

# Essentials of Money & Debt



Learn tips to manage your money and deal with debt-related problems. This publication explains how to take charge of your income and finances, as well as the steps you can take to deal with common money and debt problems.



People's  
Law  
School

Work out life's legal problems

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[www.peopleslawschool.ca](http://www.peopleslawschool.ca)

## About this Publication

### Acknowledgements

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## About People's Law School

People's Law School is a non-profit society in British Columbia, dedicated to making the law accessible to everyone. We provide free education and information to help people effectively deal with the legal problems of daily life.



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## What's Inside

Introduction	2
Income and Finances	3
Credit Cards	6
Credit Reports	7
Borrowing Money	9
Dealing with Debt	11
Getting Out of Debt	14
Where to Get Help	18
Glossary	18

### Introduction

Money and debt problems cause stress and frustration for many of us. By learning your rights around managing your money, you can prevent problems and protect yourself. And when money or debt issues do crop up, it's important to understand your options. This publication explains your rights in managing your income and finances, and how to work out money and debt problems.

At People's Law School, we believe accurate, plain English information can help people take action to work out their legal problems. This publication explains in a general way the law that applies in British Columbia, Canada. **It is not intended as legal advice.** For recommendations relating to a specific legal problem, contact a legal professional. Some sources of legal help are highlighted in the "Where to Get Help" section.

We have tried to use clear language throughout. See the "Glossary" section for definitions of key legal terms, which are also bolded in the text.

The information is current to January 2021.



For more in-depth coverage of your legal rights and how to deal with money and debt problems, visit the People's Law School website at [peopleslawschool.ca](http://peopleslawschool.ca).

## Managing Your Income and Finances

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"For my daughter's twelfth birthday, we opened a youth bank account for her. I'm a firm believer in getting an early start on this stuff. Now she's putting aside some of her weekly allowance as savings, and we couldn't be more proud!"

– Parveen, Coquitlam

When you earn income, you get to decide where you want to keep that money. Many of us choose to keep it in a bank account. You have legal rights when opening and using a bank account.

### Your rights on opening a bank account

In Canada, you have a right to open an account at a bank or credit union, with a few narrow exceptions that we explain below.

You can open a bank account even if you:

- don't have a job,
- don't have money to put in the account right away, or
- have been bankrupt.

To open an account, you generally need to go to a physical branch of the financial institution. (Some allow you to open an account online.) You must show proper identification.

### Information you must receive when you open a bank account

When you open a bank account, the financial institution must give you information about the account.

This information includes:

- the **interest rate** you'll earn
- how any interest will be calculated
- details of all charges related to the account

- how you'll be contacted about any increase in charges or any new charges
- details of the institution's process for handling complaints

You must get a copy of the account agreement within seven business days of opening the account.

### You can close the account within 14 days of opening it

You have the right to close the bank account, without cost, within 14 business days of opening it. You just need to phone the financial institution and tell them.

If you choose to close the account, the institution must refund any charges relating to the account.

### If you're refused an account

A financial institution can refuse to open a bank account for you if they believe:

- you plan to use it to break the law
- you gave false information when applying for the account
- you might harm or harass its employees or other customers

As well, they can refuse to open an account if:

- you've committed a crime against a financial institution in the last seven years
- you don't allow the institution to verify if the circumstances above apply to you, or to verify your pieces of identification

### If you open a joint bank account

You can open a bank account jointly with other people. You might want to do this, for example, to manage household bills with your partner or someone you live with.

A joint account allows two or more people to access it. Either of you can make deposits, withdrawals, and payments from the account. You're also responsible for any transactions made by the other person. So if the other account holder withdraws more money than is in the account, you may be responsible for repaying the money.

## Protecting your rights when using your bank account

There are important rights and responsibilities that come with having a bank account.

### You have a written agreement with your bank

People usually don't think much about their relationship with their bank. But the important details are set out in a **written agreement**. When you open a bank account, you typically sign some forms. One's usually a signature card, so the bank has a record of your John Hancock. For a chequing account, you have to sign a form to get personalized cheques. At least one of the documents you sign has the details of how the bank will operate your account.

### Bank account service charges vary

**Service charges** differ among banks and accounts. Depending on your account, you may be charged for the cheques you write and for other services the bank provides.

Your account agreement likely doesn't specify the service charges. But it probably says you agree to the bank's general schedule of rates. And it permits the bank to debit your account for any charges the bank imposes from time to time.

When you open an account, the bank must tell you its service charges. The charges are typically listed on its website as well.

Banks change their service charges periodically. If they plan to do this, they must notify you in advance.

### If you deposit an NSF cheque to your account

Let's say someone pays you with a cheque. You deposit it (either physically or with a phone app). Typically, your bank now credits the money to your account. It sends the cheque to the cheque writer's bank for payment. This process ideally ends with the cheque being "cleared." (The money's now available to you.) But sometimes a cheque bounces. That means

there aren't enough funds in the cheque writer's account to cover it. The cheque gets returned to your bank stamped **NSF** (for **non-sufficient funds**).

Your account agreement likely says your bank can debit your account for the amount of the NSF cheque — even if you haven't withdrawn the money. That's true even if your bank is slow and doesn't clear the cheque promptly. (Typically, your bank can only hold a cheque for four or five days before making the funds available to you.)



