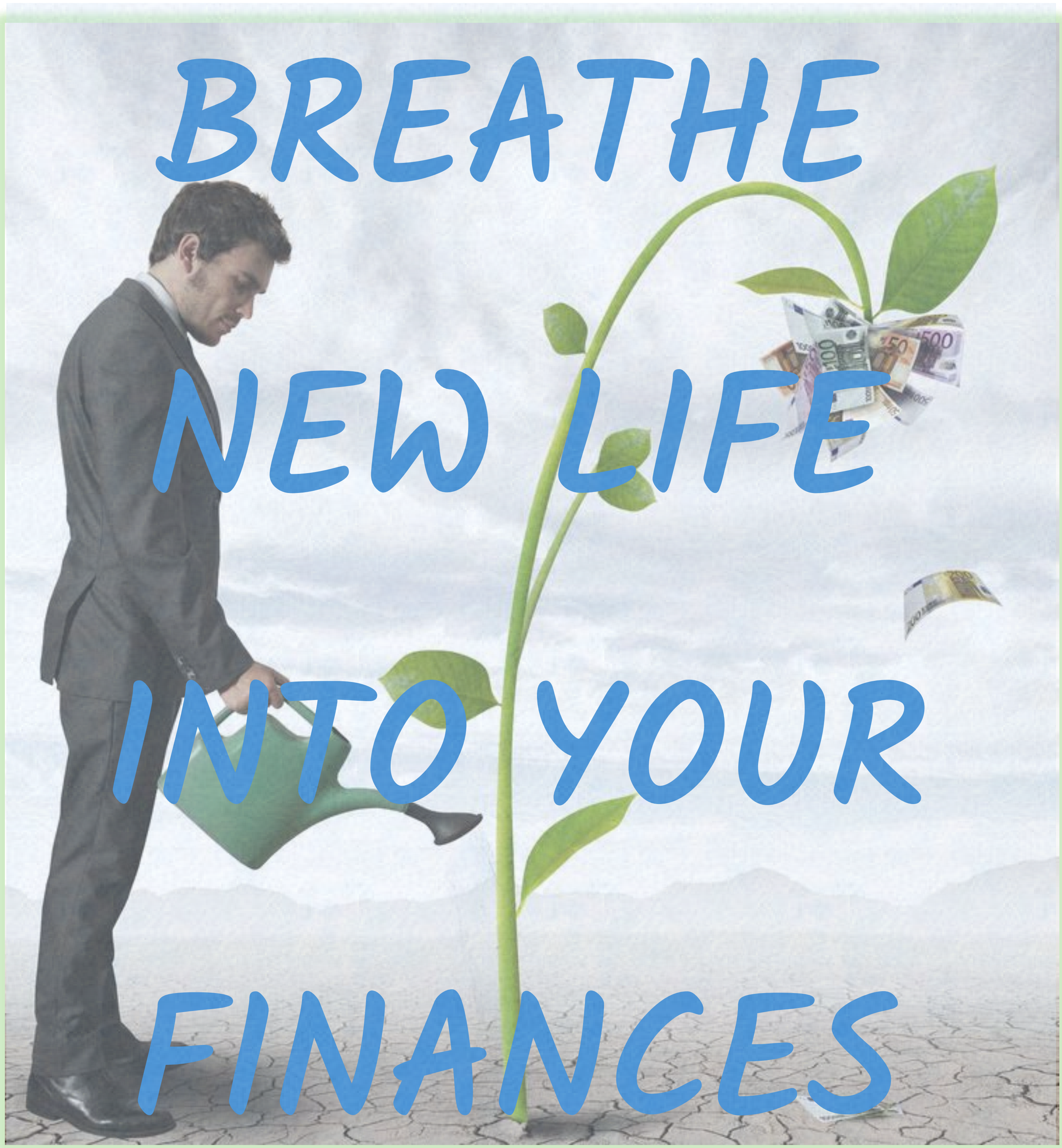
BREATHE
NEW LIFE
INTO YOUR
FINANCES

Contents

INTRODUCTION

Tom & Susan sit across from the desk from me. Susan's eyes are welling up. I nudge the Kleenex box toward her and tell her it's ok to be upset.*

They bought a house several years ago when they were raising their family and they recently received a demand notice for payment of the mortgage arrears. A lot has happened in the past few years. Their two children have finished high school and are off to secondary school. Their oldest, John, is 20, and attends a local university. He took out a Student Loan which his parents had to co-sign for him. Shelley, 22, took a year off and then decided to go to a local community college. She can't live at home and travel because it is too far so she shares an apartment with a college buddy and her parents help her out with expenses.

They went to the bank for help yesterday. The bank said they could not do anything for them. I am their last attempt to save their house.

Tom hurt himself at work a couple of years ago. They told me that they were doing great prior to that incident. They had a home, two cars, a line of credit and a couple of credit cards. Nothing was maxed out although they did have balances on all of them. They remortgaged their home when it came up for renewal a few years ago to pay off some debt that had built up over the years. They tell me that they are not lavish spenders. There have not been any large impulse buys, no trips, they just used the credit they had available to help them with irregular expenses like car repairs and kids activities. John was in hockey for many years, and that was expensive.

Now they are fighting with Workers Comp to qualify for benefits as it is not completely clear if the injury was a result of work or a pre-existing back condition. They have relied on their credit to get them through until the money comes. But it hasn't come yet. It looks like John might have to apply for Canada Pension Disability, and they don' expect that to give them much income per month. Their cards and line of credit maxed out a few months ago and they are stressed and exhausted from juggling the payments to keep everyone satisfied. It's to the point now where they have to choose to eat, or pay their bills. They even resorted to a Payday Loan to get them through last month.

They really want to keep their house. But they have exhausted all efforts to do so at this point. A friend told them that I was able to help them find a solution and they are hopeful can do the same for them.

This is a typical profile of those who seek my advice or advice from someone in my profession. The circumstances that led to it may be different (divorce, illness, job loss, unsteady employment, addiction, etc.), but the results are always the same, a financial mess with no clear path on how to navigate out of it followed by a plea for help, for guidance, on what to do next. Some I can help. For others I wish I had a magic wand because there is nothing that I can offer them other than a box of Kleenex and some sage advice to minimize their discomfort or their loss as they transition through this financial hardship.

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Allow me to introduce myself. I'm Mary Ann. People call me Dr. Debt. My passion is helping people put the 'fine' back into their 'Finances". I believe we, as a Nation, need a wakeup call. Certainly that is true here in North America and in many other parts of this big wonderful world of ours. Too many of us are borrowing our retirement income to live a life now that our income doesn't support. We are not doing it purposely, and sometimes not even consciously, but we ARE doing it. And payday, when it comes, will be painful. Not only do I see this every day in my work, but I have lived it. And I am still feeling the effects of poor choices I have made when faced with limited options.

Within the following chapters I offer guidance on how you can break the cycle and take back your financial power. My intention is not to scare you, but to get you thinking about your finances a little different than you did before, to get you to step back and look at your financial life from a different perspective, and in the process, take the small steps necessary to gain, or regain control, of your financial reality, now and for the future. Ready? Let's begin….

Reflective Moment

- *At the end of each chapter, there is a suggested reflective moment. This includes suggested questions you might wish to ask yourself, or your higher guidance.*
- *If you meditate, you may want to enter a meditative state and allow the answers to come to you, and the questions that need asking to become clear.*
- *If meditation is not part of your daily life, simply sit quietly, take a few deep breaths, and ask yourself the suggested questions, or your own questions. I recommend having a pen and paper nearby to jot down what comes up. If the answers do not come immediately, that's ok, trust that they will come to you in the right timing.*
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THE CREDIT TRAP

"Too many people spend money they haven't earned, to buy things they don't want, to impress people they don't like!" ~ Will Smith

I was asked to do a segment of a Retirement Planning Workshop several years ago. As I was putting together my key points, I asked myself, why do people come to see me? I mean, I know that people seek my guidance because they have hit a bump in the road, financially, they have attempted to deal with on their own or with the help of their financial advisor, to no avail, and they don't know where to turn next. Ok, that makes sense, but I wanted to go deeper. What was causing the financial bumps in the road?

If you rely on statistics to answer this question you will be met with a 'typical' list of "Causes of Financial Trouble", which will include such life events as Job Loss or Reduction of income, Marital Separation or Divorce and Health Issues. A few more that show up on these lists are Business Failure, Addictions, and Lack of Financial Education or Poor Planning. Generally speaking some life event occurs, or a combination of life events occur, that set you back on your butt financially. Sometimes you have enough resources to weather the financial storm and see your way of clear of it, sometimes you simply postpone the inevitable. And sadly, as I have seen in the past three decades working in this industry, there is no back-up plan and your financial security unravels fairly quickly, assuming it was actually there in the first place.

It occurred to me that Poor Planning might be a common denominator that runs through all of the others, but it doesn't, not always. What I found, is that people didn't sit across the desk from me and say. "I screwed up! I didn't plan at all. I paid no attention to my finances, and as a result I am in a big mess". Don't get me wrong, I do hear that sometimes, but more often what I hear is this, "I never thought I would be sitting here. Everything was great. I don't know where things went wrong." I can see the embarrassment, shame and guilt in their faces, hear it in their voices and feel it in their being. Even financial literacy or illiteracy isn't a common denominator. My clients range from those without a high-school education to those with post-secondary diplomas, degrees, and specialty training.

Many live in a delusional world financially and it isn't until they have a strong wakeup call that reality sets in and they realize, they weren't actually alright to begin with and it was a short journey from financially security to financially uncertainty.

There is one common theme that does run through all of the stories, all of the situations. That common theme is establishing a poor relationship with credit. I don't fault individuals for this. We are never taught how to be good spenders or good savers. What we are taught is how to be good "consumers". From the moment we are toddlers we are bombarded with messages about enticing us to want more, have more, buy more, and finance more. We are constantly being hit with offers for better “stuff”, better “lifestyles”, and credit companies have jumped in willingly to help bridge the gap between what you can afford and what you want. As a result, we have established a poor relationship with credit, relying on it to finance a lifestyle outside of our reality.

I was watching TV with the kids one night and became even more aware of this and the effect on them. I decided to play a little game to help them look behind the ads to what the sellers are ‘really’ selling. A car advertisement came on and I asked them, “What are they selling in this ad?” They replied “a car” of course. I said, “No, pay attention to the message. What is this ad telling you that you will have if you buy this car?” In this case a family was buying a car. The kids were in the very spacious seats, watching the screens in the back, and it was peaceful in the vehicle. I pointed out that the advertisement was saying you would have quiet moments if you bought this particular vehicle. You were buying peace, ease, relaxation. We continued to do this for the next ad, and the next one, and the next one. You weren’t buying hair color, you were buying ‘beauty’. You weren’t buying a nutritious meal, you were buying ‘happy family moments’, you weren’t buying deodorant, you were buying ‘freedom’.

At the end of the day, everyone is competing for your money. Their sales pitch it to hit the right emotion in you to get you to buy their product or your service. When you step back and look at it from that perspective, you make decisions differently. You become a more conscious consumer. Advertisers don’t like conscious consumers. They like mindless spenders. Those who spend money giving little thought to the overall consequences.

Sadly, this is all just the first part of the plan to get your money. It’s not bad enough that there is huge competition to get your hard-earned dollars as you earn them, but there is also competition to get your future income. And this is where things get really dangerous. Because by promising your future income, you now put yourself at risk of being unable to fulfill that promise.

