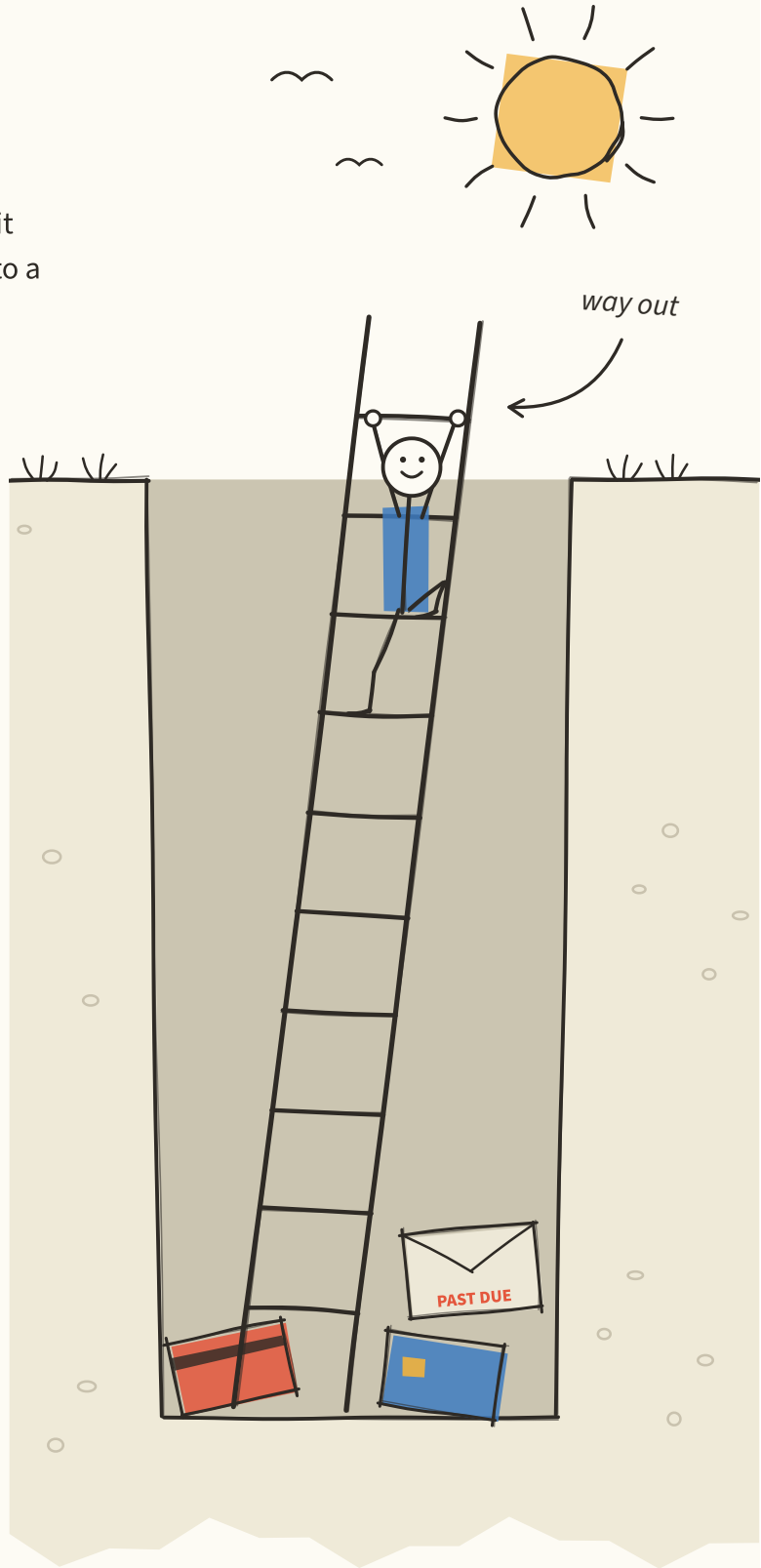
Debt
in Canada

What your debt really costs, what it does to your credit score, and how to get out of it, from a tighter budget to a consumer proposal.



$22,699

Average debt per Canadian borrower, not counting mortgages, in mid-2026.

Free help exists. A first meeting with a licensed trustee or a non-profit credit counsellor costs nothing.

There's more than one way out



Between paying everything back alone and going bankrupt sit a payoff plan, a cheaper loan, a repayment plan arranged by a credit counsellor and a consumer proposal. Even among Canadians who file for insolvency, 78% choose a proposal over bankruptcy.

Four numbers to start with

$22,699

Average non-mortgage debt per Canadian with a credit file: cards, car loans, lines of credit.

$1.76

Owed by Canadian households for every **$1 of disposable income**, mortgages included.

146,135

Consumer proposals and bankruptcies filed in the 12 months to August 2026.

$0

The cost of a **first meeting** with a Licensed Insolvency Trustee or a non-profit credit counsellor.

The ways out, gentlest first

each rung costs more, and clears more



	THE OPTION, AND WHO HELPS	WHAT YOU REPAY	WHAT IT COSTS	CREDIT REPORT
1	**Budget and payoff plan** You, with a plan	Everything	Nothing extra	Improves as balances fall
2	**Cheaper loan or transfer** Your bank or a credit union	Everything, at a lower rate	Interest and fees	One new account and inquiry
3	**Debt management plan** Non-profit credit counsellor	Everything, interest cut or stopped	A small monthly fee	2 years after it ends
4	**Consumer proposal** Licensed Insolvency Trustee	A share you negotiate	Fees built into the payments	3 years after it ends
5	**Bankruptcy** Licensed Insolvency Trustee	Some assets and part of any surplus income	Fees set by federal rules	6 or 7 years after discharge

What's on each page

3 Kinds of debt, and what each one costs

4 How people end up owing too much

5 How interest works, and the minimum-payment trap

6 Payday loans and the 35% legal limit

7 What debt does to your credit score

8 If you fall behind: collectors and your rights

9 Write it all down and set a budget

10 Stop it growing, and find money you're missing

11 Avalanche or snowball: the order to pay

12 Consolidation loans and balance transfers

13 Free help: counsellors and trustees

14 How a consumer proposal works

15 How bankruptcy works

16 Rebuilding, a checklist and the words you'll hear

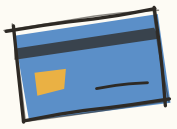
Call before you miss a payment

A lender has more room to help while your account is still in good standing: a lower rate, a longer term, a short payment break. A trustee also has more options before anything has gone to collections or court.