For more on protecting your rights and step-by-step guidance on working out problems, visit the People's Law School website at [peopleslawschool.ca/finances](http://peopleslawschool.ca/finances).

## Paying income taxes



"Growing up, I never had to worry about preparing my tax return. I'd pass off my information to my parents' accountant, and he'd take care of it for me. When I moved away from home, I figured I'd take a crack at it myself. It took me some time to understand all the moving parts, but now I handle my taxes on my own. It's empowering!"

– Janine, Penticton

Generally, those earning income must pay **income tax**. This is tax you pay on income from:

- work
- running a business
- renting a house or apartment
- investments

Every year, you must report to the federal government how much income you earned. You do this by filing an **income tax return** with the Canada Revenue Agency (CRA). The CRA is the government office in charge of income tax. Based on how much you earned, the CRA collects a percentage of your income in taxes.



If you lived and earned income in BC, you must pay income tax to the provincial government. You report BC income tax to the CRA as part of your federal income tax return.

### Who has to pay income tax

You must file an income tax return if you're a resident of Canada for tax purposes and you owe tax or want to receive a refund.

Canadian residency for tax purposes isn't the same as residency for immigration purposes. People who may be considered residents for tax purposes include:

- Canadian citizens and permanent residents
- refugees
- temporary residents, such as foreign students and foreign workers

If you're outside of Canada, you may still be considered a Canadian resident for tax purposes if you have residential ties in Canada. In this case, you need to pay income tax on your **worldwide** income.

### You may be entitled to a refund

In Canada, employers are responsible for collecting income tax from their workers on behalf of the government. They do this by deducting a portion of the worker's earnings on each pay cheque.

If, when you file your tax return, it turns out you owe less income tax than what your employer collected from you, you're entitled to a refund. If you owe more, you must pay the balance.

### Some types of income aren't taxable

In Canada, some sources of income are **non-taxable**. That means you can leave them out of your income tax calculations, and you don't need to report them to the CRA.

Examples of non-taxable income sources include:

- certain amounts paid by the government
- gifts and inheritances

- the income you earn in a tax-free savings account
- lottery winnings

### You may be entitled to tax deductions or credits

A **tax deduction** reduces the amount of income you pay tax on. You deduct certain expenses from your total income to arrive at your taxable income.

A **tax credit**, on the other hand, reduces the amount of tax you pay on your taxable income. In other words, you owe less tax.

### There is a deadline to file your tax return each year

The deadline for filing your income tax return is **April 30** of the following year. So if you're preparing your 2020 return, you have until April 30, 2021 to file it.

If you're self-employed, or you have a spouse or partner who's self-employed, you both have until **June 15** of the following year to file.



For more on income taxes, including step-by-step guidance on how to prepare and file your return, see the People's Law School website at [peopleslawschool.ca/finances](https://peopleslawschool.ca/finances).



## Credit Cards

We use them all the time — to make purchases, shop online, and collect points. Credit cards are practical and convenient. Here, learn tips for how to prevent (and deal with) problems.

### How credit cards work

The deal with a credit card is this: you get what you want now, and promise to pay later. If you haven't paid within a certain period of time, the folks at Visa or Mastercard — or whatever card you're using — will charge you **interest**. The time before interest charges kick in is called the "grace period."

Credit cards are a form of "open credit." Credit is available as needed, up to a certain limit. This is called your **credit limit**.

### Your rights are set out in a "cardholder agreement"

The card issuer sets the terms of the credit card (including the interest rate and credit limit) in a contract, called the **cardholder agreement**. You must accept the terms of the cardholder agreement before using the card.

The agreement must set out all the terms and conditions of the credit card, including the minimum periodic payment, the credit limit, and how interest is calculated.

Usually, this information is also prominently set out at the beginning of the agreement.

### If there's a change to your agreement

The card issuer can't raise the credit limit on your credit card without your permission — you have to authorize the increase. And it's not enough that you tell a representative you want a higher credit limit. They need to confirm your consent in writing.

For other changes to your cardholder agreement, the card issuer must inform you of the changes.

## If your credit card is lost or stolen

If someone runs up charges on your lost or stolen credit card, you may be on the hook for some of it. Luckily, the law limits the damage. Once you report a missing card to your credit card issuer, you don't have to pay for anything bought with your card after you told them.

If someone uses the card **before** you report it missing, the **maximum amount** you're legally liable for is \$50. (There's one exception to this rule: where your credit card is used at an automated teller machine with your personal identification number, the \$50 cap on your liability does not apply.)

### Disputing a credit card bill

Your monthly credit card bill must tell you how you can correct billing errors. Most major banks and credit unions provide a number to call to speak with someone who can walk you through a billing problem.

Check if there's a time window in which you can dispute a charge. Many banks require you to deal with a problem within 30 days of the billing date.

### Types of errors you may want to dispute

A variety of errors may show up in your credit card bill. These include:

- **An overcharge:** When you're charged too much for something you bought or paid for with a credit card.
- **An incorrect charge:** When the amount charged to your credit card doesn't match the amount you paid.
- **An unauthorized transaction:** When someone who isn't supposed to have access to your credit card makes a charge to your account.