Enter the lenders. There is big, BIG business to be made in lending you money. Let me make this next point perfectly clear, “lenders are NOT doing you a favour lending you money”. They are not rewarding you for being a good consumer. They are not recognizing your stellar use of credit. What they are doing is ensuring they make a profit. The more money the lend, the more interest the collect, the more profit they make. Period. The more credit you use, the more they value you as a customer, because the more money THEY make. Does this sound like a win-win scenario to you?

I come from a family of eight. I am the last of the litter. When I was growing up, my friends parents were two decades younger than my parents. I like to say that I came from a different era. Those 20 years my senior know what I am talking about. We were raised differently. This certainly made my childhood challenging at times. I had to fight to get my Mum to buy me jeans in junior high versus the polyester pants I was wearing (interestingly enough I now wear polyester pants more than jeans) I came from a generation that didn't believe in credit. My Dad built our house with the help of my brothers. Mum had one credit card, a Sears's card (everybody had a Sears's card in Nova Scotia I think). She eventually did get a visa, which she promptly paid off each month and never carried a balance on. That was until she let the kids borrow it. She then put an end to that and told us she didn't have a credit card if we asked (but we knew she did and that she was secretly hiding it from us). My point is, that credit was used differently then. It was used sparingly. You put money into your house and you paid off your mortgage as quickly as possible. Our cars were old, with no payments and the one time I do remember my parents having a car loan, and they paid it off and drove it for years after. We didn't have a lot of unnecessary stuff (my siblings might argue that I was spoiled in their eyes but I would have argued that compared to my friends I was not). Fast forward to today. Is that how we live? Nope. We have a full mortgage on our house. Every few years we re-mortgage and take out the equity. We have lines of credits, loans, credit cards, finance company loans, and credit cards galore and, shudder, payday loans.

It's not that we set out to be in debt. It just, sort of, creeps up on you. You start by allowing credit into your life. And the snowball, the debt ball, begins to grow. You buy into the marketing message that credit is there to make your life easier, more secure, more exciting, and you start to rely on it, little by little, until one day you look at it and say "What they HECK happened here?", "How did I let this get out of control?" And then the guilt sets in, the self-abuse, the "beating up" if you will. Am I hitting any hot buttons yet?

Welcome to the credit trap!

And it is a trap. I'm not much for conspiracy theories, but this certainly has the feel of one. There are a few parties that are benefiting from your use of credit. The first, of course, is the lender who rakes in the interest payments each month, and recording all-time-high profits I might add.

Recently I had a gentleman in my office. We were talking about the amount of credit he had outstanding, it was approximately $30,000 in credit card and line of credit debt, and how he was making minimum monthly payments only and had been for some time. He was joking that he was a perfect client for the lenders. And I pointed out just how true that was. Over his lifetime, if he was miraculously able to pay off his debt, they would have made 2, 3, and 4 times what he borrowed from him.

Isn't it interesting that the person, who uses their credit card and pays the balance in full every month, paying no interest, is essentially a bad client for the lender? Interesting, or disturbing? It seems to me that the credit system is set up so you will fail. And if by chance you do not appear to be misusing the credit limit you were given, what do lenders do? They up your credit limit. Hmmmm…what am I missing? What's the logic here? You are not using what we gave you so we are giving you more. Are they rewarding you? Nope. They are enticing you. You can handle what you have but maybe, just maybe, if you receive more credit, you will use more, and you won't be able to pay it off each month and you will then pay interest (aka profit for the lender).

The second benefactor of your hard-earned dollars are the producers of goods, selling anything and everything, enticing us to have the latest gadget, buy for convenience, etc. And we are eating it up, or buying it up might be more accurate. My husband jokes about my kitchen gadgets. "What the heck did you buy now?" he asks, shaking his head. "What? This Pineapple corer? It's awesome!" I reply, adding that I am the one who has to cut those darn things up, so leave me alone or I will make him do it. See. We all fall victim now and again.

And of course there are the advertisers who make money off the producers and encourage you to have it now.

Coming back to the lenders for a moment, if your income does not support having it now, don't worry, you can finance it and pay for it in convenient monthly payments. You are lulled into a false sense of security, thinking you are making wise financial decisions by spreading your payments over time making them manageable. When, truth be told, you are giving away your future income, paying to do so and ending up with a whole bunch of stuff that you don't really need. Don't believe me? Look in your closet, your garage, your basement, your attic and anywhere else where you store stuff. If you really want to depress yourself, add up what you paid for all that stuff AND if you bought it on credit and are still paying for it, estimate what it has cost you. There are only a few winners in this scenario and it is not you, the consumer.

Now don't get me wrong, I am not saying you should never buy anything lavish, we all have the right to splurge a little now and again, but do it within the confines of your income, or at least be aware of the consequences of doing so.

I met with a gentleman years ago. His philosophy was "I'm living for today because I don't know if I will be here tomorrow." And that's perfectly ok, as long as he accepts, that if he is here tomorrow, his standard of living may have to be adjusted to reflect the fact that he didn't save or invest for the future. Going back to what I said previously, be a conscious consumer. Make decisions with eyes wide open and accept the consequences of those decisions.

My purpose is sharing all of this is not to depress you but simply have you step back and think about your finances a little bit different than before you picked up this book. The advice in the next few chapters is not necessarily about what to do if you are in trouble financially, although that is part of it, it is also about what you can do to make your finances good if they're bad, better if they're good and great if they're better. Let's start with a little self-discovery shall we?

Reflective Moments

- *Have I fallen victim to the Credit Trap?*
- *Is future financial security important to me?*
- *How would I feel if all of my credit was taken away tomorrow?*
- *What steps can I take today to break this cycle?*

LIVING IN THE ZONE

“Better a cruel truth, than a comfortable delusion” ~ Edward Abbey

I invite you to start this journey by looking at where you are. It’s the most important first step. We may take brief steps back into the past, but only for the lessons they teach you. I won’t allow you to dwell there, because that doesn’t give you the freedom to move forward. And we will look ahead, because knowing what you want in your life is the driving force that encourages you change what is. But we won’t spend too much time there, because change happens based on what you do today, taking into account what you have learned from the past and knowing what you want in the future, but making real-time decisions as you go along.

So let me start by saying that at any point in your life, right now for example, you are in one of three finances states, or stages. You are either surviving. You are comfortable. Or you are living the dream. I call these the Survival Zone, the Comfort Zone, or the Desired Zone. And the first step is to recognize where you are.

Two points I want to make right off the start. One, you might have immediately thought of the one that matches your reality, and it may be accurate, or it may not be. Sometimes you think you are in one zone but you are actually in another. We will talk about that later. And two, this has absolutely nothing to do with your level of income. I have met people who make six figure incomes who are in Survival and I have met people who live in the poverty guidelines who are comfortable. So, how do you know where you are? I’m glad you asked. I would love to answer that question.

The Survival Zone

You know that you are living in the survival zone when you are struggling to make ends meet. You have to watch what you spend when you go the grocery store, probably shop with a list, and likely add things up when you put them in your basket. You juggle things around each month depending what comes up. The bills are likely not paid in full, you pay what you can, when you can. Creditors are possibly calling and I think we are safe in saying stress is a regular part of your everyday life.

Each zone has a wide range. For example, you can be ‘barely’ surviving to ‘surviving!”.

I would describe the above scenario as ‘barely’ surviving. Another scenario could look like this…

You are getting by, but barely. The bills are paid in full each month, but occasionally when something comes up, like car repairs, home maintenance etc., you fall slightly behind and then catch up. You aren't starving but sometimes you have to collect the change around the house to buy milk a few days before payday. It seems that whenever you have extra money, something comes up and it's gone, just like that. You plan your finances around income tax refunds, bonuses at work, birthday money. I would describe this scenario as "surviving" and occasionally bordering on "Comfortable". Are you with me?

When I ask a group of people to describe what they are "feeling" in the Survival zone, I get words like stressed, anxious, depressed, worried, fearful, unhappy, ill, etc.

At the time of writing this, I have been living in the survival zone for, at least, the last two years and arguable more. There was a period in between where we popped into the next zone for a few years.

We are a family of four living off of one income. I have a career. My husband has had various jobs. The last one ended over a year ago. He was laid off for the winter and my income didn't quite cut it. We used credit to bridge the gap. Being a financial counsellor I knew the risks, but we watched our credit use very carefully, not splurging on non-necessities, with a plan to pay it off when he returned to work. He did return to work in the spring, for approximately two weeks, he then hurt himself. By the time he was ready to go back, the weather was so bad that they didn't have the need. That was over a year ago and he hasn't had a job since. Well, not a paying job. We decided at that time that we would attempt to live of one income so he could be home with the kids. My job was fairly demanding and it was nice to have that steady presence at home. And we saved on after school care, gas, car repairs etc. Basically, as I often joke, we made the decision to be financially challenged. The credit that we built up during the unemployed period continued to grow little by little as needs like car repairs, home heating etc. popped up with no extra cash flow to deal with them. Eventually we found ourselves in the same situation as many of my clients, making minimum payments on credit cards, getting by, with no room to handle anything that came up. Fortunately I have a strong support network and was able to rely on that during the toughest times and I have sound money-management skills which kept my finances from taking a major slide downhill. We have only just started to see some light and shift out of the survival zone in the past few months. But I'm ok with that. I think everyone should have to reside in the Survival zone for some time. You learn a lot about yourself in the survival zone. And you learn a lot about what is important.

Let's step out of the Survival zone and take a journey into the Comfort zone. Because the comfort zone, is, well, much more comfortable. In later chapters I will offer some advice on how to move from one zone to the next. For now, let's just move along and try it on for size. See how it fits. See how it feels, hang out here for a while so to speak.

Living in the Comfort Zone

In the Comfort zone life is good. You are more than surviving. When something comes up you can deal with it. What do I mean when I say, “When something comes up?” Perhaps it is car repairs you are dealing with, or an appliance conks out. Maybe it’s an illness or a disruption in work and cash flow. You may have enough savings to deal with the issue. Maybe you have available untapped credit that you can use and pay off in a timely manner. Remember there are ranges in each zone. So you can be ‘just’ comfortable to ‘very’ comfortable.

You know you are in the comfort zone when you go to the grocery store without a list or you have a list but you deviate from it and buy items not on the list without destroying your spending plan. You splurge regularly on items that are non-necessities like dining out, buying clothes, tools etc., you may or may not keep track of your expenses, but if you do it is more as an exercise to look at what you spent in the past versus what you will spend in the future weeks/months. You may have stressful moments in the Comfort zone but overall things are pretty good financially.

The Desired Zone

Then there is the final destination…the Desired Zone. In the desired zone you are doing the things you love to do. This one is a tad harder to describe because it may look different for each person or family depending on their interests. But generally speaking, you spend money on fun stuff – trips, recreational activities, big-boy (and girl!)toys (ie. ATVs, boats, snowmobiles), home renovations, landscaping, gaming, the list is endless.

There are two dangers that can arise when you are living in the Comfort or Desired zones.

The first is that you can get too comfortable. It’s easy to feel like things will never change, to get too comfortable, and let your guard down. Not that you want to be constantly on edge, but if there is one thing I am absolutely sure of, it is that things always change. Nothing stays the same. So getting too comfortable and not planning for unexpected events can leave you vulnerable or, worse, put you in a downright dangerous situation.