The federal bankruptcy regulator says the same thing: people who get debt advice at the first sign of trouble have better options.

Equifax Canada Market Pulse, Q2 2026 · Statistics Canada via Nova Scotia Finance, Q2 2026 · Office of the Superintendent of Bankruptcy, insolvency statistics to August 2026 · FCAC

Not all debt costs the same



Debt is money you've borrowed and promised to pay back with interest. The kind of debt decides how expensive it is, and what a lender can do if you stop paying.

Secured debt

The loan is tied to something you own, called **collateral**. A mortgage is secured by your home, a car loan by the car. If you stop paying, the lender can take the thing back and sell it, so secured debt is cheaper: the lender's risk is lower.

A **home equity line of credit** (HELOC) is also secured by your home, even though you use it like a credit card.

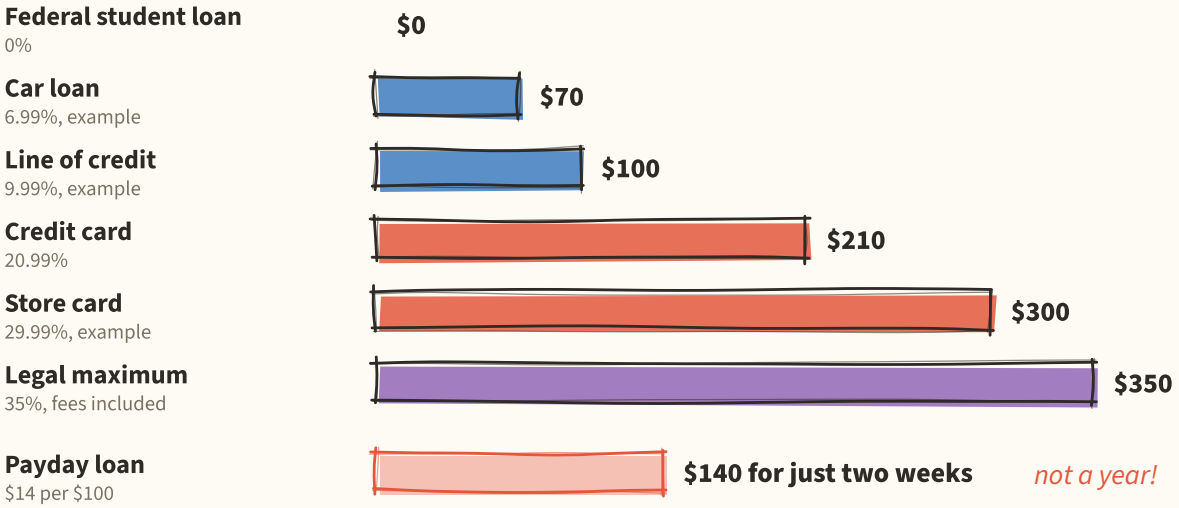
Unsecured debt

Nothing backs the loan except your promise: credit cards, most lines of credit, personal loans, student loans, a phone bill, taxes owed to the CRA. The lender can't take your things without first going to court, so it charges more to cover the risk.

This is the debt that consumer proposals and bankruptcy deal with, and the debt that usually gets out of hand.

What $1,000 costs to borrow for a year

rates vary: check your own statements



Two more ways to sort debt

Revolving credit lets you borrow, repay and borrow again up to a limit: credit cards and lines of credit. There's no end date, so a balance can sit there for years if you only pay the minimum.

Instalment loans have a fixed payment and an end date: car loans, personal loans, mortgages. Each payment shrinks the balance on a schedule, which makes them easier to plan around.

Most people in trouble have both, and the revolving balances do most of the damage because nothing forces them down.

Is any debt "good"?

Borrowing can make sense when it buys something that holds value or raises your income, at a rate you can carry: a mortgage, the federal part of a student loan, which no longer charges interest, or a car you need to get to work.

Debt used to pay for everyday spending is the kind to clear first, because there's nothing left to show for it once the money is spent.

FCAC (credit card rates; secured and unsecured credit) · Criminal Code, s. 347, and Criminal Interest Rate Regulations (from Jan. 1, 2025) · ESDC (Canada Student Loans interest-free since April 1, 2023) · Canooq examples

How people end up owing too much



Debt problems tend to start in one of two ways: a sudden hit, like a lost job or a separation, or a small gap between what comes in and what goes out that a credit card quietly fills every month.

The sudden hit

A layoff, an illness, a separation, a car that dies, a roof that leaks. Income drops or a bill arrives that savings can't cover, and the card or the line of credit takes it.

Those are the moments a **three-month emergency fund** is for. Without one, a single bad month can turn into years of payments.