For step-by-step guidance on disputing a credit card bill and other issues relating to credit cards, visit [peopleslawschool.ca/creditcards](http://peopleslawschool.ca/creditcards).

## Credit Reports



"I like to shop, and I was big on loyalty cards. I signed up for a lot of them, because I thought the discounts were worth it. I was shocked to find out that having so many cards led to my poor credit score. Apparently, every time I got a new loyalty card, my credit score dropped a few points."

– Julia, Richmond

Your **credit report** shows your history of paying bills and borrowing money. It's used to calculate your **credit score**. Banks, businesses, and others look at your credit report and credit score to decide whether to hire you, lend you money, or do business with you.

One of the best things you can do to get on top of your finances is to **review your credit report regularly**. In a moment, we'll walk you through how to get a copy and what to look for. But first, some key context.

### Where your credit report and credit score come from

You're a month late paying a utility bill. You max out a line of credit. You get a new loyalty card.

What do these experiences have in common? For all of them, the bank or business you're dealing with likely reports that information to a **credit reporting agency**.

There are two main credit reporting agencies in Canada, Equifax and TransUnion. They gather your credit information into a credit report.

The agencies also use mathematical formulas to convert that credit information into a **credit score**. Your credit score, which is sometimes called your credit rating, can range from 300 to 900. A high score is good. It means you're seen as likely to pay your bills on time, or pay back money you've borrowed.

## You're entitled to a free copy of your credit report

You have the right to see your credit report. The credit reporting agencies must mail you a free copy if you ask. (You can also get your credit report online, but you might have to pay for that.)

You can request a free credit report once a year. It's a good idea to contact both agencies, as they might have different information about you.

### Improving your credit score

Credit reporting agencies don't have to disclose how they calculate credit scores. The formulas they use consider many factors, and they may weigh those factors differently. As a result, your credit score might vary slightly depending on the credit reporting agency involved.

Generally, though, the following are important factors in determining your credit score (from most important to least important):

- **Payment history:** Your history of paying bills.
- **Utilization ratio:** How much of your total available credit you're using. Generally, balances over 50% of your credit limit will lower your credit score.
- **Length of credit history:** Having a few long-standing accounts shows creditors you can manage your debts over time. This will improve your credit score.
- **Types of credit:** It's good to have several different types of credit to show that you can handle your payments. A broader mix will improve your credit score.
- **Credit inquiries:** This means someone has asked to see your credit report. If it's because you're asking for credit — or more credit — that'll hurt your credit score.



For the steps to order your credit report and tips to improve your credit score, go to the People's Law School website at [peopleslawschool.ca/creditreports](https://peopleslawschool.ca/creditreports).

## Who else has access to your credit report

A credit reporting agency can't share your credit report without your permission. (There are three exceptions to this rule, which we explain below.)

Why might someone want to see your credit report? A few reasons. Someone might want to see it before:

- giving you credit
- collecting a debt from you
- renting an apartment or house to you
- deciding whether to hire you
- granting you insurance coverage

You don't *have* to consent to a credit check. Of course, if you refuse, the bank, business, or other party that wants to look at your credit report can also refuse to do business with you.

### Situations where your consent isn't required

There are certain situations where credit reporting agencies *don't* need your consent to share a copy of your credit report. You have no choice when the credit report is requested by:

- the federal, provincial, or municipal government
- the police, for the purposes of an investigation
- anyone with a court order authorizing access to your credit report

**Tip** For a deep-dive on who can access your credit report, head over to the People's Law School website at [peopleslawschool.ca/creditreports](http://peopleslawschool.ca/creditreports).

## Fixing a mistake in your credit report

You have the right to ask a credit reporting agency to fix any mistake you find in your credit report.

For example, let's say your report shows you haven't made regular payments on your phone bill, yet you know you have. You should ask the credit reporting agency to correct the error (and contact your phone company about it).

If the credit reporting agency agrees to make the correction, it must do so promptly. It must also send the new correct information to anyone who received your credit report in the last year. If it fails to do so, it must explain why, in writing. The credit reporting agency must add a note to your report that you asked for the information to be corrected. The note must include the correction that you requested.

### Tip

For a closer look at the types of errors to look out for and guidance on how to fix a mistake in your credit report, visit the People's Law School website at [peopleslawschool.ca/creditreports](http://peopleslawschool.ca/creditreports).





## Borrowing Money

You have options when it comes to borrowing money, some riskier and more expensive than others. However you decide to borrow, there are steps you can take to protect yourself.

### Borrowing money from a friend or relative



"I borrowed \$700 from my sister for some repairs to my car. She told me: 'Pay me back the \$700 when you can, and add \$50 for interest.' It's been a couple months, and she's pressing me for payment. Since we never put anything in writing, I don't see why I should have to pay up now."

– James, Vancouver

Approaching a friend or family member for a loan is an attractive option when you need money. It can be faster, cheaper, and easier than approaching a bank. But it can also lead to problems, and even jeopardize your relationship.

#### It's best to put your agreement in writing

When borrowing money from a friend or relative, the repayment terms should be crystal-clear. Otherwise, disagreements can easily arise, leading to hard feelings, or worse. To avoid uncertainty, it's best to put your agreement in writing.

