

Alternatives to Filing Bankruptcy

There are a number of options available to deal with your creditors. Some of these are formal options legislated under the Bankruptcy and Insolvency Act and some are informal.

Informal Options can include:

- **Informal Proposal to Creditors:** This option works best if you have a smaller amount of debt and just a few creditors to deal with. You would need to contact all of your creditors and offer them some type of settlement. You would be dealing them on an individual basis and all of the creditors would have to agree to make this option work. If you use an informal proposal it is important to have good documentation. As there is no formal process in place to bind creditors you want to ensure you have signed documentation clearly stating the terms of the agreement.

- **Consolidation Loan through a bank or finance company.** This option will be available only if you can qualify for a loan to consolidate. This can group a number of debts together into one loan with one monthly payment. There are a few important things to keep in mind when it comes to consolidation loans:

- Be sure that you are putting yourself into a better position with a consolidation loan. A consolidation loan will only be effective if you are moving higher interest rate debts into a lower interest rate loan. Often when people are in financial difficulty they will qualify for higher interest rate loans. (click here to see an example of the cost of credit) These high interest rate loans can actually make your situation worse. Don't mistake convenience for a better situation!!

- Be cautious about making unsecured debt secured. Sometimes the option that will be presented by the lending institution will be to take out a second mortgage or a secured line of credit (secured by your home) to consolidate your debts. While this can often result in a lower interest rate it is a permanent solution. Make sure that the payment is going to be realistic for your budget. If you have a change in your financial position down the road (ie. you get laid off from your job, an illness prevents you from working, you have an unexpected financial crisis, etc.) you will not be able to file a bankruptcy or a proposal to deal with this kind of debt. If you can not maintain the payments you will risk losing your home.

- Don't let a consolidation loan free up additional credit. Often people will fall into this trap. For example if you have a couple of credit cards that are near their credit limit and you decide you should consolidate these into a loan with a lower interest rate. Instead of cancelling these accounts you decide to keep the cards (for emergencies or unexpected expenses). Before you know it you have charged these cards back up. This often happens despite the best intentions. Be sure if you are looking to consolidate that you make it a true consolidation. You should always cut up your credit cards, and cancel the accounts. Remove any possibility of having a situation where you are stuck with the consolidation loan to pay and a number of credit cards with new credit card balances on top of the consolidation loan.

Formal Options can include:

- Orderly Payment of Debt: This is done through the Provincial Mediation Board. An Orderly Payment of Debt (OPD) is often referred to as a consolidation order. You will pay back your debt in full with an OPD. An arrangement is made with your creditors that can possibly help to reduce the amount of interest being paid. You would make payments to the Provincial Mediation Board and they will make payments to your creditors. This option works best if you have available income in your budget to make a monthly payment and a smaller amount of debt. For more information on OPD you can visit: <http://www.saskjustice.gov.sk.ca/provmediation/>

- Consumer Proposal: A consumer proposal is regulated through the Bankruptcy and Insolvency Act. In order to qualify for a consumer proposal you must owe less than \$250,000 (including all debt other than the mortgage on your principal residence). A proposal to your creditors would typically be for a percentage of the debt owing. It can be done as a lump sum or as a scheduled payment. A typical proposal would be for a monthly payment over a three to five year period. This monthly payment would include the payment made to your creditors, the fees involved with the filing and administration of the proposal, counselling fees and taxes. You are only making one payment which includes everything. (For more information about the benefits of a consumer proposal [click here](#))

- Division I Proposal: A Division I Proposal is quite similar to a consumer proposal. An individual who does not qualify for a Consumer Proposal (because their debt is more than \$250,000) would be eligible to file a Division I Proposal. One major difference between a Consumer Proposal and a Division I Proposal is that if your creditors do not approve the proposal or your proposal is annulled by the Court it will result in an automatic bankruptcy. This does not occur with a Consumer Proposal.

- Bankruptcy: A bankruptcy is generally the last option that is considered. In some cases it is not realistic to use any of the other options. For example, if you do not have room available in your budget to make payments to your creditors over an extended period of time, if you have a very large amount of debt, if your income is instable, etc. Prior to selecting a bankruptcy as the option we will review all other options, discuss the benefits and consequences of each option and provide you with the information you will need to make an informed decision.

Whatever option is selected you should feel comfortable with the decision that is made. Before you make any decision you should feel that all of your questions have been answered. If you file a bankruptcy or proposal you will be working with your trustee over an extended period of time. You should feel that you are being treated with respect and can ask questions throughout the process.