Consider Christina and Shawn’s* situation. During a meeting they told me that life had been good. He had a great paying job. She had a successful business. Income was steady and plentiful. They got married, had two children, and bought a large home in a good neighbourhood. They went on a trip every year, never had to think about what they spent at the grocery store, or on entertainment, recreation etc. Life was great. They were living between the comfort and the desired zone. They had your typical household debt – a mortgage, line of credit, a few credit cards with a small balance on each of them. No cause for alarm, they could easily make the payments each month and would pay them off with Shawn's bonuses over the next year or two. And then Shawn lost his job. The industry changed, they didn't need him anymore and just like that, their lives began to shift.

When I met with them, they were in panic mode. They were certain Shawn would get another job, but unsure when and unsure what his pay would be. They had no savings, but they did have available credit that you could use to get them through. They started looking at what they were spending a month. I specifically remember one conversation about groceries. We were a family of four, like them. They were spending about $1000 per month on groceries. We were spending about $600 per month. Eating healthy was a priority in their household and ours. I couldn't quite fathom how they were spending that much and they couldn't quite fathom how I was spending that little. Because they were forced to, they started paying attention to what they were buying. A few months later we were discussing their progress and Christina mentioned they had cut their grocery bill by $200 per month. And the best part, she said, was that they were still eating healthy, which was important to them. What she noticed was that they were throwing out less food. I congratulated them on making progress with their spending plan. And it occurred to me….they cut $200 a month out of their budget just like that, because they had to. But, what if they had cut that $200 out before they had to? They could have redirected that money towards debt repayment, savings, etc., giving them a bigger buffer for when they needed it.

And herein is the biggest mistake we make when it comes to our finances. We live to our incomes and above, versus living at our incomes or below. We spend everything we make, and, often, more than we make. There does not appear to be a mindset of spending less than you make amongst most that I talk to. Certainly that is true for my clients, but it is also true for many of my friends and relatives. Somewhere along the way, we lost our way financially. We gave in to media and advertisers and producers and credit granters, and we handed off our financial power to them. Is it any wonder we are so wounded as a Nation – from households, to changes and regain our financial power?

Ok, I went off track a bit. Sorry about that. I get pretty passionate about our financial woes and turning them into financial wow's ….hmmm…I like that, I might use that in a future chapter.

So back to what I was talking about; there are two dangers that can arise when you are living in the Comfort or Desired Zone. The first, as I mentioned is getting too comfortable and forgetting that everything changes eventually. The second, and this one I think is more dangerous in some respect, is that you might THINK you're living in the Comfort Zone. You might THINK you're in the desired zone, but you might not actually be there. So, what do I mean by that statement?

The phrase “keeping up with the Jones” comes to mind. Although in many cases we know that we are putting on the appearance but we do it anyway. I think the phrase “ignorance is bliss” is a better one. Sometimes we know we are living above our means but we ignore the subtle warning signs and it isn’t until a not-so-subtle warning sign rears its ugly head that we sit up and take notice. And by then it is often too late to easily get out of the mess we got ourselves into. Other times we just continue along, spending above our means, reaping the perceived benefits of doing so – the fun, the excitement, the highs, the joy – assuming it will always be that way. While other times we justify the situation by saying something like, “Things will get better when…” You can finish that statement: When the kids leave home, when I get my bonus, when the income tax return comes in, when I get a raise/job, etc. etc. etc.

So, how do you know if you are living in a zone that your income does not support? Easy, you know when you are spending more than you make. Wait! Can you spend more than you make? I can see you nodding your head now. Let me rephrase that question, can you spend more than you make without using credit? No. Of course not. So you know that you are living in a danger zone when your expenses exceed your income OR your amount of debt is increasing each month.

This happens at every stage. And no one stage is more justifiable than the other. Perhaps your income does not support surviving. In that case, you may be using credit to survive. If you are living in the survival zone, you may be using credit to make yourself more comfortable and if you are already comfortable you may be relying on credit to do more/have more than you could otherwise. None of these is more or less justifiable than the other. They are all equally dangerous and even if done with the best of intentions, can eventually put you even farther behind financially.

I can easily give an example of using credit to survive. When my husband was laid off from his seasonal job, and found out that he did not qualify for Employment Insurance, I looked at our options. I could have considered doing something drastic like selling the house, but instead I looked at our available credit. It was manageable. I concluded that we could use the credit for the few months to bridge the gap and enable us to survival zone, maybe even be a little bit comfortable, and when he got back to work, keeping our expenses low, we could pay it off in a reasonable time frame.

Did I mention, there is a thin line between financial strategy and financial disaster?

Well, he was hired back, proceeded to injure himself, was off for several weeks and when he was ready to go back to work, they did not have enough work to hire him back. He remained unemployed for the rest of the season. Needless to say, the thin line between strategy and disaster dissolved. That was more than a year ago and we are working hard to pay off that decision.

There was a couple that I met a few years ago that were a prime example of someone living in the comfort/desired zone when, in reality, their income supported living in the survival/comfort zone.

> *James & Betty* were in their mid-70's. By the time they came to see me, they had over $70,000 in debt. I ran through the exercise of asking them what their income was and what their expenses were and it was becoming quite evident that if they were even close to knowing what their expenses were that they were spending much more than they made, approximately $1000 more per month.*

And if there is one thing I have learned in all my years of doing this type of work, people always underestimate their expenses. When I looked more closely at their debt and did a bit of digging, it became evidently clear that they had incurred approximately $1000 worth of debt every month since they retired. They were using their credit to supplement their income. And they were blissfully ignorant of the fact. Not intentionally. I've met very few people who intentionally incur debt to live a better life, but I have met plenty whose optimism in being able to manage the payments inevitably leads them to carrying large amounts of debt that become unmanageable.

The only reason we can remain blissfully ignorant is that we operate on a month-by-month basis and factor the monthly payments into our spending plan. We don't, however, keep a close eye on various other important pieces of information such as the amount of debt outstanding and the interest rate we are paying. I will talk about these a little later when we explore simple strategies to gain (or regain) control of your finances.

Did they know they were heading down a dangerous path financially? I'd bet on it, but the program running in the background, goes something like this, "Things will get better when…" You can fill in the blank. When I get a raise, when the kids move out, when I get my tax refund, etc. By the time they sought professional advice, they realized the "when" wasn't happening and they couldn't get themselves out it, at least not in the years they had left, with the resources they had available. There's a little more to James & Betty's story that I will share later.

There are five questions that you want to ask yourself before you embark on the road to financial recovery. The first two relate to this chapter:

1. Where do I think I am?
2. Where am I (really)?

Are you currently surviving month to month? Are you living comfortably, able to handle unexpected fluctuations in your income and expenses easily? Or, are you already living your desired lifestyle? Doing all of the things you want to do, having what you want and able to save each and every month?

Now I want you to look at your credit use over the past year or couple of years? Specifically the amount of debt you owe. If it has increased then you are using your credit to supplement your monthly income, you are not truly in the zone you have identified.

Your first step, therefore, is to stop using credit and adjust your spending to be within your income, and determine where you truly are. Only then can you move onto the next two questions, which are:

1. Where do I want to be?
2. And, how can I get there?

The final question you will ask yourself on a regular basis, is:

1. How am I doing"

I will walk you through these processes as we continue on this journey.

Reflective Moments

- *Do I feel like I am merely surviving? I am comfortable? I am living the life I want?*
- *What does my desired lifestyle look like? (What am I spending my money on? Am I saving? Is debt part of that lifestyle?)*
- *What steps can I take to live the life I truly want to live?*
- *What resources do I need?*

FIRE YOUR INNER CRITIC

"Make sure your worst enemy doesn't live between your own two ears"
~Laird Hamilton

So, back to our questions….Once you know where you are truly living financially, the next step in the process is to decide if that's where you want to stay or if you want to move to another zone. And it is definitely a personal choice. I have met many people whose desired zone is being comfortable. Arguably I have not met anyone who wanted to say in survival zone, but I have met many who resigned themselves to the fact that is where they would be living.

I won't even attempt to delve into the world of looking into the underlying causes of why you are where you are financially in this lifetime, how you can break free of past programming or the wonders of the Law of Attraction, other than to say there is a depth to this topic that I am exploring in my life, and do not yet feel empowered enough to eloquently share with others in a manner that would do it justice. I will say, however, that we all have our own journey and we need to trust that we will take what steps we need to take, that we will be given opportunities to grow in this area that are to our highest good, and that if we focus on what we want versus focusing on what we do not want, that is a crucial first step to getting there.

So, back to our two questions. First, **where do you want to be financially?**

I don't want to get into goal setting here, there are a thousand books on the subject of how to set goals and how to achieve them. What I want to focus on is moving you away from thinking about what you don't want and opening you up to thinking about what you do want.

> *John* has been in to see me a couple of times now. He feels helpless with his financial situation. He was married, they started a family, and he thought it would be the 'happily ever after' story. Sadly it was not. His wife admitted she was having an affair, the separation and divorce followed fairly quickly, she retained full custody of their 3 year old son, and he was left with an alimony payment and much of the matrimonial debt, as most of the loans/cards were in his name. His monthly income was not sufficient to support his living expenses and the fact that he now had to pay child support AND had additional expenses when he did have his son, forced him to move back in with his parents, as he could not afford a place on his own.*

Sadly, I see this story way too often.

John saw absolutely no way out. He was certainly living in the Survival Zone and his goal was to move to the Comfort Zone, move into his own place and be in a financial position where he was able to support himself and his son. The few times we talked, he continued to talk about the injustice of the situation. The injustice of his wife leaving him, the injustice of him being left with the debt, the injustice of matrimonial law and his requirement to pay such a large amount when his ex-wife was now living with another man and had two incomes to support them, the injustice of having to move back in with his parents, and so on.

I will not argue that there were, there are, injustices in this world, but what I do know is that if you get caught up focusing on the past, on what happened to you, on what is happening to you, there is simply no space for you to focus on what can happen to you.

I once asked a person who was in my office, who suffered from depression, what percent of the day they thought they talked negatively (out loud, or in their mind) to themselves. After some thought, they answered between 50-75%. I then asked, “Do think someone would underestimate how often they thought negative thoughts, or do you think they would overestimate it?” The answer was that they thought a person would underestimate the time. We looked at each other for a moment and I’m pretty sure I saw the proverbial light bulb go off for this person.

The truth is, we say things to ourselves that we would NEVER say to another human being. We spend so much of our waking hours running negative thoughts through our brain, it is a wonder we don’t explode from negativity. These could be small things like ‘There I go, I’m late again.’, or ‘I am such a procrastinator.’ Too much bigger issues like ‘I am never going to get out of this mess.’, ‘how could I be so stupid?’, ‘why do I continue to attract the wrong partner?’ and so on and so on and so on.

What I have observed is that when it comes to our finances, if they are not operating smoothly and abundantly, we spend a huge amount of time thinking about how we got into the mess we are in, feeling guilty that we cannot pay our bills, that we cannot provide for our family, beating ourselves up for spending too much, or making unwise financial decisions, for taking that trip that we really couldn’t afford. I am sure you can add your own thoughts to that list.

So, I am going to let you in on a little secret, the one thing that will begin turning around your financial situation. The key that magically opens up the door to financial abundance, are you ready?