Even if you don't put it in writing, an oral agreement with a friend or relative is still a contract. It's just as legal and binding as a written contract, as long as all three elements of a contract are present.

Here are the three elements:

- **Agreement:** Both parties understand and have agreed to the terms.
- **Consideration:** Each party receives something of value in the exchange.
- **Intention:** Both parties intend the agreement to be legally binding.

Emails, texts, or notes can help prove there's a valid contract.

#### Tip

For guidance on protecting your rights and working out problems when borrowing money from a friend or relative, visit the People's Law School website at [peopleslawschool.ca/borrowing](http://peopleslawschool.ca/borrowing).

### Payday loans

When money troubles get really bad, it may feel tempting to consider taking out a payday loan. Before you do, be aware they're a *very* expensive way to borrow money.

#### Reasons to avoid payday loans

Here are five good reasons why a payday loan should be your last resort when you're strapped for cash:

- A payday loan is expensive. A 15% charge means you're paying a lot of money in interest.
- When we say expensive, we mean *really expensive*. As in: 20 times more expensive than using a credit card.
- If you're late repaying a payday loan, the lender can charge even more.
- Some payday lenders try to take advantage of you. For example, they may encourage you to borrow to your limit, which puts you more in the hole.
- It's easy to get trapped in a cycle of high-cost debt. Many people end up taking out a new loan to pay off the first.

#### There are limits on payday loans and payday lenders

Should you have no other option but to take out a payday loan, there are laws in place to protect you.

#### How much you can borrow

The most you can borrow from a payday lender is \$1,500. But, depending on your income, you may be limited to a lower amount.

You can't borrow more than 50% of the net income you receive during the term of the loan. Net income is what you earn after taxes and deductions.

### How much the lender can charge

The most a payday lender can charge you for a loan is **15% of the principal amount borrowed**. This includes interest and any other fees.

It bears repeating: this is a very expensive way to borrow money. If you take out a \$300 payday loan, that 15% charge will be \$45. If your loan is for 14 days, this translates into an **annual percentage rate of interest of 391%**. This is roughly 20 times as expensive as using a credit card and 50 times as expensive as borrowing from a line of credit.

### What payday lenders aren't allowed to do

Payday lenders are prohibited by law from giving you more than one loan at a time. In fact, the law sets out a number of things payday lenders are not allowed to do. Such as:

- give you a second loan to pay off the first
- advertise a prize or reward for taking out a loan
- tell you the loan will improve your credit score if it won't

### Cancelling a payday loan

You have the right to cancel a payday loan within **two days** of getting your first advance, **without any penalty**.

You can cancel your payday loan at **any time** if the payday lender:

- didn't tell you the full cost of the loan, including the annual percentage rate of interest you will pay
- didn't tell you about your cancellation rights
- didn't give you a cancellation notice form and a copy of the loan agreement when you signed for the loan

- didn't include the required information in your loan agreement
- did anything else that isn't allowed under the law

To cancel the loan, you must deliver the cancellation notice form to the lender.

#### Tip

For step-by-step guidance on payday loan issues, including cancelling a payday loan, visit the People's Law School website at [peopleslawschool.ca/borrowing](http://peopleslawschool.ca/borrowing).



## Dealing with Debt

Whether it's a mortgage or a short-term loan from a friend, most of us will incur debt at some point in our lives. Here, we walk you through your legal rights in dealing with debt, and how to work out problems.

### Not all debts are equal

Having multiple debts can feel overwhelming. Where to begin? Should you pay off your credit card first? What about your car loan? Some debts are important to deal with before others. Just because an aggressive creditor is pressuring you to pay them first, that doesn't mean you always should.

#### Pay “priority debts” as soon as possible

The law gives creditors different ways of getting their money back if a debtor can't pay. Some ways can create serious problems for a debtor. Car loans are an example. If you miss payments, you can lose the car.

Here are other examples:

- If you don't pay your rent, your landlord can start a process to have you evicted.
- If you don't pay your utility bills, your electricity or gas service can be cut off.
- If you don't pay a court judgment, the creditor can have someone seize your personal property.

These types of debts are called **priority debts**. They should go to the top of the list. Focus on paying off your priority debts as soon as possible.

#### Tip

For the first steps in dealing with debt, visit the People's Law School website at [peopleslawschool.ca/debt](http://peopleslawschool.ca/debt). We walk you through identifying your priority debts, working out what you can pay, and negotiating with your creditors.

## Dealing with debt collectors



“A debt collector started calling my home a few weeks ago. They were calling 10+ times a day. I asked them to direct their calls to my lawyer, but they kept calling me at home. The other day, I found out they've started calling my family members. That was the last straw — I've complained to Consumer Protection BC.”

– Jeremy, Burnaby

Getting collection calls can be stressful. The law speaks to how and when debt collectors can contact you.

### The difference between “debt collectors” and “collection agents”

A **debt collector** is a person who is collecting or attempting to collect a debt. BC debt collection laws apply to any person or business that fits this description.

A **collection agent**, meanwhile, is someone who in the course of business collects debt *for other parties*. A party who is owed money (a creditor) might decide to “sell” the debt to a collection agent. In exchange, the collection agent typically promises to give the creditor a portion of the debt the agent is able to recover.