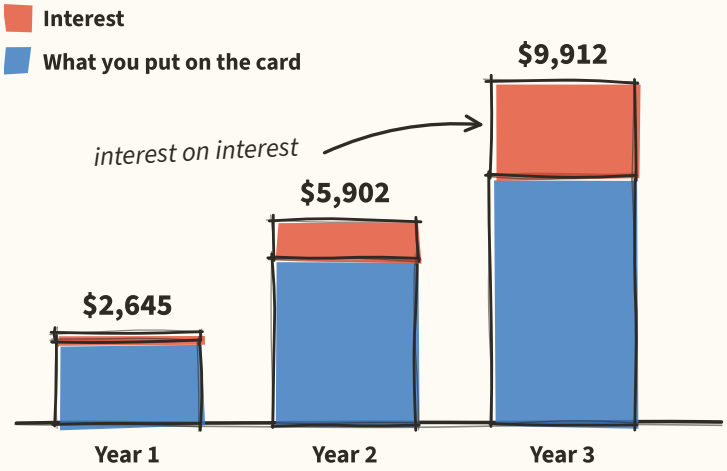
The slow gap

Rent, groceries and insurance go up, pay doesn't keep pace, and the shortfall goes on credit. Nobody decides to borrow $200 a month. It happens one grocery run at a time, and the balance only gets noticed when the minimum payment starts to sting.

The gap is harder to spot than a crisis, and the interest compounds on top of it.

A $200 gap, three years later

what goes on the card vs what interest adds



Say you're **$200 short** every month and put the difference on a card at 20.99%, paying nothing back. After a year you owe **$2,645**. After three years it's **$9,912**: $7,200 you spent and **$2,712 of interest**.

Closing the gap stops the balance growing. Paying it down is a second, separate job.

What it costs beyond money

- **Choices narrow.** A high balance and late payments lower your credit score, which means higher rates, harder rental applications and sometimes bigger deposits for a phone or utilities.
- **Every raise is spoken for.** Money that could build savings goes to interest instead. At 20.99%, $10,000 on a card costs about $175 a month just in interest.
- **It wears on people.** Debt worry follows you to work and to bed, and it strains relationships. Talking to a counsellor early takes a lot of that weight off, because you stop guessing.

If it's become too much

Money trouble can hit mental health hard. If you're struggling to cope, call or text **9-8-8**, any time, for free. The debt can wait a day. It has solutions, and none of them has to be chosen tonight.

Why the balance barely moves

Interest is the price of borrowing, charged as a yearly rate but added every month. Pay only the minimum on a card and most of your payment goes to interest, so the balance falls painfully slowly.



1.75% a month

Three things your statement won't say plainly

1.75%

A 20.99% card charges about **1.75% a month**. Interest is worked out on your daily balance and added each month, then the next month's interest is charged on that interest too.

21 days

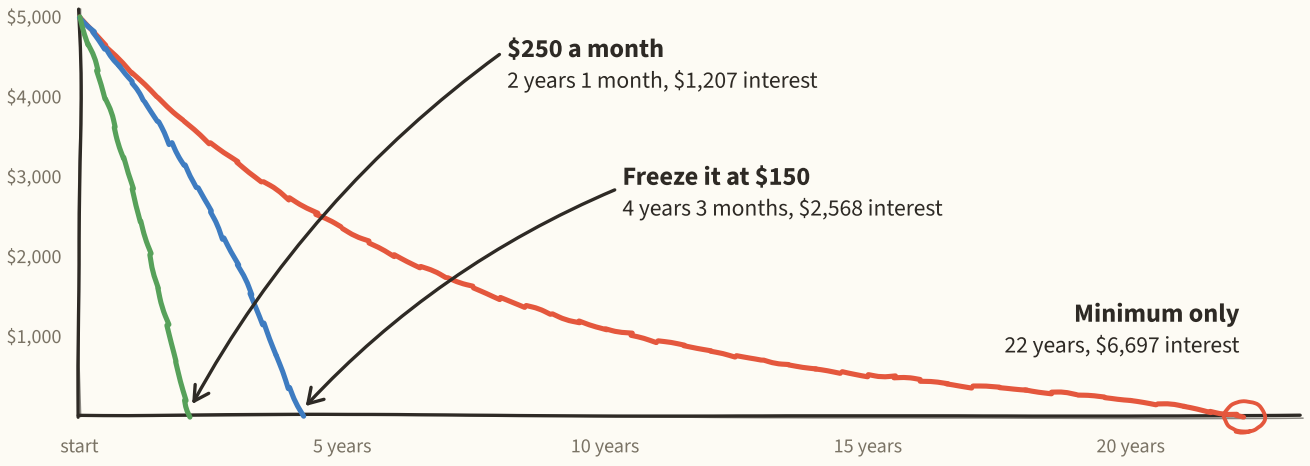
The **grace period**. Pay the full statement balance by the due date and new purchases cost nothing. Pay less, and you pay interest on those purchases from the day you made them.

Day 1

Cash advances, and usually balance transfers, get no grace period. Interest starts the day you take the money, often at a higher rate than purchases.

$5,000 on a card at 20.99%

same debt, three ways to pay it



The minimum is set to shrink with you

A typical minimum is **3% of the balance**, or $10 if that's more. On $5,000 that's $150, of which about **$87 is interest**. As the balance falls, so does the minimum, so the debt keeps shrinking more slowly. Pay only the minimum and the card takes **more than 22 years** and **$6,697** of interest to clear.

The fix is simple: **freeze the payment**. Keep paying the first minimum, $150, every month, and the same card is gone in just over four years with $2,568 of interest. At $250 a month it takes about two years and costs $1,207.

Your statement does the math for you

Federally regulated card issuers must print how long the balance would take to clear on minimum payments alone. Find that line on your next statement.

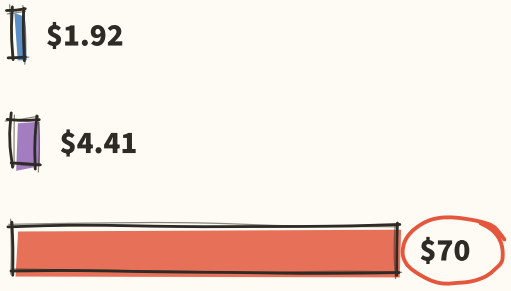
In **Québec**, the minimum payment has been at least 5% of the balance since August 1, 2025, which clears the same $5,000 in about ten years instead of 22.

