

There are various reasons why people encounter financial difficulty; however the most common reasons fall under one or a combination of the following categories:

1. Living beyond your means
2. Lack of income
3. Job loss or illness
4. Marital Breakdown
5. Income Taxes
6. Business Failure
7. Financial Infidelity
8. Gambling or substance abuse
9. Student loan debt
10. Identity Theft

The Top 10 Reasons for Financial Difficulty Part II (and what you can do to avoid them)

In this issue of StartingOver, Victor Fong, Fong and Partner Inc.'s Bankruptcy specialist, examines the last five factors in detail and outlines some suggestions you can use to avoid these pitfalls.

Reason 6: Business Failure

A frequent cause of personal financial difficulties is the failure of a business and the attendant business-related liabilities personally owed by the business owner. To mitigate the effect of a failed business on your personal finances, consider the following strategies:

- Consider incorporating the business. Incorporation will provide the owner with a level of creditor protection - most of a corporation's obligations are limited to its assets so this structure can provide protection for personal assets.
- Always pay statutory debt on time, specifically:
 - Payroll source deductions;
 - Goods and Services Tax collected;
 - Provincial Sale Tax collected;
 - Employee wages and vacation payable.

In Ontario (and in certain other provinces), corporate directors can be personally responsible for these debts, notwithstanding that the business is incorporated.

- If the owner is using his or her own funds to invest in the company, it's advisable to do so in the form of a loan to the company secured by a charge over the assets. In the event the company fails, the security interest will have a priority over all unsecured itors with respect to realizing on the company assets.

- If a business owner is putting away money for retirement, consideration should be given to investing in RRSPs that are exempt from claims; for example, segregated funds. Such insurance products held in RRSPs will be exempt from seizure by creditors.
- If one can avoid doing so, personal guarantees of a company obligation should not be given to suppliers or a landlord unless it is absolutely necessary.

Reason 7: Financial Infidelity

This may be defined as spouse or partner who has secretive spending habits and spends in irresponsible manner by depleting family assets and accumulating debt. The causes of such behaviour can be numerous, but the most common examples are gambling addiction, substance abuse, depression, or spending addiction.

If you suspect that your spouse has a spending problem, maintain a record of your partner's spending habits, i.e., review and make copies of credit card and bank statements. If you determine that your spouse's spending habits are out of control, then immediately arrange to cancel all of your joint credit cards. If you share a joint bank account, arrange with your bank to freeze it immediately.

Reason 8: Gambling Problems

Most adults in Ontario gamble and gamble safely. However, about 4.8% of adults in Ontario have moderate to severe gambling problems. An additional 9.6 % are classified as "at-risk" for problem gambling. Problem gambling may have some serious consequences:

- Work-related difficulties including lower productivity, higher absenteeism and job loss;
- Higher rates of emotional ore health problems including depression, anxiety and problems with alcohol or other drugs;
- Higher rates of suicide;
- Higher rates of marital and family breakdown;
- Engaging in illegal activities to support their gambling; and
- Significant financial loss.

Some of these consequences inevitably lead to financial difficulty.

If this describes yourself or someone you know, there are resources available to deal with problem gambling through individual and family counselling:

- Centre for Addiction and Mental Health (CAMH)
33 Russell Street
Toronto, Ontario
M5S 2S1
Web: www.camh.net
Phone: (416) 535-8501
- COSTI Immigrant Services
1700 Wilson Avenue, Suite 105
Toronto, Ontario
M3L 1B2
Email: gamblingservices@costi.org
Phone: (416) 244-7714
- Ontario Problem Gambling Helpline (OPGH)
Web: www.opgh.on.ca
Phone: (888) 230-3505

Reason 9: Student Loan Debt

From 1990 to 2000, undergraduate tuition fees rose by an average of 9.6% per year. Thereafter, the rate of increase in tuition fees has declined somewhat to an annual average of 4.9%.