Stop the negative talk! Stop it in its tracks. It does absolutely nothing for you other than to evoke feelings of guilt, shame, etc. And it will not, in any circumstances, move you in the direction you need to go to get out of the financial rut you are in. I give you full permission to flick the little naysayer off your shoulder every time he/she/it starts with the self-abuse talk.

I know, I sound like I am saying it is the easiest thing in the world to do and, in some ways, it is. But in other ways it is the most difficult thing to do because you are, in essence, on auto pilot when you are doing it. And in many cases it is so ingrained in your internal programming that you may have no idea how to turn it off.

Let me offer some suggestions and some tools that you can use.

First, you need to **start noticing it.** The simple act of being aware of it will begin to shift it. The moment you notice your internal talk taking on a negative tone, stop it. You can have some fun with this if you want, and use the power of visualization. You might visualize a "bad guy/gal" on your shoulder, as I indicated above, and simply, in your mind's eye, flick them off. Or maybe you want to flick the air on top of your shoulder if that's more fun. You might politely ask that part of you to leave, stating that there is no room for this type of talk in your reality anymore. You might visualize grabbing the culprit and removing them out of your conscious mind if that's more your style. The point is, it doesn't matter how you do it, but simply that you do it.

If you want to go a bit deeper, you might ask that voice where it come from, how long they have been part of your world, or why they are always warning you, putting you down, etc.

You might simply notice the thought and ask yourself, how can I turn this into a positive statement? For example, let's say the thought that comes up regularly is "How do I keep letting myself get into these situations?" You catch yourself thinking that thought and you immediately say, "What can I learn about this situation I am in?", or "Isn't it great that I am making so many mistakes at this stage in my life so I can learn from them now, versus 5, 10, 20 years from now?"

This may sound silly to you, but trust me, it works. And it is the crucial first step to improving your financial situation, because no matter what advice I offer form this point on, the nay-sayer inside of you will hold you back. Best to acknowledge it now, and figure out a way to make this work for you versus against you.

There may be times of the day or certain places where this nay-sayer appears more than others. When I became acutely aware of my nay-sayer (aka Your Ego, Your Inner Critic and mind chatter, to name a few), I noticed that it was particularly active in the shower, first thing in the morning.

Here I was starting my day dwelling on things that had happened to me the day before, the week before, the year before and reliving them, staying stuck in them, trying to figure out what I did wrong, what I could have done differently, coming up with really great responses to situations now, after the fact, and wishing I had thought of those before. Sound familiar?

Once I became aware of this, it was impossible to not notice it. I declared the shower as my morning sanctuary where I focused on what I wanted to accomplish that day, set an intention for the day or simply nurtured myself and let the shower wash away all of the negative thoughts, and in effect, my nay-sayer down the drain. That was over four years ago. I still catch myself being pulled back to old habits now and again but I recognize it much more quickly now and put a stop to it.

So, to recap, the very first step to financial freedom is to recognize and stop the nay-sayer. That will create space in your mind for the next step, which we will discuss in the next Chapter.

Reflective Moment

- *What percent of my self-talk/thoughts are positive versus negative?*
- *When is my inner-critic the loudest?*
- *What do I love about my current situation? What do I feel needs improvement?*

A SIMPLE SYSTEM

"Would you tell me, please, which way I ought to go from here?" said Alice
"That depends a good deal on where you want to get to," said the Cat.
"I don't much care where", said Alice.
"Then it doesn't matter which way you go," said the Cat.
~ Alice in Wonderland

Ok. You put a stop to the Inner Critic. You can now take a deep breath, and begin focussing on moving forward. A good place to start is to identify what is important to you from a financial perspective. I am going to make this quite simple, without getting into the specific goals, by asking you three questions?

2. What do you need to survive?
3. What do you need to be comfortable?
4. And, what do you need to live your desired (best) lifestyle?

In other words, what income do you need to support these three stages of financial existence?

The simplest way to answer these three questions is to start by looking at where you are today. Do you feel like you are surviving? Living comfortably? Or Living your best life? Next, look at your expenses. What is it costing you now to survive, be comfortable or live your best life? If you are an avid record keeper, you can simply look at what you are spending each year/month on each of your expenses. If you have never kept track, then I recommend either going back to the previous twelve months and gathering up that data, or starting from today, with a simple tracking system (more on this in a moment).

Let me give you an example. Let's take groceries for example. There is a difference between what you need to spend to survive, what you need to be comfortable and how much you can spend when cash flow is not an issue. Remember Christina and Shawn. Shawn lost his job and they had to watch what they were spending. Immediately they cut $200 from their grocery budget. They were definitely spending in the Desired Zone on their grocery expense and because they had do, they adjusted it to the Comfort Zone amount.

On a more personal note, when we decided to become a one-income household, we had to look at each expense and consider what we needed to "survive" in each area. I religiously track my expenses, partially because it is a habit now, but mostly because the information is so valuable. I knew, by looking at the past years data, that there was no way we could spend less than $600 a month on groceries, so for several months, I tried to stay within that amount. It became evidently clear that due to the rising cost of food, and the changes in our grocery needs as a result of two growing children in our household that $600 was unrealistic. We had to adjust our amount to $650-$700. On months where we had extra cash flow, this amount easily went to $800 per month. As a result of this exercise, we were very aware that we needed about $650 per month to survive, $750 per month to be comfortable (meaning we were not running out of things), and $800-$900 per month if we wanted to be able to splurge now and again and enjoy those 'luxury' foods.

Let's choose one more expense as an example – gas for your vehicle. There is a certain amount you need to get back and forth to work and to the other commitments in the week. You can easily spend more if you want to do some weekend driving, trips, travel etc.

There are some expenses where you have little choice what you spend. Utilities and Insurance's would be examples. Although even those have some discretionary amount that you control based on usage, etc.

It is important that you answer all three of the questions:

1. **What do I need to survive?** (This is your baseline. It is the amount you have to spend no matter what. It is the amount that you can fall back on in times of trouble, or the amount you can adjust to if you want to redirect your spending to something more important).

2. **What do I want to be comfortable?** (This is the realistic amount, the one that most people strive for. It is the amount that you need to have a comfortable lifestyle where you don't have to worry about every cent you spend at the grocery store, or how you are going to pay for your car repairs and other expenses that come up).

3. And the final one, **what do I need to live the way I want to live?** (This is your driving force, the reason that you do the things you do, that you cut back on some expenses so you can free us resources for the things that really matter to you and your family. It is the reason young people curb their spending to buy a house, or parents watch their cash flow to plan for retirement).

   At the end of the day, there is no right or wrong when it comes to answering these questions. It is simply making decisions that are important to you, today, based on where you are in your life and who you are with. And, like everything in this world, it changes. What you decide today may, or may not, be the most important thing in 10 years. But it is a starting point.

Ok, so I think it is only fair to give you some guidelines on putting this together. Again, I like simplicity. Let me start by saying that I am definitely not a one-size-fits-all budgeter. I believe there are many ways to accomplish the same objective and you have to pick the one that is most important to you. Consider the many ways to track expenses… you can use the tried and true method of pen and paper, a spreadsheet, a Money Management/Accounting Program(such as Simply Accounting, QuickBooks or Microsoft Money), your banks reporting software or one of the many Apps available for your smartphone.

I've added some resources to my website which you can download for free. The details are in the back of this book.

Here are some basic guidelines to get you started.

First, simplify your expenses by categorizing them appropriately. One of the easiest ways to do this is by listing your FIXED EXPENSES, the ones that you have little or no control over, first and getting them out of the way. They require the least amount of effort when it comes to deciding what you need in each of the zones. Examples are:

- ✓ Mortgage / Rent
- ✓ Utilities – Phone, Cable, Internet, Water
- ✓ Insurances – Home, Auto, Life, Pet
- ✓ Loan Payments – Auto Loan/Lease, Student Loan, Other Loans
- ✓ Credit Card Payments – you can use the minimum payment or the regular
- ✓ amount you pay, we will talk more about this category later
- ✓ Bank Charges – your monthly fee
- ✓ Any other expenses you have that are the same every month.

These expenses don't need to be tracked, you know what you spend on them each month. Make a list of them along with the amount you pay. Set that aside and mark it "Fixed Expenses".

The next category are your FLEXIBLE 'regular' monthly EXPENSES. These are the expenses you have every month but the amount changes. Examples are:

- ✓ Groceries
- ✓ Restaurants/Lunches/Coffee – this should be separate from groceries
- ✓ Pet Food – if you buy it separate from your groceries
- ✓ Drug Store items – only if you spend a certain amount at the drug store every month
- ✓ Gas
- ✓ Recreation / Entertainment – anything that you would do monthly, ie. go to the movies every month, pay a gym membership (arguably the last one would be a fixed expense), alcohol or cigarettes could go here, they could also go in as a fixed expense if the amount is the same every month
- ✓ Cell Phone – this could be broken into two parts, one could be fixed (your basic fee) and the other part could be flexible (your additional minutes/data).
- ✓ Miscellaneous – ensure you have a miscellaneous "catch all" category for everything else. No need to estimate this one at the moment, we will discuss its purpose below.

These ones are a bit tougher to figure out unless you are an avid record keeper. If you do keep records, simply look back at what you have spent for the last year, divide by twelve, and use that amount as a starting point. For those who can't easily get their information from past records simply estimate what you spend on each one as a starting point. Once you have that amount, add another 10 or 20 percent. Seriously. Almost everyone underestimates what they spend. Total this category of expenses, mark it "Fluctuating Expenses" and set that amount aside.

I purposely left this next category for last because it is the most difficult one to plan for. It is your **Occasional Expense category**. Basically expenses that you do not have every month. Some of these may be fixed expenses (ie. Pharmacare for seniors) and some are not (ie. Christmas, Dental, etc.) Below is a list of the most common occasional expenses:

- Gifts
- Donations
- Clothing
- Car Repairs/Maintenance
- Home Repairs / Maintenance
- Kids Activities
- Health Care Needs such as Dental or vision wear
- Add your own…

Estimate what you spend a year on each of them, or, better yet, if you track your expenses, go back and look at last year. If you do not have records, you might be able to get them form the recipient of these funds. As an example, you might ask your mechanic to give you a print out of repairs last year, or your pharmacist to give you a printout of prescriptions. Start with what you have, you will fine-tune this process as you go along. Once you have the yearly amount, divide by 12. That is the amount you need to set aside each month.

Go ahead and total up this category and mark it "Occasional Expenses".

Now you have your three starting points. Your fixed expenses, they are going to get paid first. Your Flexible expenses, you are going to attempt to stay within the estimates you made on these expenses, and your Occasional Expenses, you are going to start planning for these. I am going to re-arrange the list in this order: Fixed Expenses, Occasional Expenses, and Flexible Expenses. You will see why in a moment.

Commit to keeping track of these expenses at least for the next 60-90 days, or preferably, for one full year to get an accurate picture. There are several ways to do this depending on how you spend your money.

Debit spenders:

- **Review your bank statement or credit statements** (if you put everything on credit cards to take advantage of reward offers) at the end of the month and total up the expenses by each category.
- **Keep your debit slips**. The cashier always gives them to you, put them to use.