FCAC (grace period; minimum payments; payment holidays) · FCAC (Québec 5% minimum) · Canooq calculations: monthly compounding, minimum of 3% or $10

Payday loans and the 35% limit

Since January 1, 2025, it's a crime in Canada to lend at more than 35% a year, fees included. Payday loans are the big exception, and the most expensive money you can borrow legally.

Borrowing $500 for two weeks



The federal maximum for a payday loan is **$14 for every $100** borrowed. On $500 for two weeks that's **$70**. The same $500 as a cash advance on a 22.99% card costs about **$4.41** over the same 14 days.

Stretched over a year, $14 every two weeks works out to roughly **365% a year**. Some provinces set their own payday rules on top of the federal cap, including limits on taking a new loan to repay the last one.

Other high-cost credit to watch

PRODUCT	HOW IT COSTS YOU
Instalment lenders	Online and storefront loans of a few thousand dollars that can charge up to the 35% maximum, sometimes with optional insurance added to the balance.
Buy now, pay later	Free if every instalment is paid on time. Miss one and fees or interest can apply, and several plans at once are easy to lose track of.
Rent-to-own	Small weekly payments that add up to far more than the store price of the sofa or TV.
Store cards	Rates are often higher than on bank cards. Check what happens when a "no interest" promotion ends.

Cheaper places to turn first

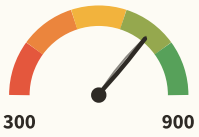
1. **Ask the bill's owner for more time.** Utilities, landlords and the CRA often agree to a payment plan if you call before the due date.
2. **Your own bank.** An overdraft or small line of credit usually costs a fraction of a payday loan, even at a high rate.
3. **A credit union.** Some offer small, short-term loans built to replace payday borrowing.
4. **Benefits you haven't claimed.** Filing a late tax return can release GST/HST credit, Canada Child Benefit or provincial payments you're owed (page 10).

If you already have more than one payday loan

Borrowing from one lender to repay another is how a $500 problem becomes a $3,000 one. Payday loans are unsecured debt, so a consumer proposal or bankruptcy deals with them like any other. Talk to a credit counsellor or a trustee before taking the next one.

Criminal Code, s. 347 · Criminal Interest Rate Regulations (payday cap $14 per $100) · FCAC (payday loans; cash advances) · Canooq calculations

What debt does to your credit score



Your credit score is a number from 300 to 900 that tells lenders how likely you are to pay them back. Paying on time matters most, then how much of your available credit you're using.



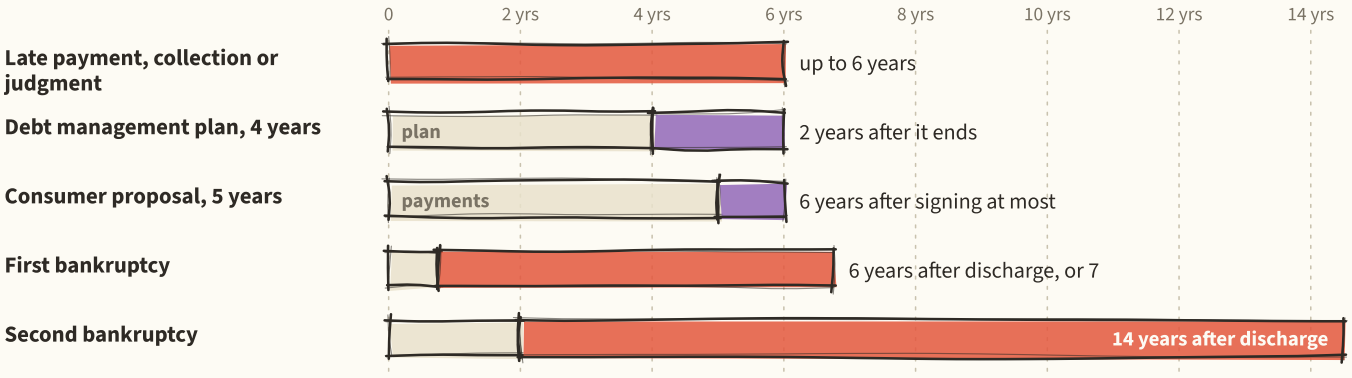
higher = cheaper credit

Checking your own score never lowers it

What moves the number

1. **Paying on time.** The FCAC calls payment history the most important part of your score. A payment 30 days late can show up on your report for six years.
2. **How much of your limit you use.** Try to stay under **30% of your total credit limit**. Owing $4,500 on a $5,000 card looks riskier than owing $1,000, even if you never miss a payment.
3. **How long you've had credit.** Older accounts help, so think twice before closing your oldest card once it's paid off.
4. **New applications.** Each application for new credit leaves an inquiry. Several in a short time can lower your score a little.

How long the bad news stays on your report



TransUnion keeps a first bankruptcy 7 years in Ontario, Québec, Prince Edward Island and Newfoundland and Labrador.

Check your report for free

Canada has two main credit bureaus, **Equifax** and **TransUnion**. Both let you see your credit report online for free. Equifax also shows a free score everywhere in Canada; TransUnion's free score is for Ontario and Québec residents, and many banking apps show one too.

Checking your own report never lowers your score. Look for debts you don't recognize, wrong balances and late payments that weren't late. You can ask the bureau to correct errors, but nobody can remove accurate information early, whatever a "credit repair" company promises.

A score recovers

Old problems weigh less every year, and new on-time payments count from the first month. People who finish a consumer proposal or a bankruptcy rebuild with a secured credit card and a few years of clean payments (page 16).

If you stop paying: what happens next



Missing payments doesn't make debt go away. It sets off a sequence that gets harder to stop at each step, and the earlier you step in, the more choices you keep.

