

Bankruptcy Guide

Personal and Small Business

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PART I

Everything you need to know about debt





1 Knowing Your Credit Rating

1. Debt — the good, the bad, and the ugly

Debt is not bad in and of itself. In fact, consumer debt has been one of the great dynamic factors in the Canadian economy. Governments encourage consumers to consume because we need a high level of domestic consumption for both stability and growth.

Today, Canadian consumer debt is at historic high levels. Statistics Canada claims that total debt as a percentage of disposable income rose steadily from about 72 percent in the mid-1980s to near 120 percent in 2003. This is mostly due to an increase in mortgage holdings and credit card use.

Good debt is the kind of debt that helps us lead a better, more rewarding life sooner than if we had to first save all the money to purchase a particular commodity. Not many of us could afford to buy a house or a car if we could not borrow money to do so. Debt incurred to start a business or to pay for education is also considered to be “good” debt.

Bad debt is debt incurred for short-term pleasure, such as a trip, expensive jewellery, or clothes. And ugly debt is debt you cannot pay off quickly. It continues to bear a high rate of interest — in some cases, up to 21 percent.

Any debt can be an ugly debt if you let it take control of you. For example, a debt incurred for education can turn into an ugly debt if you do not complete your course of studies or you complete your course of studies but cannot earn enough money to service and then pay down the debt. Using your credit card to finance a major purchase such as furniture can also turn into an ugly debt very quickly if you cannot make the payments.

2. What is a credit rating?

We all know how important it is to have a good credit rating. A good credit rating enables you to get a credit card, buy a car, buy a home, rent a home, and borrow funds to tide you over in an emergency. In some cases, it can even help you to get a job. But who determines your credit rating and how does it work?

Credit reporting agencies or credit bureaus collect information about consumers' financial affairs and sell that information to their business members, such as credit grantors, employers, and insurance companies. The credit bureaus charge annual fees, as well as a fee for each credit report requested by members.

Credit bureaus get their information from three major sources:

- ❖ Consumers supply information, primarily from filling out application forms for credit. Credit grantors supply this information to the credit bureaus when they request a credit report on the person.
- ❖ Public records provide information on such matters as bankruptcies, court judgments, foreclosures, and agreements registered with provincial authorities.
- ❖ The major credit grantors and collection agencies send their credit files electronically to the credit bureau every month. This results in files for each consumer that include the account number, outstanding balance, and a nine-point scale indicating whether a payment was made on time or late (see below).

In Canada, there are three major credit bureaus. Most national and international creditors, such as banks and department stores, are registered with all three. So the chances are good that whatever shows up on the credit report from one bureau will also appear on the others. This makes it simple for you to check your history, as you only have to check one bureau's records.

In Canada, there are three major credit bureaus: Equifax Canada, Northern Credit Bureaus Inc. (NCB), and TransUnion Canada.

3. Credit rating scales

There are a number of different credit rating scales in existence, but we'll look at the two most popular ones here: the nine-point credit rating scale and the FICO score.

3.1 Nine-point credit rating scale

Credit bureaus use the nine-point scale to indicate whether a payment was made on time or late.

Credit Bureau Rating Scale

- | | |
|---|--|
| 0 | Too new to rate; approved but credit has not been used |
| 1 | Pays (or paid) within 30 days of billing; pays account as agreed |
| 2 | Pays (or paid) in more than 30 days but not more than 60 days, or one payment past due |
| 3 | Pays (or paid) in more than 60 days but not more than 90 days, or two payments past due |
| 4 | Pays (or paid) in more than 90 days but not more than 120 days, or three or more payments past due |
| 5 | Account is at least 120 days overdue, but is not yet rated 9 |
| 6 | (Code 6 does not exist) |
| 7 | Making regular payments under a consolidation order or similar arrangement |
| 8 | Repossession (indicate if it is a voluntary return of merchandise by the consumer) |
| 9 | Bad debt; placed for collection; skip |

3.2 FICO score

The FICO score was developed by Fair Isaac corporation, the pioneers in credit scoring. It is a snapshot of your credit rating at a particular point in time. Lenders use a number between 300 and 850 to determine your credit rating. The higher your FICO score, the more likely you are to be approved for loans and receive favourable rates.

Your FICO score breaks down as follows:

- ❖ 35 percent of the score is determined by payment histories on your credit accounts, with recent history weighted a bit more heavily than the distant past.
- ❖ 30 percent is based upon the amount of debt you have outstanding with all creditors.
- ❖ 15 percent is produced on the basis of how long you've been a credit user (a longer history is better if you've always made timely payments).
- ❖ 10 percent is comprised of very recent history, based on your efforts to obtain loans or credit lines in the past few months.
- ❖ 10 percent is calculated from the mix of credit you hold, including instalment loans (e.g., car loans), leases, mortgages, and credit cards.