Cash spenders:

- When you withdraw money from the bank machine, **put the withdrawal slip in your wallet**. Each time you spend cash, write what it was for on the withdrawal slip.
- **Use a notebook** and mark down the date, place of purchase and category of each expense. It is helpful to have this in the dash of your car, if that is applicable, as you likely drive somewhere, spend money, drive home.
- **Ask for receipts for all purchases**. When you get home, have a place to put them. Preferably separate them by category (ie. you may have an envelope for gas, one for groceries, one for other food, etc.). This will help make it easier to total them up by category later.
- Alternatively, when you get home, **enter the amounts into a spread sheet** (manual or electronic) and get rid of the receipts.

Methods for both:

As I mentioned, with today's technology, there are wonderful online solutions for tracking spending. From Money Management Programs to Online Banking Programs to Apps, there is something for everyone. Some of the ways you can **use technology to streamline your tracking** are as follows:

- **Create a spreadsheet**, enter in your debit /credit or cash slips into the appropriate category.
- Use a **money management or accounting program**, enter in each transaction, or download your transactions from online banking, and take advantage of the reports and graphs to give you great statistics.
- **Utilize your Financial Institutions money management program**, many have them. You can download your transactions to them and easily sort and review your spending habits.

Download one of the many Apps available. There are several that allow you to manually enter your cash and debit/credit transaction and there are some that enable you to have your transactions downloaded instantly, assigning them to categories that are memorized as you use them. This allows for entry anywhere, anytime, and data at your fingertips giving you instant feedback on how you are doing. The one I have found to be the most effective is MINT. You can use it on your PC or your phone and it does a lot of the work for you, synching with your various bank accounts and downloading transactions as they occur assigning them to expenses.

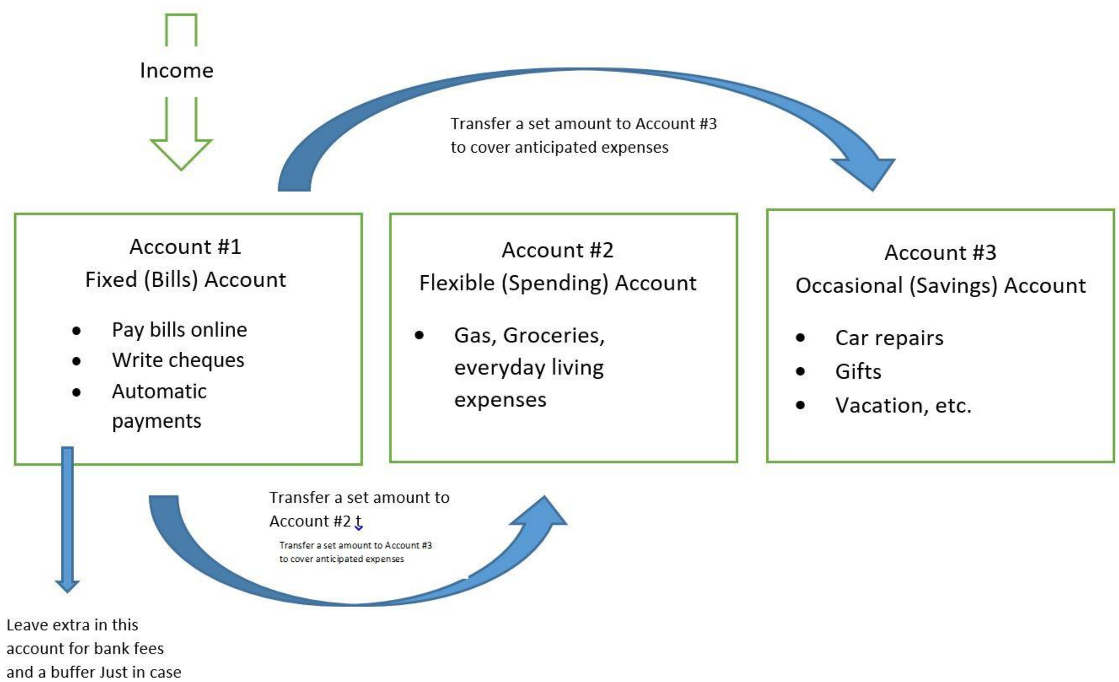
So, let's tie this altogether shall we.

I suggest you have three bank accounts, one for each category of expenses. Your pay gets deposited into the first account, the "Fixed" or "Automatic Payment" account.

You pay the bills for the month from this account and you leave an amount in this account to cover your automatic payments coming out. You then transfer an amount to the second account, the "Flexible" or "Spending" account. This is the amount you totalled up for your flexible expenses. This is what you have to spend for the month, or pay-period.

The third account is your "Occasional Expense" Account or "Savings" Account and it's for the expenses you identified that are going to come up.

So, to summarize, it looks something like this:



This is a very basic setup. Every person's situation is slightly different. This can work very well if your income is fixed (the same) each month. If your income fluctuates, this may not be the best plan for you. In some instances, you may not have enough cash flow to cover all three expense categories, in that case you need to focus on your fixed expenses and cut your flexible expenses back to meet your "survival" needs.

By setting up a basic spending plan and keeping an eye on how you are doing, you will begin to gather important information; Information that will answer some really important questions. Questions such as, what do I need to get by (survive), what do I need to live comfortably (remembering that there are various stages of 'comfort"), and what do I need to live my best life? The last question can take you in so many directions depending on what is important to you as it opens up a world of possibility.

As you do this you can start to create the space to move from one level to the next. Without this, you will be trapped in a vortex of mindless spending, where you simply spend most of what you make, without giving much thought to it, in essence spending tomorrows dollar today. You want to be in a space where you are spending (and saving) today's dollar and making better choices so tomorrow's dollar goes further than today's dollar.

Reflective Moment

- *What system do I have in place to manage my finances (if any)?*
- *What works well for me/us?*
- *What are our challenges with our financial management system?*
- *In a perfect world, what would managing my/our finances look like?*

SHE SPENDS! SHE SCORES!?

"The pessimist complains about the wind; the optimist expects it to change; the realist adjusts the sails." – William Arthur Ward

Talking about your finances would be incomplete without talking about your credit rating. Unfortunately, even if you plan to never use credit, living without a credit rating (in North America anyway) will likely cause you some heartache. Credit ratings are being relied on more and more as lenders don't have the relationship with their clients that existed in the past. And it's not just the lenders that rely on it, in many cases opening a new utility account requires a good credit rating, or renting an apartment or getting a job. Now-a-days if you don't have a credit rating, you don't exist to some extent.

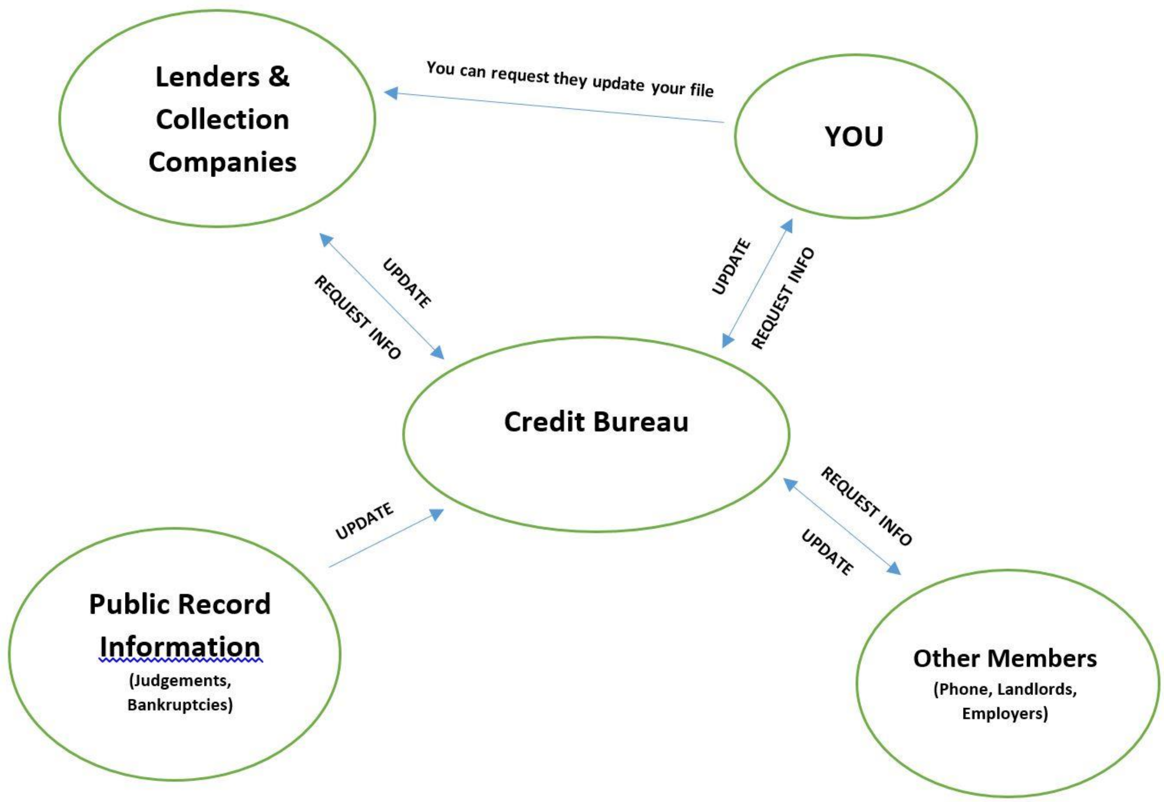
What amazes me about our credit rating system is that we all pretty much know it exists, but a large percentage of us have never checked our report and have little knowledge of what it means and how it impacts us. Add to that the fact that the reports are made for lenders and we can barely decipher them ourselves, and you have a pretty frustrating system.

Allow me to offer some insight on how the system works, how you can get a copy of your report, what to look for and what you can do if you credit rating has taken a hit, or worse yet, *GASP!*, doesn't exist.

It would be great if I could start this conversation by saying the system is really easy to understand, it is always consistent and you can update it without effort. Sadly that is not the case.

So, the first thing you need to know is that there are two main Consumer (that's the everyday you and me, versus business) Credit Reporting Agencies in Canada - Equifax and TransUnion. One would think that your file would be the same on each. It is not. Some credit companies use one, some use the other, some use both. As a result, not all information will be the same on both. To better understand why, it helps to understand how your information gets on these reports in the first place.

The diagram below shows the flow of information to and from the credit bureaus.



You can request a copy of your file and you can (and should) request that your information be updated if there are any discrepancies.

Lenders, collection companies and other 'members' of the credit bureau can access your information (with your permission) and can update your information based on your payment habits.

In addition, the Credit Bureaus receive information from various government agencies that is of interest to their members. For example, The Office of the Superintendent of Bankruptcy reports on all Bankruptcies in Canada. Judgements registered against you are updated by the applicable Justice centres.

More and more places are making use of the credit bureau and reporting on your payment history, such as cell phone companies and rental places. It is important to note that these places must be members of the credit bureau and must adhere to privacy laws and other terms and conditions if they want to be able to access records.

Basically your credit report is a one-stop shop for lenders to quickly assess their risk in lending you money or providing a monetary service to you.