The usual order, for unsecured debt

timing varies by lender

Payment missed
A late fee, and the card's rate may go up.

30 days late
The lender reports it to the credit bureaus.

A few months
Calls and letters. The account may be closed.

Collections
The debt goes to an agency, or is sold to one.

Lawsuit
The creditor sues and gets a court judgment.

Garnishment
Part of your wages or bank balance is taken.

→ *the earlier you act, the more options you keep*

What a collector can't do

Call at any hour	Federal guidance: Monday to Saturday 7 a.m. to 9 p.m., Sunday 1 p.m. to 5 p.m., never on holidays. Provinces set similar limits.
Harass or threaten	No abusive language, excessive pressure or false claims about what will happen to you.
Talk to others about it	They can't discuss your debt with friends, family or neighbours, and may only ask your employer to confirm your job.
Pad the bill	They can't add their own collection fees to what you owe.

When a collector calls, take their name, company and number, ask for the debt's details in writing, and check it against your own records before paying anything. Complaints go to your provincial consumer affairs office.

Three things people don't expect

1. **Your bank can help itself.** If you owe a bank on a card or loan and fall behind, the account agreement usually lets it take money from your chequing account at the same bank. Have your pay deposited elsewhere before that happens.
2. **The CRA doesn't need a court.** For unpaid tax it can take money from your wages or bank account directly. Call to arrange a payment plan before it gets there.
3. **Old debts have a clock.** A creditor generally has two years to sue in Ontario, BC and Alberta, and three in Québec, counted from your last payment or written acknowledgement. A small payment can restart that clock, and the debt still sits on your credit report for up to six years.

A filed proposal or bankruptcy stops all of this

The moment a Licensed Insolvency Trustee files a consumer proposal or bankruptcy for you, unsecured creditors must stop collecting: no more calls, lawsuits or wage garnishments. That legal pause is called a **stay of proceedings**, and it's often the fastest relief available (pages 13 to 15).

FCAC (dealing with a debt collector; debt collection rights) · ISED Office of Consumer Affairs (debt collection agencies) · Ontario Collection and Debt Settlement Services Act · Limitations Acts of Ontario, BC and Alberta; Civil Code of Québec, art. 2925 · CRA

Write every debt down



Most people in debt know their biggest balance and have a vague idea of the rest. Put all of it on one page, with the rate and the minimum, and the order to pay it in becomes obvious.

Your debt list

fill it in from your latest statements

WHO YOU OWE	BALANCE	INTEREST RATE	MINIMUM A MONTH	DUE DATE	SECURED BY
Example: Visa	*$9,000*	*20.99%*	*$270*	*the 14th*	*nothing*
Total					

Include everything: cards, lines of credit, car and personal loans, payday loans, buy-now-pay-later plans, student loans, tax owed to the CRA, money owed to family, overdue phone or utility bills. Your free credit report (page 7) catches anything you've forgotten.

Then the monthly budget

Start from **take-home pay**, what actually lands in your account, not your salary. Subtract the bills that keep a roof over you and the lights on. What's left has to cover the minimums on your list.

Example: $4,200 take-home a month



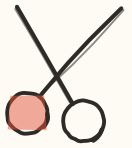
- **$1,700** Housing
- **$1,300** Food, utilities, transport, phone
- **$420** Debt minimums
- **$780** Left for the plan

If the minimums fit with money to spare, pages 10 to 12 will get the debt down faster. If they don't fit, or only fit by borrowing more, go straight to **page 13**: that's the point to get free help.

Pay these first if money is short

1. **Rent or mortgage.** Losing your home costs more than any card.
2. **Heat, power, water and food.**
3. **Car loan and insurance**, if you need the car to earn a living. It's secured, so it can be taken.
4. **Child and spousal support, and taxes.** Bankruptcy doesn't wipe out support, and the CRA can take money without a court order.
5. **Then the unsecured debts**, starting with at least the minimum on each one.

Stop it growing, and find money you're missing



Paying debt down while you keep adding to it gets you nowhere. Stop the new borrowing and cut the rate first, then look for money that's already yours.

Stop adding to it

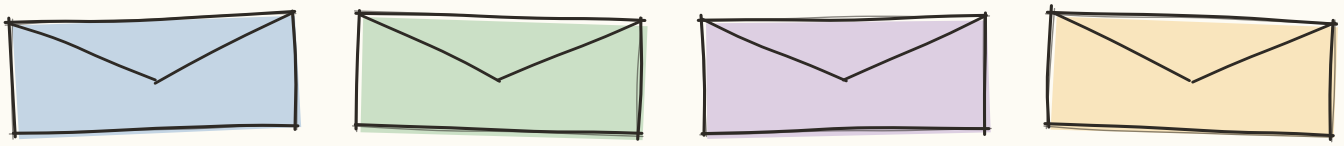
1. **Stop using the cards you're paying down.** Take them out of your wallet and off your phone and online shopping accounts. Keep one, with a low limit, for real emergencies.
2. **Build a small cushion.** Even $500 to $1,000 in a savings account stops a flat tire from going straight back on the card.
3. **Ask for a lower rate.** Call each card issuer, say you're comparing a balance transfer, and ask what they can do. Long-time customers in good standing sometimes get a lower rate or a hardship program.
4. **Be careful with "skip a payment" offers.** Interest keeps running while you skip, so the balance grows.

Find money for the plan

1. **Cancel what you don't use.** Subscriptions, apps and memberships that renew on their own. Go through two months of statements line by line.
2. **Cut the big three first.** Housing, transport and food move the needle; a shared rental, one car instead of two or a cheaper phone plan saves more than skipping coffees.
3. **Sell what's sitting idle.** A second car, gear, furniture. Put every dollar straight on the debt.
4. **Send windfalls to the debt.** A tax refund, a bonus or a raise is the fastest way to shorten a payoff plan.