Collection agents have no special legal powers to collect from a debtor. They are like any other creditor. That said, collection agents are known for their aggressive tactics. (Agents make money only if they recover some of the debt, which makes them highly motivated to come away with something.) Some collection agents contact debtors often and use intimidation to scare debtors into paying. Many of the laws explained here are designed to protect debtors from these types of tactics.

### A debt collector can't harass you

A debt collector can't communicate with a debtor in a way that amounts to **harassment**. Examples of harassment include:

- using threatening, profane, or intimidating language
- exerting excessive or unreasonable pressure
- publishing or threatening to publish a debtor's failure to pay

For example, a debt collector can't phone your home every hour demanding payment. This would be exerting excessive or unreasonable pressure.

This rule also covers a member of the debtor's family or household, a relative, neighbour, friend or acquaintance, or the debtor's employer.

### **What time of day a debt collector can call you**

A debt collector must not communicate by telephone or in person with a debtor:

- from Monday to Saturday before 7 am or after 9 pm
- on a Sunday before 1 pm or after 5 pm
- on a statutory holiday at any time

This rule also applies to:

- a member of the debtor's family or household
- a relative, neighbour, friend or acquaintance of the debtor
- the debtor's employer
- any guarantor of the debt (this is someone who promises to pay a debt if the debtor can't)

### **When a debt collector can contact you at work**

A debt collector can only contact a debtor at work in one of the following situations:

- The collector doesn't have the debtor's home address, phone number, or email, and is only trying to get that information.
- The debtor permits the collector to contact them at work.

- The collector has attempted to contact the debtor at home, by phone, or by email, but has failed to connect. In this case, the collector must not make more than one verbal attempt to contact the debtor at work.

A debt collector cannot harass a debtor's employer. For example, a collector can't repeatedly call your boss to try to get you fired over an unpaid debt.

### **When a debt collector can contact your family or friends**

A debt collector can only contact a debtor's friends and family members to request the debtor's home address, phone number or email. Two exceptions to this rule are when:

- The person being contacted has guaranteed the debt, and is being contacted about the guarantee. (A guarantee is a promise by another person to pay the debt if the debtor can't.)
- The debtor has given permission to the collector to contact the person about the debt.

It's illegal for a debt collector to harass a debtor's friends or family members. See above for a description of what amounts to harassment.



For more on dealing with debt collectors, including guidance on what to do if you dispute the debt, see the People's Law School website at [peopleslawschool.ca/debt](http://peopleslawschool.ca/debt).

### **A creditor wants to take money from your wages or bank account**

If you don't pay a debt, the person you owe can try tapping into money you're owed by someone else. That someone else can be an employer, or it could be a bank.

For example, say you don't pay back a loan. The person you owe, called the **creditor**, can seek a court order to get your employer to redirect a portion of your wages to the creditor. This process is called **garnishment**.



## If a creditor tries to garnish your wages

The garnishing process has several steps. It starts with the creditor bringing a legal action against you to confirm the debt. They must get a court judgment in that action to be able to garnish your wages.

As well, the creditor must apply for a garnishing order. This is a separate court order. It requires a third party who owes money to you to make payments to the creditor.

If the garnishing order is made, the creditor serves that order on your employer. The employer must send a portion of your wages to the court registry.

The creditor then must apply to the court to have the money paid out to them.

There's a limit to how much of a debtor's wages a creditor can garnish. Usually, that limit is 30% of your net income. However, if the creditor is claiming spousal or child support payments, they can take up to 50%.

If garnishing your wages causes you serious financial hardship, you can apply to court for relief.

## If a creditor tries to garnish your bank account

If you don't pay a debt, a creditor has another option to recover their money. They can try to get funds from your bank account. This is called **garnishing** your bank account.

This type of garnishment also starts with a creditor bringing a legal action against you to confirm the debt. However, the creditor can seek a garnishing order for your bank account *at the same time* as they start the debt lawsuit against you. No court hearing is required, and no notice is owed you. These types of garnishing orders often take debtors by surprise.

Money that's garnished from a bank account is paid into court. The creditor can't access it until they get a judgment against you for the debt.



For more on garnishment, including guidance on how to have a garnishing order set aside, visit the People's Law School website at [peopleslawschool.ca/debt](http://peopleslawschool.ca/debt).

## A creditor wants to repossess your property

You've borrowed money from someone and can't pay it back. They may now seek to take your property to satisfy the debt. A creditor's right to take your property (or "repossess" it) depends on the terms of your agreement with them and the property involved.

### If the creditor has "security"

When you borrow money, the lender can ask for **security**. This is a property interest you give them that ensures you'll pay them back. The property is called **collateral**. This arrangement is typically put in writing in a **security agreement**. The debt becomes a secured debt and the creditor a secured creditor. This gives them special rights under the law.

For example, say you want to buy a car. The car dealership lends you the money to do so. But first they have you sign an agreement that gives them a security interest in the car. Now the dealership has certain rights to the car. If you default on an obligation under the security agreement (such as miss a loan payment), they can take the car (also called "seizing" or "repossessing" it) and sell it.

### You have the right to "reinstate" the agreement

The law sets out the procedure to be followed after property you put up as collateral is repossessed.