Checking your credit report

There are two ways you can access your credit report. You can get a free copy. It is your information and you are entitled to it. Credit Bureaus have to give you a copy. You know the saying, "You get what you pay for?" Well, that is an adequate saying in this situation. When I first started telling people they could get their credit report for free, I began looking for their local addresses and couldn't find them. I went to their sites to find out how to get it for free. It wasn't easy. After some research, I did finally get the forms you can use and saved them to my computer. Recently I went online to get up-to-date copies, and, once again, had difficulty finding them. I had no difficulty, however, finding out how to get my file the other way – by paying for it. So, in addition to getting a free copy, you can pay for a copy. You might ask, "Why would I pay for a copy when I can get a copy for free?" Three reasons, first, instant gratification. You can get it instantly. Second, the paid report is much easier to understand and third, it includes your credit score. The credit score is a service the Credit Bureaus pay for, therefore, if we want our score, we need to pay for it.

At the time of writing this there is another way to get a free copy of your report AND your score. You can take advantage of third-party services. Credit Karma is one such place, providing you with your score and information from Trans Union and Borrowell does the same except it is your Equifax information. There is nothing preventing you from signing up for both, and is, in fact, a good idea, to ensure you are getting all of your information. Just be aware that both companies will offer you credit products that meet your needs based on your credit score. Often these are high-interest products. My advice – get the free reports, don't take the offers.

So, let's recap….

You can get a free copy in four ways:

1. You can call their toll free number (listed below)
2. You can go to their website, download a form, complete it, fax or mail it to them, and they will mail you a copy.
3. You can go to their local office (if you can actually find it) and request a copy in person.
4. You can use a third-party free service such as Credit Karma and Borrowell (in Canada)

Or, if you prefer, you can go online, pay a fee, and get your full information and score direct from the respective credit bureaus.

In addition, you can sign up for any one of their “credit watch” programs to be notified of any updates/changes to your file, unusual use, etc.

So, you have a copy of your report. Now what?

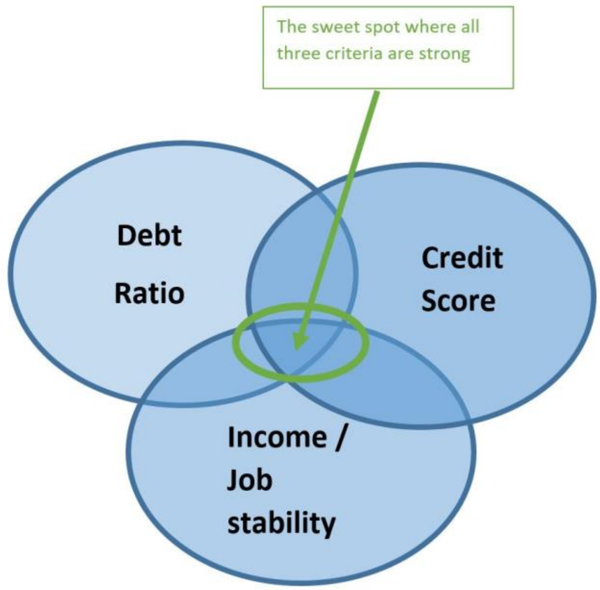
There are two objectives to looking at your credit report. The first is to ensure that everything is accurate so that if a lender looks at your file, it is up-to-date with no errors. The second is to ensure that your score is as strong as it can be so that when you do obtain credit, you qualify for the best rate possible. Once again, it is not necessarily about fixing your credit report (score), although if you have a low score you will definitely want to work and increasing it. If you have a decent score, however, it can still make sense to ensure everything on your report is accurate and as strong as it can be.

I talk about this at every one of my workshops. The facilitator of the workshop and I live in the same community and sometimes travel together. We often talk about how she can apply some of the things I teach to her life. As a result of our conversations and my advice, she obtained a copy of her credit report. We sat down and reviewed it together. She updated a few items and her score went from a high 700 to a low 800 – a very good score!

Let’s talk about your Credit Score and what it means.

We get very hung up on “having good credit”. When clients are in my office, often they will comment on the fact that they have an A1 Credit rating, or some variation of that term. What they are referring to is the fact that they can obtain credit easily and their credit report (their score) reflects that they always make their payments.

Your credit score, however, is only one of the factors that influence whether or not you are a good credit risk. There are actually three things that need to be in place for you’re to be ‘credit worth’ in the eyes of lenders. As indicated in the diagram below, you need a good credit score, you need to have a low debt ratio and you need to have stable income. Let’s look at each.



YOUR CREDIT SCORE

Your credit score is an at-a-glance indicator that lenders rely on to determine what type of risk you are when lending you money. The greater the risk, the higher interest rate you will pay, if you are able to obtain financing.

Scores range from 300-900. The mid-range is about 650 to 700. That's where you need to be in order to obtain credit, or at the very least, obtain credit at a reasonable lending (interest) rate.

The following is an example of what impacts your score and the weight of the impact. This information was obtained from Equifax's website. Criteria could vary for Transunion or internally at the bank that you deal with (most use their own scoring system based partially on your credit report but also on your history with them).

Your credit score is based on the following?

- ✓ 10% - type of credit
- ✓ 10% - application for new credit (inquiries)
- ✓ 15% - length of accounts
- ✓ 30% - current debt status
- ✓ 35% - late payments, bankruptcies, collections, judgments

* Information taken from Equifax website

Let's look at each item:

Type of Credit

Having no credit is as bad as having bad credit

In order to have a credit score, you need to have credit. A great reason to check your credit report is to ensure that if you have credit accounts they are reporting to your credit report. This becomes quite important when we talk about relationships. If one persona typically handles the financing, it may be that you do not have any credit that is being reported to your credit bureau. Perhaps you have a card on your spouse's account, that doesn't necessarily mean you have an account in your name. If it is not showing on either of your credit reports, it is not impacting your credit score.

Where you obtain credit matters

Where you borrow the money matters. Having debt from A Lenders (bank debt) is reflected more positively on your credit report/score than if you have debt associated with a B Lender (Finance company, private lender, etc.)

> *Jocelyn* was surprised to see her credit score drop one month when getting an updated report. She reviewed her report and the only item that she thought might have caused the score to drop was a no-payment-no-interest account that she had obtained and paid off before the time expired. From her perspective she did not have any financial issues.*

She paid the amount off long before any interest would have been incurred. Unfortunately, these companies obtain approval for credit from a B Lender type company, in this case a Finance Company, and the simple act of this being added to Jocelyn's report was enough to drop her score. In addition, they open an account for you and don't close it automatically when you pay off the amount in full. She promptly closed this account and, as a result, saw her score being to increase again.

Application for new credit (inquiries)

Too many inquiries in a short period of time can drop your credit score. Although there doesn't appear to be any obvious rule as to how many credit inquires in what period of time will cause your score to drop, the general consensus is that 3 or 4 in a few months will have a significant impact on your score.

It is important, however, that we distinguish between "soft hits" and "hard hits".

Soft hits do not impact your score and are only visible to you, not to other lenders. These would include you checking your report, your current financial institution checking your report and employment background checks as an example.

Hard hits, on the other hand, do impact your score and are generally 'new credit' inquiries from any financial institution for loans or credit card applications, as well as inquiries to open accounts with cell phones companies or rent an apartment.

Length of accounts

How long you have had your credit accounts will impact your score. If you are just beginning to use credit, or have had credit issues and are working to re-establish your credit score, you will need some time to build or repair your credit. As a general rule of thumb, you need 6-12 months of using credit to start to see a positive impact on your credit score. The longer you have had (used) credit, the more it enhances your score. This is, of course, dependent upon how you have used your credit, which we will discuss below.

Before we do, there are two examples I want to share on how the length of credit impacts your score.

Existing Credit

Let's say you decide to consolidate your debt. You have three credit cards and a line of credit account. You have had one credit card for 20 years and the rest for the past 5-10 years. When you consolidate and pay it off, if you cancel all of the debts you just consolidated, you will have effectively cut off your length of credit and are effectively starting over. This will temporarily drop your score. It will recover over time as you payoff the consolidation loan.

The solution: Drop the limit on your oldest card and keep that one. Use it and pay it, in full, every month.

New Credit

This can occur in two ways, (1) you have never had credit before and are just starting out, and (2) you have had credit but have complete a debt-settlement or bankruptcy and are starting over. You need time. Generally speaking, you need to pay on your new credit for 6-12 months to start to see the positive impact on your credit score.

Current Debt Status

This relates to how much credit you have and how much you use.

For example, let's say you have a $10,000 Line of Credit. If you pay it off in full every month, your credit score will be strong. If you max out the line of credit and are constantly up to, or close to your limit, your score will be low.

As a general rule of thumb, you should never owe more than 30% of the limit. Having said that, it is better to pay off your debt in full every month and not pay interest at all.

Payment History

And the largest factor is your payment history. Always ensure that your payments are made on time. Too many missed or late payments can result in your credit limit being decreased, your credit being closed or an increase in your interest rate.

If you make your payments online, be conscious of the days required for the payment to clear. You may want to set up automatic payments so you never lose track. As a general rule of thumb, make your payments at least 5 business days before they are due

Of course not paying your debt is going to the be the biggest culprit. If your accounts go to collections, are settled under a credit counselling debt settlement, or are released under a bankruptcy, your score will decrease.

YOUR DEBT RATIO

Your Debt ratio is basically how much debt you have compared to your income. There are different variations of what percent of your income you should owe in debt depending on Lenders internal calculations. If a lender calculates that you should owe 30% of your income to debt and you are currently at 25%, you have little borrowing room. If you have no current debt, however, there is a lot of room to borrow (from a lenders perspective).

Although we have to operate within these parameters when we are borrowing form lenders, I pay little attention to the percentages they use from a budgeting perspective.

My advice is to ignore all percentages and go by your own personal circumstances. If the lender tells you that you can have a mortgage up to X number of dollars because it represents x% of your income recognize that the percentage does not take into account any personal circumstances of your life. Perhaps you have a special needs child, or care for elderly parents. Maybe you are a heavy smoker, or have a passion for Bingo. If you are a homebody then spending more on your home may make sense, but if a social life outside of your home is important to you, or you have a passion for travel, for example, the percent spent on your home needs to be less. In short, don't go by what the lenders tell you that you 'qualify' for. Make financial decisions based on your personal circumstances and your household cash flow situation. Take into account the three zones we discussed and explored earlier. Your decision will impact whether you live in the survival, comfort or desired zone.

Having said all of that, regardless of YOUR budgeting numbers, you do need to be able to borrow based on the debt ratio calculation used by the lender.

STEADY SOURCE OF INCOME

The third part of the trio is that you need to show that you have a steady source of income. If you are employed, most lenders want to see that you have been employed for at least 6-12 months, the longer the better.

If you are self-employed, lenders will generally want to see financial statements for the past 2-3 years. The longer you have been self-employed, the more stable you are considered to be. The biggest challenge with self-employment is that you are motivated to keep your net income low for tax purposes and this does not serve you well when you are looking for financing because if your net income is low, your debt ratio (the amount you can borrow based on your income) is also low. Some lenders will take this into account and base your borrowing power on gross income versus net income.

I mentioned that I do a workshop as part of a Retirement planning program. This leads to discussions about pension income. Having pension income, versus employment income, can decrease your borrowing power. This is because pension income is not able to be garnisheed. What I mean by that, is that if you find yourself unable to make your payments, your creditors (the lenders) cannot garnishee pension income. In effect, they have lost one of their abilities to collect should you be unable to pay, or one of their methods of securing your repayment. The result is that if you borrow while on pension income, your rate of borrowing, or your interest rate may be higher.

Ok, I have my report and my score now what?