Money the government may already owe you

you must file a tax return to get it



GST/HST credit
Low and modest incomes
Paid four times a year

Canada Child Benefit
Families with children under 18
Paid every month

Canada Workers Benefit
Low-income workers
Part paid in advance

Provincial credits
Most provinces add their own
Some paid with the GST credit

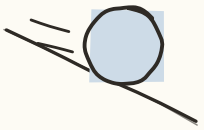
Your tax return is the application for most federal benefits, even with little or no income. If you've skipped a year or two, file the missing returns: the CRA can pay benefits you were owed for past years. Canooq's free printable guide, **Benefits in Canada**, lists every federal program and who qualifies.

Two moves to avoid

Cashing in your RRSP. The withdrawal is taxed as income, the room is gone for good, and RRSP savings are largely protected in a bankruptcy anyway (page 15). Talk to a trustee before you touch them.

Moving card debt onto your home. A HELOC or a refinance lowers the rate but turns debt you could settle into debt secured by your house (page 12).

Avalanche or snowball: which debt to pay first



Pay the minimum on everything, then put every extra dollar on one debt until it's gone, and roll that payment onto the next. The only question is which debt goes first.

The avalanche

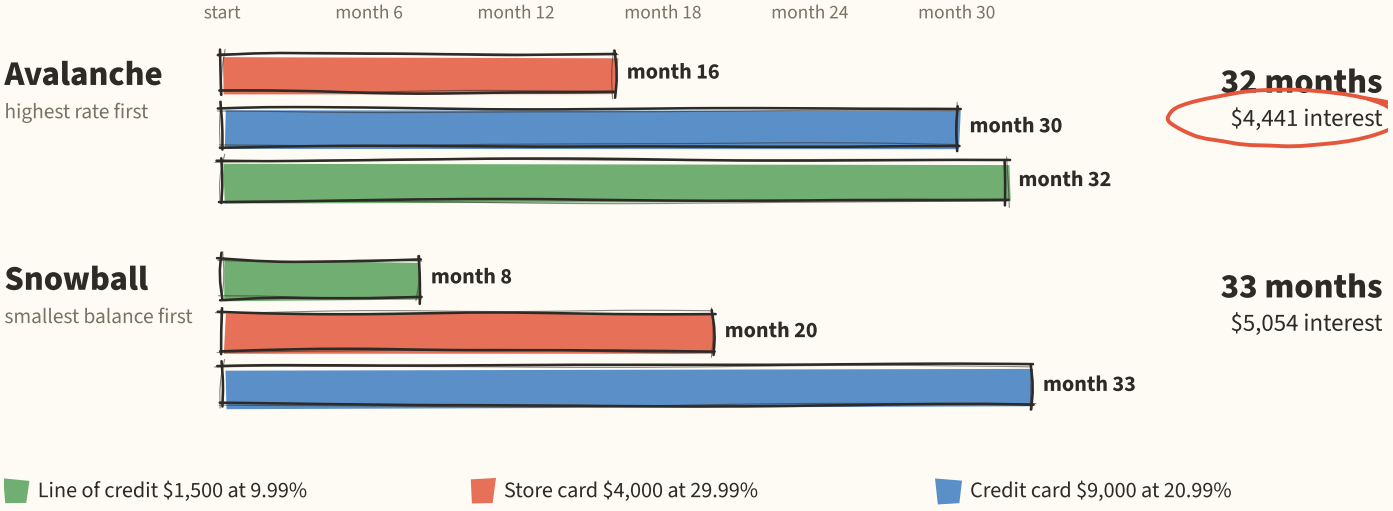
Target the debt with the **highest interest rate** first. Mathematically it's the cheapest order every time, because the most expensive balance shrinks first.

The snowball

Target the **smallest balance** first, whatever its rate. It costs more, but you clear a whole debt sooner, and that early win keeps a lot of people going.

Same debts, same $600 a month

when each one is paid off



What the example shows

Three debts totalling $14,500: a **$1,500** line of credit at 9.99%, a **$4,000** store card at 29.99% and a **$9,000** credit card at 20.99%. The minimums add up to about $420 a month, and there's $600 to spend.

The avalanche clears everything in **32 months** with **$4,441** of interest. The snowball takes **33 months** and costs **$5,054**, about $600 more, but its first debt is gone in month 8 instead of month 16.

Pick the avalanche if you can stay motivated without a quick win. Pick the snowball if you've started plans before and given up. Either beats paying minimums on everything, and the order matters far less than sticking with it.

Make it automatic

Set up the minimums as automatic payments so nothing is ever late, then schedule the extra amount for the day after payday, before it gets spent.

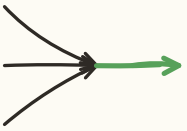
Try your own numbers

Canooq's debt payoff calculator compares both orders with your real balances and rates.

canooq.ca/tools/debt-payoff-calculator

Canooq calculations: three example debts, $600 a month in total, card minimums of 3% or $10, line of credit minimum 2% or $25, interest compounded monthly

Consolidation loans and balance transfers



Consolidating means replacing several expensive debts with one cheaper one. It saves real money when the new rate is lower and the old cards stay at zero. It backfires when the cards fill up again.

$15,000 of card debt at 20.99%, three ways

total interest paid

Keep the cards
$450 a month, 51 months



$7,703

3-year loan at 9.99%
$484 a month, 36 months



$2,422

Same loan, paying $450
40 months



$2,643

Paying **$450 a month** on the cards clears them in 51 months with **$7,703** of interest.

Move the same $15,000 to a three-year consolidation loan at an example rate of **9.99%** and the payment rises to $484, but the interest drops to **$2,422**. Keep paying $450 on the loan and it's gone in 40 months for $2,643.

Either way, roughly **$5,000 stays in your pocket**.