4. How can I check my credit rating?

The three major credit bureaus in Canada are required by law to provide any consumer with a report of his or her credit rating upon request. As we mentioned above, most national and international creditors are registered with all three Canadian credit bureaus, so you should only have to check one bureau's records.

There is no cost for the credit report but you must apply in writing. Most of the credit bureaus have a form available on their websites (see below) or use Worksheet 1 to send through your request. Your report will usually be processed in five to ten days. You can also get your credit report online immediately for a cost of approximately \$14.50.

Don't forget that you will be required to include two pieces of personal identification along with your written request (e.g., driver's licence, bank account statement, or gas, telephone, electricity, or cable bill). Also, if your current address has changed within the last 90 days, you should attach a confirmation of your address with your request.

Here is the contact information for the credit bureaus:

Equifax Canada

Consumer Relations Department
Box 190 Jean Talon Station
Montreal, QC H1S 2Z2
Toll free: 1-800-465-7166
Fax: (514) 355-8502
www.equifax.com/EFX_Canada

Northern Credit Bureaus

336 Rideau Boulevard
Rouyn-Noranda, QC J9X 1P2
Toll free/fax: 1-800-646-5876
www.creditbureau.ca

TransUnion Canada

PO Box 338, LCD 1
Hamilton, ON L8L 7W2
Toll free: 1-866-525-0262
www.tuc.ca

For residents of Quebec:

TransUnion (Echo Group)

1600 Henri Bourassa Boul. Ouest
Suite 210
Montreal, QC H3M 3E2
Toll free: 1-877-713-3393

5. How are consumers' rights protected?

Every consumer has a right to full disclosure of the content and the source of any information on his or her credit file. Credit reporting agencies and creditors must provide prompt and complete reports to the consumer about adverse credit information, and must investigate and use their best efforts to confirm disputed negative information.

Credit bureaus share information with each other and with their business members through a system known as the National Equifax Network. The network observes strict standards governing reporting of adverse information and purging of credit reporting records.

If you have a problem that you cannot resolve with the credit bureau, you can contact the registrar of credit reporting agencies. This is a provincial government body that oversees consumer reporting agencies.

Debt information remains on your credit rating file for six years before it is purged.

Worksheet 1

Request for Credit Report

<hr/> REQUEST TO OBTAIN MY CREDIT HISTORY REPORT <hr/>				
<i>PLEASE PRINT</i>				
Name: _____				
LAST NAME	FIRST NAME	INITIAL	SUFFIX (SR., JR., ETC.)	
Current Address: _____				
STREET ADDRESS	APT.	CITY	PROVINCE	POSTAL CODE
<i>PREVIOUS ADDRESS(ES) (within last 5 years)</i>				

STREET ADDRESS	APT.	CITY	PROVINCE	POSTAL CODE

STREET ADDRESS	APT.	CITY	PROVINCE	POSTAL CODE

Date of Birth: _____			Social Insurance Number: _____	
MONTH	DAY	YEAR	(OPTIONAL)	
The name and at least 4 digits of a major credit card: _____				
WERE YOU DENIED CREDIT? No [<input type="checkbox"/>] Yes [<input type="checkbox"/>] BY WHICH INSTITUTION _____ WHEN _____				

Furthermore, provincial consumer protection acts protect several rights of consumers in the following ways:

- ❖ Reports may only be given to a person seeking information for the purpose of extending credit or collecting a debt, or for a tenancy inquiry, employment or insurance verification under authority granted by a government statute, or otherwise as a direct business requirement.
- ❖ Before a person may obtain a report, she or he must have the consumer's consent in writing, or notify the consumer of the request by mailing a notice postmarked at least three days before obtaining the report.
- ❖ If a consumer is denied credit or has an increased cost as a result of information obtained in a credit report, the consumer must be notified promptly by the person requesting the credit information.
- ❖ A consumer has a right to see his or her file and has a right to receive a copy of any report.

In addition, every consumer has a right to place a 100-word statement (50 recommended) on the credit bureau file, to be given to anyone who obtains a report. This statement is used to give your side of a credit reporting issue. For example, if you had to file for bankruptcy because you purchased a leaky condo and could not afford your share of the repairs, you could place a statement in your file to this effect. You may have had a dispute with a creditor over a warranty that the creditor is not honouring. You should only have to place the statement with one of the credit bureaus, but it is a good idea to get a credit report from all the credit bureaus to ensure your statement has been placed.

6. What happens to my credit rating if I declare bankruptcy?

Credit bureaus have strict policies regarding how bankruptcy information is treated on your credit file:

- ❖ *Purging files.* The data included in the bankruptcy will be purged from your credit file six years after the date of the last activity.
- ❖ *Bankruptcy discharge.* There is no change to data already appearing on the file following the posting of a bankruptcy or a discharge.
- ❖ *Listing balances of debts.* The data that the credit grantor provides is on tape, and the credit bureau simply records the balance shown by the credit grantor.