As I said previously, obtaining a copy of your report and knowing your score is the first step. If everything is accurate on your report and your score is strong then you can be satisfied that everything is in order and move on. If that is the not the case, you will need to take some steps to either clean up your report, or strengthen your score. Let's start by talking about what you need to do to clean up your report.

If your report is not accurate, either something is not showing that should be, or something is on your report that shouldn't be.

The following are examples of things that would need to be updated on your report:

- Personal data may not be up-to-date. For example, your current employer is not listed, or you moved recently and your address has not been updated.
- Loans or credit cards that you are a joint lender on with your partner do not show up on your report.
- Debts that have been paid off may still show as active and not reflect that they are paid off.
- Collection accounts that you paid off may still show as active where they should show they have been paid off.
- Someone else's debt could be on your credit report
- Any account that is in good standing is missing from your report
- If you completed any type of proposal to your creditors, your accounts should be updated to reflect this. The "code" for each credit should now be a 7, which indicates you paid off your debt through a settlement.
- If you filed for bankruptcy, you would want to ensure that your discharge date (the date completed) is showing on your credit report. Alternatively, if you filed a Proposal (debt-settlement) and completed it, you would want to ensure the completion date is showing.

There is also a section that lists anyone who has pulled a copy of your file in the last three years. These should only ever be someone you gave permission to. You would want to verify that anyone on that list is someone you gave permission to. If that is not the case, you would certainly want to report them. Members of credit bureaus have to adhere to strict standards when accessing reports and ensuring the privacy of your information.

If you do determine there are errors, there are three steps you can take to resolve the issue.

The first would be to contact the credit reporting agency (Equifax or TransUnion). When you receive a copy of your report, you are given instructions on how to report any updates or changes. For example, if you get a copy of your report in the mail, a form will come with it that you can complete and send back.

In many instances it will make sense to go directly to the source of the reporting. As an example, if ABC credit is reported incorrectly, contacting them directly and asking them to update your credit report may be faster than going to the credit Reporting Agency. Although I do suggest that you do both – contact both the place reporting and the credit bureau.

Often it will take many, many attempts to get errors fixed. This is why I suggest you check your report at least 6 months prior to obtaining any type of credit, so you have time to resolve any issues. Lenders are quick to report when there is an issue with your credit and may not be as quick to report when you have resolved the issue.

Another issue that arises is when collection agencies get involved. You may pay off a debt with the original lender, who may not send any type of update to the collection company. Or, the collection company you were dealing with sells your account to another collection company, making it difficult to determine who to contact.

As I said, this system can be very frustrating for the consumer.

The following is a checklist to help you ensure you have taken all of the steps necessary to accurately check and update your credit report.

Verify the data on your credit reports.

- ✓ Request your report from Equifax Canada
- ✓ Request your report from TransUnion Canada
- ✓ Ensure your personal information is up to date
- ✓ Ensure all active credit accounts are showing on your credit report
- ✓ Ensure that the payment status – up to date, in arears, paid off – are reflected properly
- ✓ Be aware of any collection activity on your account
- ✓ Ensure any Insolvency proceedings (Proposals, bankruptcies) are reported correctly and updated to show when you completed them.
- ✓ Ensure any public record information is correct

Improving your credit score

The question that I get asked the most is "How can I improve my credit score"? Whether your score is good or bad, there is merit in improving it. Improving or repairing your score is quite simple (from a description point of view), but can take some time and effort. The only way to improve your credit score is to use credit. So not using credit will do absolutely nothing to put you in a better position to borrow at the lowest cost possible.

The formula for re-establishing credit is as follows:

New Credit + Time + Prompt Payments

It is important to note that any existing credit accounts will help increase your credit score, but new credit, specifically after settling your debt through a proposal or bankruptcy, will give you more (pun intended) bang for your buck. It is sad to note that the only way to improve your credit score is to use new credit. If you do nothing, and have no existing credit, your credit score will not increase.

Generally speaking, you will need to make payments for 6-12 months. This is very general as the amount of time and the rate at which your credit score increases will vary depending upon how much credit you are using. Remember that this is only one factor. Your debt ratio and, more specifically, your job/income status will have a major impact as well.

The more credit you obtain, the faster your credit rating will improve. For example, a $300 credit card will not repair your credit as fast as a $15,000 car loan. Having said that, you need to take into account your debt ratio when obtaining credit and your ability to make the payments – not just today but in the future.

If you want to monitor your progress you can either pull your credit report every few months or you can sign up for a credit watch program to get updates. You will need to get your credit score as you will want to measure what impact your actions are having on your score. Checking your credit report too often could be perceived as unusual activity and may impact your credit score. My understanding is that this is not generally the case, but if I have learned one thing, it is that trying to decipher a complicated system is a frustrating process and so I err on the side of caution when offering any advice with respect to your credit rating.

All of the above is meant to give you some guidelines to follow but I do recommend you do your research to ensure you are doing what is best for you. Obtaining consultation advice from someone who specializes in credit repair services would be a worthwhile venture in making you sure you do it right.

Reflective Moment

- *What has my relationship with credit been like in the past?*
- *What part do I want credit to play in my life in the future?*
- *What opportunities are created by me having a strong credit score? What are the risks?*

BE^A^WARE – SIGNS OF TROUBLE

"Self-awareness is an act of self-kindness" ~Reuben Lowe

Susan comes into my office with a heaviness surrounding her. She sits down and although I make an effort to make this experience a positive one, I can sense what I often sense in the majority of those who come to seek my advice, the guilt and the sadness that accompanies her. She starts by saying a phrase I have heard over and over in my years doing this, "I can't believe I am here. I never thought I would be doing this". No one expects to be here I tell her. In an attempt to soften the situation I gently remind her that Life is just one big opportunity to learn and to grow and although I know this is a painful learning experience for her, that it is just that, a learning experience, and she will learn and grow from it and that although the pain is fresh now, it will fade.

The thing that surprises me the most, and maybe it shouldn't because I have experienced this myself, is how we turn a blind eye to the warning signs. It's not that we don't see them. We do. But we chose for whatever reasons to ignore them. I blame it on our optimistic nature, an admirable trail albeit, but one that sometimes leads us to ignore the obvious.

The patterns goes something like this….We leave home and get a job (some bring with them massive student loan debt), we quickly find out that living on a budget isn't so fun, and we want to experience life. After all, we deserve it! We are finally out on our own and should be able to enjoy life. Our measly income doesn't support much more than survival, and every time we turn around we see messages about how we can have what we want for the low monthly payment of (you fill in the blank). So we send in the application for the credit card thinking we will never get it and one shows up in the mail. Or we apply for the no-interest-no-payment deal to purchase a new computer, or furniture for our new place. Whatever the reason, we have opened the door to a life with credit.

So life goes on, we buy a car, meet that special someone, buy a house, etc. Because we are so 'responsible' with our credit, making payments and all, we get more offers in the mail (or online), and maybe get another card, or a line of credit. We finance a trip knowing that we can make the 'monthly payments' no problem, buy gifts for others, help family, etc. etc. etc. All the while credit is building up slowly in the background. But we are managing ok. We are making our payments. And we must be doing ok, because we keep getting offers in the mail.

And then…Life happens. Someone gets sick, or loses their job, or a family members needs help. Because we have such a great credit standing, and room on our credit cards/lines of credit/equity in our homes, we tap into it. Only for a while. We will catch up once things settle down. Except that things either don't settle down, or if they do, the debt amount is too high and making anything other than minimum payments is out of the question. But, being the optimistic souls that we are, we talk to the bank, refinance maybe, or cut expenses, maybe cash in some investments and do what needs to be done to gain control of the situation. Or so we think. At some point we come to the realization that we are going through the motions but getting nowhere. And we are tired. We ask our bank for help. The one that we have been loyal to since we opened our first bank account, and are shocked when they say they cannot help us. And we don't know what else to do.

Whew! I'm exhausted just writing that. Imagine what going through it feels like!

Of course not all of the stories are identical but the general theme is the same. At some point we allow credit into our lives and we simply stop paying attention. We go on auto pilot in a society where we are being programmed to live beyond our means, to borrow on next weeks, next months, or next year's paycheque. When you really sit down and think about it, it's a ludicrous system. Yet most of us fall victim to it and don't obtain any sense of self-observation until it comes crashing down around us.

I always ask my cients this lquestion, "hat do you think is the reason for your financial difficulties?"

The answers include things like, not being able to find a job, being laid off, a divorce or separation. Sometimes, there are none of those life events and the comments are closer to the truth…using credit, to create or replace income. That's it. In 95% of the cases, that's the cause. The other factors are merely the 'straw that broke the camel's back'. Because in truth, if you didn't have debt, you wouldn't be sitting across the table from me. Well, most of the time anyway. There are always exception situations.

That's not to say you wouldn't be experiencing some type of financial hardship but without the credit crutch, you make decisions differently.

For example, if your hours get cut back at work, and you have credit, you tend to use the credit to make up the difference, or part of the difference. If you don't have credit, what do you do? You cut back on expenses. You don't have a choice. Or you do something more drastic, like cash in investments or sell assets. But when you have credit cards, or lines of credit, you might do some of that cutting back, you might cash in or sell some things, but you aren't as pressured to make those choices, until push comes to shove and you can no longer live AND pay for your credit. Until you are forced to make a decision between one or the other.

It’s so obvious to me when this has happened. When I start asking how long you’ve had this card or that card, or this loan or that line of credit, and how long they have been at their limits. You can do the math and figure out how much the credit has increased each year.

Of course, you can see this happening if you are keeping track of your outstanding debt month to month. Which leads me to the topic of this chapter – warning signs. What to be aware of.

Remember when I said that what I often hear is “I can’t believe I’m sitting here. Everything was fine. I had a good credit rating”. I mean no disrespect to anyone when I say really? You didn’t notice any of the warning signs? And I say this with complete respect and love and honesty. I’m very qualified to say this because as I sit here I am very aware of my own personal financial situation and how I have been treading water for several years now. Did I mention there’s fine line between financial strategy and financial disaster? I’ve walked that line. Several times to be exact. The difference this time is I have the tools necessary to look at it from a different angle and not get swallowed up in the process.

So, back to our topic…warning signs.

Some of the warning signs are very obvious, and are often the ones that cause someone to pick up the phone and come in for a consultation. They include, but are not limited to the following:

- Receiving past-due notices
- Creditors Calling
- Accounts being placed in collections
- Being refused credit
- Receiving notices of court action
- A pending foreclosure on your home
- Utilities being disconnected
- Making minimum payments only on your credit cards
- Having payments returned from the bank regularly for insufficient funds

Some are less severe, but none-the-less, obvious signs of struggle, such as:

- Constantly hitting the limit on your credit cards and lines of credit
- Refinancing by consolidating or pulling the equity out of your home, more than once
- Resorting to additional types of high-interest lenders (ie. finance companies, payday loans)
- Carrying balances on utilities and other monthly expenses, with the inability to pay them off each month
- Having more than one credit card with a balance on it
- Borrowing from friends or family between pay periods

- Avoiding opening the mail

And others are not necessarily obvious warning signs, but are certainly signs that you may be heading for trouble. We can all relate to a few of these now and again:

- Carrying a balance on your credit card
- Having no plan as to where your money will go each month
- No savings
- Replying on credit to handle non-monthly expenses (ie. credit cards)
- Not paying attention to where your money goes each month
- Closely watching your bank account to ensure everything clears
- Forgetting about cheques you've written, and occasionally bouncing a payment
- Paying high bank fees each month
- Constantly dipping into your overdraft
- No system for tracking when bills are due and paid
- Not making payments before or on the due date
- Paying higher interest rates than necessary on your borrowing

It is important to note that one or two of these occasionally is no big deal, but two or three every month, is a good indication that you're slipping into dangerous territory when it comes to your financial situation.