Your options, cheapest to riskiest

OPTION	HOW IT WORKS	WATCH FOR
Balance transfer card	A new card charges a low promotional rate on balances you move to it, usually for 6 to 12 months, plus a transfer fee of a few percent.	The rate jumps when the promotion ends. A 3% fee on $5,000 is $150, which a 20.99% card would charge in under two months.
Consolidation loan	A bank or credit union pays off your cards and you repay one fixed loan with an end date.	You need a decent credit score to get a rate worth having. Compare the total cost, not just the monthly payment.
Line of credit	An unsecured line at a lower rate than your cards.	No end date: set your own fixed payment or the balance lingers.
HELOC or refinance	Borrow against your home at close to mortgage rates.	The debt is now secured by your house, so a consumer proposal or bankruptcy can no longer reduce it. Fall behind and the home is at risk.
Debt settlement company	A private firm promises to negotiate your debt down for a fee.	Not licensed to file proposals. Some charge upfront and refer you to a trustee anyway (page 13).

The rule that makes it work

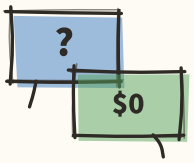
Once the cards are paid off by the loan, don't run them up again. People who consolidate and keep spending end up with the loan **and** new card balances. Lower the limits or close the newest cards, and keep the oldest one open for your credit history.

When consolidation won't fix it

If you can't qualify for a loan at a lower rate, or the payment still doesn't fit your budget, a bigger loan only moves the problem. That's the point to talk to a credit counsellor or a trustee, for free.

FCAC (debt consolidation; balance transfers; home equity lines of credit) · Canooq calculations: example rates, interest compounded monthly

Who to call for free advice



Two kinds of professional can look at all your debts and tell you your options, without charging for the first meeting: a non-profit credit counsellor and a Licensed Insolvency Trustee. Talking to either doesn't touch your credit score.

Non-profit credit counsellor

Builds a budget with you, explains your options and can set up a **debt management plan**: one monthly payment to the agency, which pays your creditors. Creditors are asked to cut or drop the interest. You repay the full amount owed, usually within about five years.

Counselling is free or low cost; a plan usually carries a small monthly fee. Find an accredited agency at **creditcounsellingcanada.ca**.

Licensed Insolvency Trustee (LIT)

Federally licensed and supervised by the Office of the Superintendent of Bankruptcy. LITs are the only professionals allowed to file a **consumer proposal** or a **bankruptcy**, and they look at every option, including ones that don't involve them.

The first assessment is free and their fees are set by federal rules. Find one with the OSB's search tool at **canada.ca** (search "find a licensed insolvency trustee").

The three formal options side by side

	DEBT MANAGEMENT PLAN	CONSUMER PROPOSAL	BANKRUPTCY
Who sets it up	Credit counsellor	Licensed Insolvency Trustee	Licensed Insolvency Trustee
How much you repay	All of it, with interest reduced or stopped	A share you offer, agreed by creditors	Assets above exemptions, plus part of any surplus income
How long	Usually up to 5 years	Up to 5 years	9 to 21 months the first time
Legally binding	No: each creditor decides	Yes, on all unsecured creditors once accepted	Yes
Stops collections and lawsuits	No	Yes, from the day it's filed	Yes, from the day it's filed
You keep your home and car	Yes	Yes, if you keep up the payments on them	Depends on equity and provincial exemptions
Credit report	Noted until 2 years after it ends	3 years after it ends, 6 years at most	6 or 7 years after discharge

Don't pay a middleman

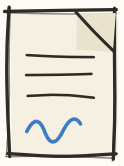
The OSB warns about unlicensed "debt consultants" who charge hundreds or thousands of dollars for advice, then send you to a trustee anyway. You never need anyone to introduce you to an LIT. If someone asks for money before you've met a counsellor or a trustee, walk away.

Questions for the first meeting

What are all my options, including the ones you don't offer? What would each cost me, in total? Which debts would it cover and which not? What happens to my home, car and RRSP? How would it show on my credit report?

Office of the Superintendent of Bankruptcy (LITs; consumer proposals; bankruptcy; debt advisory marketplace) · FCAC (getting help with debt; credit counselling; how long information stays on your credit report) · Credit Counselling Canada

Paying back part of what you owe, legally



A consumer proposal is a deal you offer your unsecured creditors through a Licensed Insolvency Trustee: a share of what you owe, paid over up to five years. If enough creditors accept it, it binds all of them, and the rest of the debt is gone.

How it unfolds



Day 1
The trustee files your proposal. Collections, lawsuits and interest stop.

45 days
Creditors can ask for a meeting to vote. If none asks, it's accepted.

15 days more
The court's approval is automatic unless someone objects.

Up to 5 years
You make the agreed payments and attend two counselling sessions.

Last payment
The rest of the debt is gone. You get a certificate.

3 years later
The proposal comes off your credit report.

Who it's for

You can make a proposal if your debts total no more than **$250,000**, not counting the mortgage on your home, and you have a steady enough income to make a monthly payment. It suits people who can pay something, but not everything, and who want to keep their home, car and savings.

The trustee works out what creditors would get if you went bankrupt instead. Your offer has to beat that, or creditors have no reason to accept.

An example

Say you owe **$45,000** on cards, a line of credit and a tax bill. With the trustee, you offer **$300 a month for five years**: $18,000, or 40 cents on the dollar. Creditors accept, and the other $27,000 is wiped out when you finish.

The trustee's fees come out of those payments, so there's nothing to pay upfront. What creditors will accept varies a lot with your income, assets and debts.

The rules to know

- **Interest stops** on the debts in the proposal from the day it's filed.
- **Miss three monthly payments** and the proposal is annulled: the debts, and the collectors, come back.
- You attend **two financial counselling sessions**.
- You can pay it off early, and the proposal ends when you do.
- Like bankruptcy, it can't cancel **support payments**, court fines or student loans less than seven years old.
- It doesn't cover **secured debts** like a mortgage or car loan, which you keep paying as normal.

