

DEBT

THE SNAKE IN THE CLOSET

No one wants to admit that they are in trouble with debt. But we know many Canadians are.

Even if you know you have some kind of debt issue, you are unlikely to have discussed it with other people.

This lack of open discussion about our finances is dangerous and possibly financially lethal, because we end up keeping all our debt problems bottled up. We learn the hard way, by making our own mistakes, and that often costs us a lot of money.

A far better and cheaper way is to openly discuss the subject and learn from the mistakes of others.

MY OWN STORY

I'd like to propose to every reader of this book that we try to change the status quo. Let's resolve to start talking seriously to other trusted people about our personal financial situations. Let's decide right now to stop hiding the truth and be more transparent about what is going on in our financial lives. We'll try to be more open with our spouses, friends, parents, and kids. Agreed?

Let's start the ball rolling, shall we?

I'm going to tell you a little story about my own situation, because it has most definitely not been perfect. (And I'm an accountant!)

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Sure, it would be easy to pretend I have been a model financial citizen. A beacon of light for everyone to look up to. But that would be a blatant lie.

The truth is that my family's finances are not perfect even now. I know it's not easy to live these days, especially when it comes to raising kids. It is expensive!

But my personal finances are in a lot better shape than they used to be.

Here's the story.

I was born in 1958 and am in my early fifties now. My wife and I have two kids—a daughter aged 14 and a son aged 18. We own a house with a mortgage, and have savings in RRSPs and RESPs, but no savings outside in regular investment accounts. We use two main credit cards (one in my name and one in my wife's), and one main bank chequing account.

Since I am self-employed, I use a business account and a business line of credit to run my practice. I also have a separate credit card in my own name that I use exclusively for business purposes.

I also have a corporation through which I flow some of my eligible earnings.

It is a pretty simple setup, with no complicated corporate structures or trust arrangements.

My key objective is to make sure we can afford to pay off our personal credit cards each month. I am less concerned with making sure I pay off my business credit card each month, because the interest on that card is tax-deductible, since it carries only business expenses.

But my finances were not always this organized.

In my early years—before marriage and kids—I consistently carried a balance on my personal credit card. I didn't really think about it. I was too busy having fun! I didn't even bother to make minimum payments on the card during high spending or low earning months.

For years I paid thousands of dollars in interest to my bank. They loved me for it. I was a very good customer—they call people like that “Revolvers.”

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A Revolver is someone with continuing revolving credit—a balance that carries month-to-month. If you are a Revolver, you are a bank’s favourite type of customer. Think of it from their point of view. Say your credit card balance is \$10,000 and the annual interest rate is 20 percent. The bank makes \$2,000 per year from you in interest income—a 20 percent return on the money they loaned to you.

How would you like to make a 20 percent return on your money? You can’t get that high rate consistently anywhere else on earth.

As I have aged and become a little wiser (and I suppose more boring), carrying a credit card balance and wasting money on interest as a result drives me nuts. I hate it.

And even so, it does happen. In fact, when I had a tough year financially, about ten years ago, I got back to carrying a large five-figure credit card balance once again.

I’ll never forget that period of time.

I can remember specifically one day when I was meeting a client for lunch in North Toronto. There was no money in either my personal or business bank accounts. I was maxed out on my business and personal credit cards as well as my business line of credit.

I literally could not afford to pay for lunch.

What did I do? I did what most people in that situation would do—I called my friendly bank to see if they would increase my credit limit. The answer was no.

I remember that day as if it were yesterday. I sat in my car, put my head back against the headrest, looked up at the car roof, and said out loud, “What a loser you are.”

You don’t soon forget these decision points in your life. You can either give up or you can resolve to turn things around and never let them happen again.

I resolved on that day to never get into a situation like that again. No matter what.

MARIE’S STORY

I know I am not alone when it comes to the hidden issues of debt. I recently met a successful businesswoman I’ll call Marie, who was willing to tell me her story. Here it is, word-for-word as she wrote it:

Underneath The Cover

If you were to look at me, you would think that I'm a successful woman in her forties who is enjoying life as a role model and mentor to other women in the community. That is true now; however, we all know how adept we are at hiding what's eating away inside us underneath the cover of a smile and a tailored suit.

I was married in my early twenties to a medical practitioner. We spent those early years together building a multidisciplinary health centre in a small and affluent town. Two children later, my husband and I had a busy practice, healthy active children, a nice home; however, not much else. Once we had built the business, we lost our common drive and the marriage became an empty place to be. Despite working with a marriage therapist for two years, the marriage failed.

Always trying to keep up with appearances, I was desperate to make an effort to negotiate the separation in good faith, be amicable, and concentrate on nurturing our children, who were at that time 11 and 13. So confident was I in my ability to do things "the right way," that I did my own Internet research and drafted a separation agreement for the two of us to sign before my ex-husband moved out. The agreement was detailed right down to the penny and the visitation pick-up dates and times. I was so proud that we were being civilized and not lowering our standards.

Move out date came and went and lawyers were hired (instead of the mediator I requested) and the "surprises" hit the wall hard and fast. My husband had racked up debt on the business credit line and credit cards. He had cut his working hours substantially, and the value of the business had dropped by at least a third.

With no mediated agreement in place, there was no enforcement for support payments, and since my main source of income

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came from the health centre, I used my credit cards and personal lines of credit to support the children and myself, and pay for what eventually would be \$40,000 in lawyer's fees. It took four long and gruelling years to finally get a signed separation agreement. By then, I was in debt to many creditors—close to \$100,000. I wasn't sleeping more than four hours at a time and I was scared to answer the phone or check the mail, never mind open it. I had piles of unopened envelopes threatening to topple over at a foot high each! I was a shadow of my former happy self on the inside—but on the outside, all would appear "normal."

One day I overheard a couple of friends talking about their own debt situations (it always felt as if I was the only one), and they had mentioned going through an agency to help negotiate their debt. Of course my ears perked up and I called the agency the minute I got home. Everyone there, from the front-desk person to the counsellor, were welcoming and accommodating. After a detailed consultation, it was decided that they would negotiate with my creditors on my behalf. It felt like such a relief to have a partner to confide in. Someone who wasn't harshly judgmental, who could fix the issue, not just pat me on the back, placate me, and tell me it would be okay.

The whole negotiation process took almost eight weeks and it was nerve shattering, as everything had been in the process. I was waiting on pins and needles for answers to come back, while my counsellors kept me in the loop at all times. In the end, it was all worth it, by spades! I can now open my mail and answer my phone without feeling a tight weight on my shoulders and across my chest. It took two years for me to slowly get my credit rating back to where I was before the divorce. Two years of budgeting, paying bills when due, living below my means, and staying in touch with my credit counsellor.

I am now happy to say that I co-own two homes, both with tenants, have my own business, and my credit rating is so good

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that I was able to get my first car loan in my name only! This personal financial crisis has been a life-altering event that has forged lasting financial lifestyle changes. From now on, I want my inside demeanour to match my outside appearance. Calm, relaxed, and comfortable in my own skin, with nothing to hide underneath the cover of a well-tailored suit!

This may sound familiar to some of you. Unfortunately, many people suffer the stress of divorce and separation. It is probably one of the worst events that can happen financially as well as emotionally.

In fact, in some cases the process is reversed, and money problems that have been concealed for years surface and contribute to the actual decision to divorce.

Marie's story demonstrates another important point: secrecy with respect to debt in a marriage or relationship can cause significant and sometimes irreparable harm.

If you and your spouse or significant other are not talking openly about your finances, you are risking the relationship.

Okay, now let's get into the meat of the issue: why the Canadian consumer debt crisis is so bad.