The first step is to be aware of the warning signs and recognize any that are present in your life. The next step is to begin asking yourself what you can do to turn the situation around. In the next section we are going to talk about what you can do to make your financial situation better. That may mean you take it from bad to good, but it could also mean taking it from good to better, or better to best.

Reflective Moment

- *Do I have strong, trustworthy systems in place to manage my finances?*
- *What would happen to me/us financially if my/our monthly income was cut in half?*
- *Am I controlling my credit use? Or is credit controlling me?*

SHINING THE LIGHT ON THE DARKNESS

"Nothing is IMPOSSIBLE. The word itself says "I'M POSSIBLE"! ~Audrey Hepburn

It is rare that I meet with someone and cannot offer them something. Sometimes it is a word or two of wisdom that can help them navigate their way through the financial challenge, and sometimes it is a solution that sets them back on their feet financially.

There is a list of options that are available that apply in every situation. Depending on a person's situation, and how deep they are in trouble, some may be viable options and some may not be. I strive to ensure that everyone knows, when they leave my office, what their options are and the benefits and disadvantages of each. I always start my discussion on options with the obvious one.

CONTINUE AS YOU ARE PRESENTLY GOING (ALSO KNOWN AS 'DO NOTHING)

This may seem like an illogical option, but sometimes it makes sense. At the very least, it makes complete sense to know what risks you face by doing nothing.

It is pretty safe assumption that if you are sitting across the desk from me, that you are likely experiencing some of the warning signs outlined in the previous chapter. If that is not the case, then the risks of doing nothing are, simply stated, that if you keep doing what you are doing, you will keep getting what you are getting. So if things are not bad, but things are not great, then you will continue to stay where you are financially with little marked improvements. And, consequently, if where you are does not involve any type of planning or savings, you can be knocked off your feet financially and begin spiralling quite fast. A proactive strategy when it comes to finances is always recommended. As life seldom is without bumps in the road.

There is a logical sequence of events that occur if you begin missing payments on your bills, specifically your credit payments. The following is an outline of what happens in Canada. Rights would vary in different parts of the world.

First, the account goes into collections. This could be an internal collection department where you borrowed the money, or, your account is handed over to a third-party collection company.

If the company is having no luck collecting, or not collecting what they feel is necessary and suitable against the debt, their next recourse is to consider taking legal action.

Legal action basically means that an application is made to court to obtain a judgement against you. Once the creditor obtains the judgement, they can enforce it generally in three ways:

1. They can (and most often will) register it against any real property (if you have any) in your name. This means they have to be paid when you sell or re-finance your home, or, could force the sale of your home.
2. They can issue a garnishee order on your 'wages'. It is important to note that non-wage income (ie pension) cannot be garnisheed, except by Canada Revenue Agency.
3. They can seize and sell any of your assets, assuming they are not subject to the provincial exemption laws. Exemption laws outline what items are 'creditor protected'. (A lawyer or a Trustee in Bankruptcy can help you understand exemption laws in your area)

So that, in a nutshell, outlines option number 1 – what if you do nothing?

BUDGET YOURSELF OUT OF DEBT

The second option is to Budget yourself out of debt. This can involve one or several of the action items listed below:

- Increase your income (get a raise, a new job, a second job, a part-time business etc.)
- Decrease your expenses
- A combination of the above two
- Liquidate investments/savings/etc.
- Sell personal belongings
- Borrow money from a friend or family member (arguably not an ideal option)
- Request lower-interest rates from your credit providers.

Most people will try this for many months or years and for some it will work, for others they will come to the realization that they cannot get themselves out of it.

REFINANCE YOURSELF OUT OF DEBT

The best example of this would be to refinance your home, borrow the equity, and use it to pay off your current debt. Why, because it is, at the time of writing this, the easiest type of credit to obtain (assuming you have equity of course) and generally comes with the lowest cost of borrowing (interest rate).

Did I mention there is a fine line between *financial strategy* and *financial disaster*? Refinancing your home walks this line. If you don't cancel the credit you paid off and you end up using it again, and you cycle back into refinancing your home to pay off debt (or cover living expenses for that matter), you are on the “financial disaster” side. If you refinance, effectively paying a lower interest rate on your debt, and pay the same amount and pay it off sooner, you are on the ‘financial strategy’ side of the equation.

In addition to a re-mortgage, you could get a consolidation loan, you could negotiate your interest rates, and you could take out a line of credit and pay off higher-interest debt with it. In short, you are moving your credit from one place to another. This is only a solution if the payment is manageable (not simply less than you were paying, but low enough that you can pay it comfortably) and/or you are paying the debt off sooner.

This ends the section on “options that have the possibility of maintaining or improving your credit score”. The next three options are all ways that you can settle your debt. Once you go into any type of debt settlement, your credit rating is impacted. For some people, that doesn’t matter as the rating is poor to begin with, for others it does matter. As we discussed briefly in the chapter “She Spends, she Scores”, there are a lot of ways to rebuild your credit rating.

VOLUNTARY DEBT SETTLEMENT

This option can take on a few different forms. You could contact your creditors and make a settlement offer to each of them. This generally only works well if the account is in collections and if you have the ability to pay a lump-sum settlement versus a monthly amount.

In addition to the above, this is the category where Debt Settlement Companies come into play. Debt Settlement companies can act as a go between with you and your creditors, offering either a lump-sum settlement or a monthly payment settlement. Be careful, not all debt settlement companies are created equally. It is worth doing your research. There are good ones and not so good ones. In Nova Scotia we are fortunate to have Credit Counselling Services of Atlantic Canada as they offer the service at a very reasonable price. I have also run across some that I am certain are only concerned with how much money they can make and operate on the assumption that their prospective clients are desperate and will pay anything to have someone deal with their creditors and avoid bankruptcy. As I said, do your research and read any online reviews or ask for a referral before signing any type of contract.

CONSUMER PROPOSAL

The second type of debt settlement is the Consumer Proposal. Although it has been part of the options under the Bankruptcy and Insolvency Act for some time, in 2009 some major revamps to the process has made it a viable option. Generally speaking you engage the services of a

Licensed Insolvency Trustee (formerly known as a Trustee in Bankruptcy) who acts a liaison between you and your creditors, offering a settlement on your behalf. Yes, this option is very similar to the one above, with a few bells and whistles. For one, there is a requirement for your creditors to vote and if the majority of creditors vote for the settlement (majority being measured in dollar value of debt – 1 vote per dollar of debt) the rest are bound to the terms of the proposal. This can be a lump-sum settlement or a monthly payment. This is a very brief outline of this option as the proposal is only limited to the imagination of the individual and the Trustee, and, of course, the acceptance of the creditors.

The above Proposal is generally for individuals, there is also a more-involved process for corporations and individuals with higher than normal debt levels.

BANKRUPTCY

This is logically the last of the options as most people will try all other options before considering declaring personal bankruptcy. The bankruptcy process is basically a system that ensures a fair distribution of your assets, or non-creditor protected belongings, to your creditors. When you declare bankruptcy you no longer have the obligation to pay those debts that are released under a bankruptcy. You do, however, have some other obligations which may involve making payments, losing tax refunds and either surrendering or paying to keep personal belongings/investments etc. I would need several chapters to fully explain this option as it has many variations of the rules depending on where you reside and the laws of that province or country. For some, this is the option that makes the most sense. For others, it is not. A good Insolvency Restructuring Professional (Licensed Insolvency Trustee) will ensure you are aware of all of your options, the benefits and disadvantages and the cost of each.

BIGGEST MISTAKES TO AVOID

Having worked in this industry for two decades now, I would have to say that they biggest mistakes I see people make when it comes to their finances are as follows:

Ignoring the problem.

They say that ignorance is bliss. Maybe it is, but it is also dangerous, very dangerous. Pretending that everything is fine or not owning up to the severity of a situation only delays the inevitable. And, it ensures less options when you finally do face the truth of the situation.

The solution: Take stock of where you are. Look at your expenses as compared to your income. List your debt, the balances, the interest rate, the minimum monthly payment and the amount you pay each month. Start researching or talking to professionals about your options.

Taking the first option that comes their way.

I mentioned this previously…a solution is not a solution unless it is a solution! Just because it lowers your monthly payment, if you can still not handle the monthly payment easily and have room for things that come up (expected and unexpected expenses), it is only delaying the inevitable.

The solution: Ensure you have an accurate sense of your cash flow needs before you commit to any payment amount.

Continuously living beyond their means.

We are in the habit these days of renting a lifestyle. We live like kids in candy shops, constantly surrounded by enticing goods and services. And we feel entitled. We work hard. We deserve stuff. It's a disastrous combination. I'm not saying that we don't deserve nice things but living this way is the equivalent to finding moments of happiness in a drug addiction. You experience short-term bliss and then the high wears off and you do it again, and again and again. You finance a house, then it's a car, then its vacations, recreational vehicles, clothes, tools, etc. etc. etc. And not necessarily a mansion, rolls Royce, a yacht, you get the drift…it may just be something more than your income can reasonably afford while leaving room to handle emergencies. One day you wake up and you realize you own very little in your life. And it can all disappear in an instant. This phenomenon is not tied to income. It happens to the richest and to the poorest. There is something to be said about living within your means. There is a happiness and a level of peace and joy that can be found when you have less than you will ever experience when you have more.

The solution: Plan to love off of one income (if a two-income household or a percentage of your income if a one-person household).

Reflective Moments

- *How does owing money make me feel?*
- *Am I on track to be debt-free? If so, by what date?*
- *If I could free up $500 per month, where would I put that extra money?*
- *What does being debt-free feel like?*

THE END….OR IS IT THE BEGINNING?

Thanks for taking this journey of self-discovery with me. I hope that it has given you some insight into the way that you approach your finances and an understanding of where you are on the path to financial freedom.

This was really meant as an overview of a whole lot of topics, to get you thinking about each one. If you would like to connect with me to continue this journey, please visit my website www.DrDebt.ca or look up "Dr Debt" on the various social media platforms. As of today you will find me on Facebook under Dr. Debt, Twitter under Dr_Debt_NS and Linked-In under Mary Ann Marriott.

As an ending note, I would invite you to make a list of the three main things you will take away from this information and turn them into action items. I've even given you a place to do so below ☺ And if you want to do more than three, that's wonderful, go for it!

Three things that stand out the most to me:	Action Item I will take:

Until we connect again, I am wishing you happy, healthy, finances!

RESOURCES

Borrowell ~ www.borrowell.com

Credit Karma ~ www.creditkarma.com

Dr Debt Website ~ www.DrDebt.ca

Equifax Canada ~ www.consumer.equifax.ca

Financial Consumer Agency of Canada ~ www.canada.ca/en/financial-consumer-agency.html

Office of the Superintendent of Bankruptcy ~ http://www.ic.gc.ca/eic/site/bsf-osb.nsf/eng/home

Tranunion Canada ~ www.transunion.ca