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Metro in debt: Already underwater on debt? Here are some suggestions

 SUSAN LAZARUK
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Canadians on average owe \$1.65 for every \$1 they earn, a record high for combined mortgage and consumer debt.

The vast majority of Canadians are able to meet their loan obligations. But economists and finance industry watchers warn that big debt loads can become dangerous if incomes drop unexpectedly or rock-bottom interest rates rise even just a point or two.

ADJUST

Debt experts say the sooner the indebted who get into trouble get help, the better.

COMMENT

Audra Danish, a single mom in Newton, said she made the mistake of getting a loan that charged 59 per cent from a financial outfit that specializes in providing credit to low-income earners.

PRINT

"No matter what you could pay every month, you could never get ahead," said the single mom, 42, whose debt started with a student loan and snowballed with payday loans.

When she finally admitted she needed help, she was in the hole for \$17,000. But she had that debt cut to \$7,000 through a credit proposal negotiated by a bankruptcy trustee for a fee and has three years left to complete her monthly payments.

Danish said her debt experience has taught her a lesson and she's done with abusing credit.

"The pressure came off," she said. "My counsellor was amazing. She gave a one-hour financial session and we hugged at the end of the session and I had tears in my eyes.

"I'll never let it get out of hand again," she said. "It was like being underwater."

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Here are some warning signs for unmanageable debt, tips to keep you from becoming vulnerable if income drops or expenses rise and solution options if you can't dig out by yourself.

Canada's Office of Consumer Affairs in a Consumer Trends Report offered this "reasonable guideline for raising concerns about a household's risk of getting into financial difficulty."

- Having four or more current credit commitments, such as credit cards, loans or lines of credit.
- Spending more than 25 per cent of gross income on repaying consumer non-mortgage debt.
- Spending more than 50 per cent of gross income on consumer credit and mortgages combined.

"If you have at least one sleepless night, you probably have a problem," said Megan Faschoway, a credit counsellor at the Credit Counselling Society of B.C.

And the Financial Consumer Agency of Canada offers these tips for debt management:

- Keep track of all expenses and income and make a budget, cutting unnecessary expenses. Put needs before wants.
- Pay off debts that charge the highest interest first.
- Aim to pay your credit card balance in full every month; if not, always make the minimum payment.
- Consider consolidating high-interest loans into a low-rate option.
- Stop using credit until you reach your debt repayment goal.
- Reduce small, recurring expenses, such as bringing a lunch to work, reducing coffee consumption and using transit rather than driving to work. One fewer \$1.50 coffees a day can save \$400 a year.
- Reduce banking fees, for instance, by choosing the least expensive monthly package and reducing the number of transactions or taking advantage of the bank's multi-product discount (through which they waive banking fees if you open an automatic withdrawal for a savings account, for instance).
- Contact your creditors and ask them to waive or reduce interest fees.
- Talk to a credit counsellor or bankruptcy trustee to explore all your options.

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“Every single debt problem can be solved,” said insolvency trustee Blair Mantin at Sands and Associates.

He said the initial consultation is free.

“We look at everyone’s situation and we look at options,” including negotiations with creditors or a consolidation loan.

A trustee, for a fee, can set up a consumer proposal that would waive part of debt in exchange for a multi-year promise to repay, or the trustee may recommend declaring bankruptcy.

Another option is a voluntary debt repayment program negotiated with the help of a credit counsellor such as those from the Credit Counselling Society of B.C., which would reduce the amount of interest and spread the payments out over a number of years.

Credit counsellors and trustees will also provide financial counselling to help prevent a debt relapse.

Choose help carefully so that the help provided doesn’t plunge you further into debt.

“Always book an appointment,” said Faschoway. “There is some misleading advertising out there. A lot of people will take advantage” of people already down on their luck.

And Mantin said it’s important to get a second opinion to know all your options.

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