What it does to your credit

Your score drops to its lowest rating while the proposal runs. The record comes off your report **three years after you finish**, or six years after you signed, whichever comes first. Pay it off in two years and it's gone in five.

When you finish, the trustee sends a certificate of full performance. Send a copy to Equifax and TransUnion.

Office of the Superintendent of Bankruptcy (consumer proposals) · Bankruptcy and Insolvency Act, Part III, Division II · FCAC (how long information stays on your credit report) · Canooq example

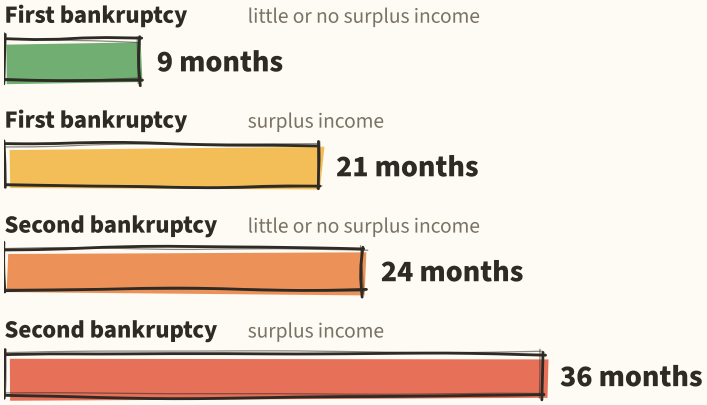
How bankruptcy works, and what you keep



Bankruptcy is the legal reset for people who can't repay. A trustee takes over most of what you own beyond what the law protects, collections stop, and after as little as nine months most of your debts are erased.

How long until you're discharged

automatic, if nobody objects



The federal regulator sets a yearly income standard for each family size. Earn more than **$200 a month** above it and the difference is **surplus income**: you pay half of it to the trustee, and a first bankruptcy runs **21 months** instead of 9.

A second bankruptcy takes 24 or 36 months.

What you keep

Each province protects certain property from creditors: basic household goods, tools of your trade, a vehicle up to a set value, and in some provinces part of your home equity. The amounts differ a lot from one province to another, so ask a trustee what's protected where you live.

RRSPs are protected too, except contributions made in the 12 months before you file. Registered disability savings and most employer pensions are also safe. A TFSA is not.

What it doesn't erase

- Child and spousal support
- Student loans, if you left school less than **seven years** ago (you can ask a court for relief after five in cases of hardship)
- Court fines and penalties
- Debts from fraud
- Secured debts: the lender can still take back the car or the house if you stop paying

Anyone who **co-signed** a loan for you still owes it after your bankruptcy.

Your part while it runs

Hand in your credit cards, list everything you own and owe, send the trustee your income each month, attend **two counselling sessions** and, if asked, a meeting with creditors. Income tax debt is included like any other unsecured debt.

Proposal or bankruptcy?

78% of people who file choose a proposal. Bankruptcy usually makes sense when your income leaves little to offer creditors, you have few assets to protect, and a proposal wouldn't be accepted or affordable. A trustee will compare both for you at the first, free meeting.

Office of the Superintendent of Bankruptcy (considering bankruptcy; student loans and bankruptcy) · Bankruptcy and Insolvency Act, s. 67, 168.1, 178 · FCAC (how long information stays on your credit report)

What to do this week



Most of the first week is paperwork: your statements, your credit report, a budget and one phone call. Once the debt is gone, a year or two of on-time payments rebuilds your credit.

This week

- ☐ Fill in the debt list on page 9 from your latest statements
- ☐ Download your free credit report from Equifax and TransUnion
- ☐ Work out take-home pay minus essentials minus minimums
- ☐ Set every minimum payment to automatic
- ☐ Put the cards you're paying down out of reach
- ☐ Call your highest-rate lender and ask for a lower rate
- ☐ File any missing tax returns to unlock benefits
- ☐ Minimums don't fit? Book a free meeting with a non-profit credit counsellor or a Licensed Insolvency Trustee

Rebuilding afterwards

1. **Keep one card, and use it lightly.** Charge a small regular bill, like a phone plan, and pay the full balance every month.
2. **No card? Get a secured one.** You leave a deposit, usually equal to the limit, and the card reports your payments to the bureaus like any other.
3. **Check your report** once the debt is settled: closed accounts should show a zero balance, and a finished proposal or discharge should be marked.
4. **Turn the payment into savings.** Keep paying the same amount, to yourself, until you have three months of essentials put aside.

Words you'll hear

APR The yearly interest rate, including most fees on a loan.

Collateral What a secured loan is tied to: a home, a car.

Collection agency A firm paid or sold the right to collect a debt.

Consolidation Replacing several debts with one loan.

Consumer proposal A legal deal to repay part of your unsecured debt.

Credit utilization Your balances as a share of your limits.

Debt management plan A repayment plan set up by a credit counsellor.

Discharge The end of a bankruptcy, when most debts are erased.

Garnishment A court-ordered deduction from your wages or bank account.

Grace period At least 21 days without interest, if you pay in full.

LIT Licensed Insolvency Trustee, licensed by the federal government.

Limitation period The time a creditor has to sue you.

Stay of proceedings The legal pause on collections after a filing.

Surplus income Earnings above the OSB standard during a bankruptcy.

Canooq tools for the plan

canooq.ca/tools

Avalanche vs snowball	/debt-payoff-calculator
Monthly budget	/monthly-budget-planner
Emergency fund target	/emergency-fund-calculator
Credit score basics	/canadian-credit-score-basics-calculator
How interest compounds	/compound-interest
More printable guides	canooq.ca/guides