The secured creditor must give you at least 20 days' written notice before selling the property. The notice must include the amount required to pay off the debt, as well as the amount in **arrears**. Arrears are payments that were due but haven't yet been paid.

If the collateral was **consumer goods**, the notice must spell out that as long as you pay off the arrears on the debt, together with the expenses of repossessing the property, you may **reinstate** the security agreement. Consumer goods means property that's "used or acquired for use primarily for personal, family or household purposes."

The creditor must then return the repossessed property. Then you'd go back to making payments under your agreement as if the default hadn't occurred.

### If the creditor doesn't have security

If you default on a debt that is **not secured**, the creditor can't just come and take your property. They have to take you to court first.

An **unsecured creditor** must first bring a legal action against you for the debt. They need to get a court judgment against you that confirms you owe the debt.

### Certain property is exempt from seizure

When a creditor seeks to repossess your property under a court order, you can protect certain personal property from being repossessed. **Exempt property** includes (among other things):

- necessary clothing of the debtor and the debtor's dependants
- household furnishings and appliances, up to a value of \$4,000
- one car, up to a value of \$5,000 (\$2,000 if the debt is for child support)

Note that any property that's put up as **collateral** for a secured debt can still be seized. For example, say you purchased a car from a dealership and they took a security interest in the car. If you default on the loan, the dealership can repossess the car, and the vehicle exemption won't apply.



For more on repossession, go to the People's Law School website at [peopleslawschool.ca/debt](http://peopleslawschool.ca/debt).

## Getting Out of Debt

Being in debt is stressful. Whether you're a few payments behind or so deeply underwater that you don't open your bills anymore, it can seriously affect your daily life. The good news is there are a number of options for getting out of debt. And there are people who can help.

### Budgeting out of debt

To get out of debt, you need to fully understand your financial situation. Your first step should be to list your assets (what you own) and debts (what you owe).

In listing your assets, consider whether there's something you can sell — maybe a second car or some collectibles? Small sacrifices can sometimes get you through the worst part of a financial crisis.

Your next step should be to make a **budget**. A budget is a plan for how you will spend money over a period of time, such as a month. It shows all the money you expect to get and to spend during that period.

Once you have a budget, you can better see where you're spending on things that aren't truly essential. This can help you decide what you can do without, and direct that extra money to reduce your debts.



For more on budgeting out of debt, visit the People's Law School website at [peopleslawschool.ca/getoutofdebt](http://peopleslawschool.ca/getoutofdebt).

### Consolidating your debts

Consolidating your debts means combining them into a single payment. This can be done in a number of ways, such as through a consolidation loan, a line of credit, or a debt repayment plan. Consolidating your debts can simplify your finances, lower the interest rate you're paying, and speed up the process of becoming debt-free.

## A consolidation loan

A **consolidation loan** is a single, new loan used to pay off multiple debts. Usually, the consolidation loan has a lower interest rate than the average rate on your other debts. The monthly payment for the single loan is usually lower than what you were paying on your multiple debts.

Many financial institutions offer consolidation loans. Usually, you ask for a loan in the amount of all your “unsecured debt.” This is debt in which the creditor does **not** have a security interest that protects them if you don’t pay.

## A line of credit

Opening a **line of credit** for the total amount you owe is another way to consolidate your debts. A line of credit allows you to borrow funds from an account up to a certain credit limit. You only pay interest on the borrowed funds.

Lines of credit can have lower interest rates than most loans. A line of credit also offers flexibility of repayment. As long as you continue to make the minimum payments, you can pay it off as slowly (or as quickly!) as you like.

## A debt repayment plan

A **debt repayment plan** is another way to consolidate your monthly debt payments into one. You set up an account with a **credit counselling agency**. You deposit a monthly amount into the account. The credit counsellor uses this amount to pay your creditors until your debts are erased.

To develop the debt repayment plan, the credit counsellor contacts your creditors on your behalf and proposes a payment schedule based on your ability to pay. Usually, your monthly payments are then reduced, and extended over a longer period.

### Tip

For step-by-step guidance on consolidating your debts, visit the People’s Law School website at [peopleslawschool.ca/getoutofdebt](http://peopleslawschool.ca/getoutofdebt).

## Negotiating payment terms

If you’re struggling with debt, contacting your creditors to explore options together can help turn things around.

### You can contact your creditors yourself

If you’re having trouble making your debt payments, one option is to contact your creditors yourself. You can describe your financial situation and explain why you can’t stick to your original agreement. You don’t need to hire anyone to do this for you.

Your creditors may agree to change the terms of your agreement to help you pay.

### First, though, find out when the limitation period expires

Before you contact a creditor, find out when the limitation period expires. This is a time period, set by law, within which someone has to bring a legal action. If the time period has passed, an action cannot be brought or started. **If it’s been more than two years** since you made a payment or the creditor demanded payment, the creditor may have lost their legal right to enforce the debt. If the limitation period hasn’t yet expired and you acknowledge in writing that the debt exists, the limitation period will be restarted.

### You can hire someone to negotiate on your behalf

If you’re nervous about contacting your creditors yourself, there are professionals who can help. For example, a credit counsellor can contact your creditors on your behalf and propose a payment schedule based on your ability to pay. This may be a good option if you have a lot of debt or many creditors.