Given these statistics, it is no surprise that student loan debt is a major cause of financial difficulty. There are no easy solutions to this dilemma. It is easy to suggest that students should seek part-time or summer jobs to earn income for tuition. However, such jobs are often scarce and low-paying. Having said that, here are some practical tips to keep your student debts under control:

- Once you have your loan money, be disciplined on how you should spend it. Be mindful that your loan proceeds are supposed to last for the entire school year. Make a budget of your projected expenses: tuition, rent, books, food, entertainment, etc. to determine your monthly spending allowance - and stick to it. This is your first challenge: living within your means.
- Upon graduation, you have 6 months before you have to start repayment of your loan - with interest (loans are interest-free while you're in school). If you get a job sooner than that, be proactive and call you loans representative to arrange a repayment plan. There is a minimum you must pay per month,

but the more you can afford, the better – that way you end up paying less interest.

- If you have problems finding a job (or one that pays and adequate salary), stay in contact with the loan representative at the bank to keep them informed of your situation - they may be more sympathetic if you need special consideration (such as interest relief). Also consider living with your family during this period - you'll save a substantial amount of money on rent and living expenses.
- Maintain a spending record of your partner's spending habits, i.e., review and make copies of credit card and bank statements. It is not uncommon for a vindictive spouse to go on a spending spree in order to deplete family assets or rack up debts.
- Under certain circumstances, you may be eligible for loan forgiveness. Details can be found at this link: http://osap.gov.on.ca/eng/not_secure/loan4g.htm

Reason 10: Identity Theft

The most common form of fraud today is that resulting from identity theft. This occurs when someone wrongfully acquires or uses another person's personal data, typically for their own financial gain

The most common types of fraud are credit card and mortgage fraud. Techniques for obtaining information include:

- Stealing mail;
- Stealing personal information in computer databases;
- Infiltration of organizations that store large amounts of personal information;
- Impersonating a trusted organization in an electronic communication; and
- Spam e-mail.

The following precautions are recommended by the US Federal Trade Commission

- Shred documents and paperwork which contain personal information before you discard them;
- Don't give out personal information unless you know who you are dealing with;

- Never click on links in unsolicited emails; instead, type in a web address which you know;
- Use firewalls, anti-spyware, and anti-virus software to protect your home computer;
- Don't use obvious passwords like your birth date or your mother's maiden name;
- Keep your personal information in a secure place at home;
- Be alert for discrepancies in your financial bills and statements and query them immediately; and
- Report fraud as soon as you detect it.

If you determine that you are a victim of fraud, you should do the following immediately:

- **Contact Banks and Creditors.** As soon as you've learned of an unauthorized use of your identity, contact all your credit card issuers and banks to report the fraud. Cancel any existing accounts and obtain new account information.
- **File a Police Report.** Police authorities often will take police reports even if the crime ultimately may be investigated by another law enforcement agency. In addition, a creditor who mistakenly believes that you are the person responsible for a fraudulent transaction may want to see the police report before correcting your credit account or credit report.
- **Contact Credit Bureaus.** You should immediately obtain your credit report from all three major credit reporting bureaus -Equifax, Experian, and TransUnion. The credit reporting bureaus must

provide you with a free copy of your credit report. Write to the bureaus to dispute any items that you do not recognize. Explain that you have been a fraud victim and specify the accounts that weren't opened by you and the charges that you did not make. Also, ask the bureaus to have a fraud watch put on your account.

This article deals with complex matters and may not apply to particular facts and circumstances. As well, the material and the references contained therein reflect laws and practices that are subjects to change. For these reasons, this article should not be relied upon as a substitute for specialized professional advice in connection with any particular matter.

If you have any questions about the topics discussed in this article please contact Victor Fong at 416-260-3264 or via email at victor@fongpartners.com.

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Starting Over
Personal Financial Difficulties is an overview rather than a complete analysis. Before applying any of these suggestions, consult your Fong and Partners Inc. advisor.

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