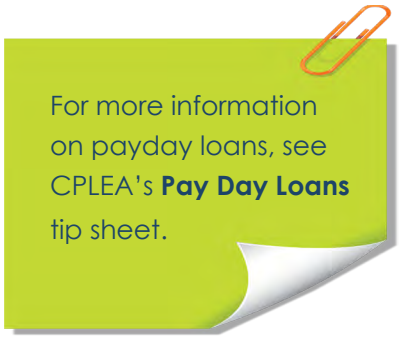
- **Demand payment** from you within a period of time.
- Send your account to a **collection agency** to try to collect from you. For more information about collection agencies, see CPLEA's **Collection Agencies** tip sheet.
- If the debt is secured, the creditor may **seize the security** – the property you use as collateral for the debt. For example, if you finance a car, usually the car is collateral for the loan. If you stop making payments, the creditor will take the car back. The creditor can automatically seize this property. The loan agreement will say what property of yours is security for the loan. Read on for more information about secured loans.
- If the debt is a mortgage, the creditor can take steps to **foreclose** on the property. For more information about foreclosures, see CPLEA's **Foreclosures** tip sheet.
- Start a **lawsuit** against you in civil court. **Do not ignore court documents. Get legal advice immediately.** If you do not respond to the documents, the court can grant a judgement to the creditor without hearing your side of the story. Once the creditor has a judgement, they can hire a civil enforcement agency to seize your property, or garnish your accounts or wages, to collect on the judgment. For more information about civil court processes, see CPLEA's series on **Going to Court**.
- If you have a guarantor for the debt, the creditor can collect the money you owe from your guarantor. Your guarantor can then take steps against you to get their money back. For more information about guarantors, see CPLEA's **Being a Guarantor** tip sheet.
- **Garnish** your wages or accounts. Garnishment is a legal process that allows a creditor to seize money directly from you, your bank or employer.

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Remember, a creditor usually does not care why you are not making the payment. They just want to be paid!

BUT THERE ARE STEPS YOU CAN TAKE!

The steps you take depend on how much money you owe and whether your debt is secured or unsecured. Remember, there are fees for some of these solutions and you may not have access to credit during the term of the program.



Negotiate

You can try to negotiate a payment plan with the creditor. The creditor does not have to negotiate with you but many creditors will to avoid the costs of taking legal action.

Credit Counselling

Many non-profit and for-profit agencies offer credit counselling services. They can help you manage and repay your debts on your own. Make sure you understand the services you are getting and any fees you must pay.

Consolidation Loans

Your financial institution (such as a bank) will assess your situation based on your credit rating and score. If you qualify for a consolidation loan, the loan 'pays off' your other debts. Then you repay the consolidated amount to your bank. The benefit? One payment with usually a lower interest rate (as compared to differing interest rates on many debts).

Debt Management Plan

A credit counselling agency can ask your creditors to agree to consolidate your unsecured debts into one affordable payment. You will still have to pay back 100% of your debts. The credit counselling agency will collect the payment from you and pay your creditors. You will also have to pay the agency an administrative fee.

Orderly Payment of Debts program

The orderly payment of debts program is a debt consolidation program created under Canada's *Bankruptcy & Insolvency Act* and monitored by the Province of Alberta. The Provincial Court issues a consolidation order – consolidating your unsecured debt into one monthly payment. The payment is calculated based on what you can afford and approved by your creditors. You will have to pay back 100% of your debts plus fixed 5% interest. You pay the court and the court ensures payments are made to your creditors.

Money Mentors is the exclusive provider of the OPD program in Alberta.

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Consumer Proposals

A consumer proposal is a settlement with your creditors. It is available to individuals (not businesses) owing less than $250,000 (not including debts secured by your principal residence). Usually you will pay back between 10% and 90% of your debts, based on what you can afford to pay. A Licensed Insolvency Trustee administers the consumer proposal – putting together a proposal and negotiating with creditors. The Licensed Insolvency Trustee is entitled to charge fees which total approximately $1800 plus 20% of the funds available for distribution.

Bankruptcy

Bankruptcy means discharging or restricting your debts. You must have at least $1000 in debt and must work with a Licensed Insolvency Trustee (LIT). You will create a monthly budget and calculate bankruptcy payments based on your income. Your payments can change over the term of the program as your earnings change (if your income increases, your monthly payments will increase).

For more information, see CPLEA's **Bankruptcy Basics for Albertans** tip sheet.

Secured vs. Unsecured Debt

A **secured loan** means the lender requires the borrower to use its property as collateral for the debt. If the borrower defaults on the loan, the lender can seize the property. It can use the property to repay the loan.

There are two types of security:

1. **Mortgages**: the security is real estate. The lender registers the mortgage at Alberta's Land Titles Office against the title to the property.
2. **Registered security interests**: the security is property that you own other than real estate, such as a vehicle, mobile home, recreational vehicle or boat, or household goods. The lender registers their interest with Alberta's Personal Property Registry.

An **unsecured loan** means the lender does not require the borrower to use property as collateral. It could be that the debt is not that large or that the borrower has good credit.

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GET MORE HELP

Help with Debt Alberta

Answer questions to find resources for your situation.

www.cplea.ca/help-with-debt-alberta/

Consumer Debt Negotiation Clinic

Get free legal advice about your options and help negotiating with your creditors.

https://www.eclc.ca/consumer-debt-negotiation-project

Money Mentors

Non-profit offering credit counselling, debt consolidation and financial education.

1.888.294.0076

www.moneymentors.ca

Government of Alberta

Information about creditors, collection agencies and debt repayment

https://www.alberta.ca/information-collection-agencies-debt-repayment.aspx

Government of Canada

Find a credit counsellor

www.canada.ca/en/financial-consumer-agency/services/debt/debt-help.html

Consumer Proposals

www.ic.gc.ca/eic/site/bsf-osb.nsf/eng/br02051.html

Considering bankruptcy

www.ic.gc.ca/eic/site/bsf-osb.nsf/eng/br03733.html

Find a Licensed Insolvency Trustee

www.ic.gc.ca/app/scr/tds/web/

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