### Your creditors can refuse to negotiate

Your creditors aren’t legally obliged to negotiate with you. However, most creditors will agree to negotiate because they want to get as much money from you as they can. The earlier you contact your creditors, the more likely they’ll be open to negotiating.

Most creditors will agree to negotiate with credit counsellors. Going to a credit counsellor shows the creditor that you're committed to reducing your debt. A non-profit credit counselling agency can work with your creditors to get you the best deal possible without trying to sell you something.

If you go to a debt settlement company, make sure your creditors agree to negotiate with the company. Some debt settlement companies use aggressive negotiating tactics that may cause your creditors to lose patience. Watch out for companies that try to charge you a fee even if they aren't successful in reaching an agreement with your creditors.

**Tip** For in-depth guidance on negotiating payment terms with your creditors, visit the People's Law School website at [peopleslawschool.ca/getoutofdebt](http://peopleslawschool.ca/getoutofdebt).

## Negotiating a debt settlement

If you're experiencing debt problems, one option to explore is whether your creditors may be open to negotiate a **debt settlement**. This involves paying your creditors a lump sum that's less than the full value of the debt you currently owe.

### You can negotiate a debt settlement on your own

The simple idea behind debt settlement is to negotiate with your creditors to have your debts paid in full but for less than what you currently owe. Debt settlements can range between 20% and 80% of the debt owed. (Settlements at the lower end of this range are extremely rare and would require exceptional circumstances.)

You can negotiate a debt settlement on your own, or you can get help from a professional.

### You can hire someone to negotiate a debt settlement

You can get help with negotiating a debt settlement. Non-profit credit counselling agencies offer debt settlement services. So do

for-profit companies. Sadly, some exaggerate what they can do to solve your debt problems. And some do things that are downright illegal.

Anyone who acts for you or represents you in negotiations with your creditors must be licensed as a "debt repayment agent." If you deal with an unlicensed debt settlement company, you have little recourse if things don't work with them.

## The problem with many debt settlement companies

Many debt settlement companies work this way: After you sign a contract with the company, they require monthly payments. The money goes into an account. When there's enough in the account, the company makes its first settlement offers to some of your creditors.

Here's the problem: While you're making payments to the debt settlement company, your creditors get nothing. Some of them may run out of patience and get a collection agency involved to recover their money. Or they might take you to court. It's critical to make sure **in advance** that your creditors are willing to cooperate with the debt settlement company.

**Tip** For more on your rights if you hire a debt settlement company, as well as steps to work out problems, visit the People's Law School website at [peopleslawschool.ca/getoutofdebt](http://peopleslawschool.ca/getoutofdebt).

## Making a consumer proposal

A **consumer proposal** is an offer you make to your creditors to settle your debts. The offer can be to pay them a percentage of what you owe, to extend the time to pay them, or both. If your creditors accept the proposal, you pay them under the terms of the consumer proposal, typically for a period of three to five years. If you meet the conditions in the proposal, you'll be legally released from your debts — except for a few types of debt, such as support payments.



A consumer proposal is a formal, legally binding process overseen by a **licensed insolvency trustee**. (This is a professional licensed by the federal government to advise people with debt problems.) It's less severe than bankruptcy, since you get to keep your assets and it won't hurt your credit score for as long as going bankrupt does.

When you make a consumer proposal, you stop making payments directly to your creditors. If your proposal is accepted, you start making payments to the insolvency trustee. The trustee distributes the money to your creditors under the terms in the proposal. All of the money must be paid out under the consumer proposal within five years.



For guidance on making a consumer proposal, see the People's Law School website at [peopleslawschool.ca/getoutofdebt](https://peopleslawschool.ca/getoutofdebt).

## Declaring bankruptcy

Bankruptcy is an involved process where you give up most of your assets to get rid of your debts.

The most common way for a debtor to go bankrupt is to voluntarily declare bankruptcy. This is called making an **assignment in bankruptcy**. It starts a legal process in which you give up most of what you own to get rid of (most of) your debts. Going bankrupt can take a year or more, and has serious consequences, so it's a drastic measure.

To be eligible to declare bankruptcy, you must be an "insolvent person." That means you live or own property in Canada, and you owe at least \$1,000 to creditors. Plus, you must meet **one** of these criteria:

- you can't pay your debts as they come due,
- you've stopped paying your debts, or
- the value of your property would not be sufficient to pay all your debts.

Most people going bankrupt owe money to more than one creditor. However, debtors with only one creditor are still eligible to declare bankruptcy.

Bankruptcy laws provide that you'll be "automatically discharged" from bankruptcy after a certain period of time. Discharged means you're released from your debts (except for a few types of debt which under the law cannot be discharged, such as support payments and court fines).



For more on what's involved in declaring bankruptcy, visit the People's Law School website at [peopleslawschool.ca/getoutofdebt](https://peopleslawschool.ca/getoutofdebt).



## Where to Get Help

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### Better Business Bureau

An organization that receives complaints about local businesses that are members. They may be able to help if someone misled you into signing up for a credit card or you have problems with a debt settlement company.

Toll-free: 1-888-803-1222

Web: [bbb.org/ca/bc](http://bbb.org/ca/bc)

### Canadian Anti-Fraud Centre

A government agency that can help if you think someone may have stolen your credit card information through a scam.

