

It's no surprise to anyone that North Americans have a love affair with credit. Living in a consumer culture, we are inundated with advertisements of "buy now, pay later", "no money down" and "easy affordable payments".

Our Love Affair with Credit - What to do after the Break-up

What drives this love of credit? Is it the idea of living a certain middle class lifestyle (house, car, vacations) even if one cannot afford it? Whatever the reasons,

one thing is clear: Canadians are accumulating more debt than they can afford to pay:

- Collectively, Canadian consumers now owe \$752.1 billion, or an average of about \$23,000 per person. According to the Bank of Canada, that's up 36% in the past 10 years, when adjusted for inflation.
- Over the same period, personal disposable income, or take-home pay, has risen 15%.¹

In other words, Canadians have piled on debt more than twice as fast as their income has grown. No wonder more and more Canadians are living on the edge.

Overspending, a job loss or family emergency can often lead to a financial dead-end from which people may feel they cannot escape.

Or can they?

The first step - seeing a trustee in bankruptcy.

When someone feels physically or mentally ill, their impulse is to see a medical doctor. The doctor examines the patient and diagnoses the problem. The doctor then recommends a course of action to deal with the illness.

Similarly, when someone (who we shall refer to as a "debtor") is feeling financially distressed and trapped, they could seek the advice of a trustee in bankruptcy. The trustee will examine the debtor's financial situation, diagnose the problem, determine its seriousness, suggest options and recommend a resolution.

So what exactly is a trustee?

A trustee in bankruptcy is a licensed professional who provides specialized services to financially distressed businesses or individuals. The services often deal with restructuring or discharging the debt of the business or individual.

Usually accountants by training, trustees are licensed by Industry Canada after completing a rigorous process.

Each trustee is an officer of the court whose conduct in an engagement is under regulatory and court supervision.²

So I've seen the trustee - what are my options?

If the debtor's situation isn't too serious, the trustee would likely suggest credit counselling: a trustee or credit counsellor works with the debtor in developing a budget and financial plan to assist in controlling finances and repaying creditors.

If the debtor's situation is very serious, then a trustee will likely recommend one of the following options in dealing with creditors:

- A proposal to creditors.
The trustee will work out a repayment plan with the debtor and submit it to the creditors for their consideration. If the proposal is accepted, bankruptcy can be avoided.
- Filing for bankruptcy.
If a repayment plan is not possible, then bankruptcy may be the solution.

A detailed review of these options will be the subject of our next *Starting Over* publication.

Conclusion

In summary, when a debtor is under an unbearable financial burden, seeking the advice of a bankruptcy trustee is an avenue to take on the route to financial rehabilitation. Many trustees will provide an initial assessment at no cost. Therefore, the debtor has nothing to lose and everything to gain in seeking a trustee's advice.

¹ Macleans Magazine - "Hip Deep in Hock" 6 December 2004 issue

² Klotz, Robert - Bankruptcy, Insolvency & Family Law (2002), page 1.2 (e)

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Starting Over
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