Toll-free: 1-888-495-8501

Web: [antifraudcentre-centreantifraude.ca](http://antifraudcentre-centreantifraude.ca)

### Consumer Protection BC

The organization that regulates debt repayment agents and payday lenders in BC. They can also help with certain problems with credit cards and credit reports.

Toll-free: 1-888-564-9963

Email: [info@consumerprotectionbc.ca](mailto:info@consumerprotectionbc.ca)

Web: [consumerprotectionbc.ca](http://consumerprotectionbc.ca)

### Credit Canada

A national non-profit agency that offers debt consolidation and financial education programs to all Canadians.

Toll-free: 1-800-267-2272

Web: [creditcanada.com](http://creditcanada.com)

### Credit Counselling Society of BC

A non-profit society that helps people better manage their money and debt. Contact them to book a free consultation with a credit counsellor.

Toll-free: 1-888-527-8999

Email: [info@nomoredebts.org](mailto:info@nomoredebts.org)

Web: [nomoredebts.org](http://nomoredebts.org)

### Financial Consumer Agency of Canada

A government organization that can help if you think a major Canadian financial institution has violated your rights.

Toll-free: 1-866-461-3222

Web: [canada.ca/en/financial-consumer-agency](http://canada.ca/en/financial-consumer-agency)

### Office of the Information & Privacy Commissioner

Oversees BC's laws relating to privacy and access to information. They can investigate if you're refused access to your credit report, or someone gets access to your credit report illegally.

Toll-free: 1-800-663-7867

Email: [info@oipc.bc.ca](mailto:info@oipc.bc.ca)

Web: [oipc.bc.ca](http://oipc.bc.ca)

### Office of the Superintendent of Bankruptcy

The government body that oversees bankruptcies and regulates licensed insolvency trustees.

Toll-free: 1-877-376-9902

Web: [ic.gc.ca/osb](http://ic.gc.ca/osb)

## Glossary

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**Annual percentage rate of interest:** How much it costs to borrow money for one year, expressed as a percentage. A rate of 20% means that it costs \$20 to borrow \$100 for one year.

**Assignment in bankruptcy:** A legal document that's the starting point for a voluntary bankruptcy.

**Bankruptcy:** A legal process where a person gives up most of their property in exchange for getting rid of (most of) their debts.

**Budget:** A plan setting out how a person will spend money over a period of time. It shows all the money expected to be earned (income) and spent (expenses) during that period.

**Collateral:** Property given or promised to someone to make sure a loan is paid back or a promise is kept.

**Collection agent:** Someone who in the course of business collects debt for other parties.

**Consolidation loan:** When a debtor combines most or all of their debts into a single, new loan.

**Consumer proposal:** An offer made by a debtor to pay creditors a portion of what they're owed. A consumer proposal is a formal, legally binding process overseen by a licensed insolvency trustee.

**Credit card:** A card that allows a person to pay for things based on a promise to pay later.

**Credit counselling agency:** An agency that helps people better manage their money and debt.

**Credit report:** A detailed list of a person's history of paying bills and borrowing money, and other information about them.

**Credit reporting agency:** A business that keeps a record of a person's credit history, in the form of a credit report. It also calculates a person's credit score. The two main credit reporting agencies in Canada are Equifax and TransUnion.

**Credit score:** A number between 300 and 900 that reflects the information in a person's credit report. The score indicates how likely a person is to pay back their debts. High credit scores are good, and low credit scores are bad.

**Creditor:** A person or business another person owes money to.

**Debt repayment plan:** An arrangement where a debtor deposits money in an account that's used to pay their creditors. It's a way of consolidating debts.

**Debt settlement:** A settlement of a person's debts negotiated with their creditors. The settlement is typically a lump-sum amount that's less than the full value of the debts.

**Debtor:** Someone who owes money.

**Garnishment:** One option for a creditor to get money from someone who doesn't pay a debt. Garnishment allows a creditor to tap into the debtor's bank account, their

wages, or other income they receive (like rent cheques from a tenant).

**Interest:** An amount paid to a creditor in exchange for money they lend. The amount is usually a set percentage of the money borrowed. The percentage is called an "interest rate."

**Licensed insolvency trustee:** A professional regulated by the federal government who provides advice to people and businesses with debt problems. Only licensed insolvency trustees can file an assignment in bankruptcy or a consumer proposal.

**Line of credit:** A pre-set amount of money that a person can borrow as needed.

**Overdraft:** When someone spends more money than is available in a bank account.

**Payday loan:** A short-term loan for \$1,500 or less. A payday loan must be repaid within 62 days, when the borrower receives their paycheque or other income. The interest rate on a payday loan is usually much higher than the interest rates charged by credit cards or bank loans.

**Priority debt:** A debt that leads to serious consequences — such as being evicted or having essential services disconnected — if it isn't paid.

**Secured creditor:** A creditor who holds a security interest in collateral. The security interest allows the creditor to take the collateral if the debtor defaults.

**Security:** An interest in property given to someone to make sure a loan is paid back or a promise is kept. The property given or promised is called collateral.

**Security agreement:** A written agreement showing an intention to grant a security interest to another party.

**Unsecured creditor:** A creditor who has no security interest in any collateral.

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