

Financial umbrellas help indebted Canadians weather sudden personal disasters

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TORONTO - Brenda Jones' husband fell ill during the depths of the recession -overtime at his factory was cut back, she was laid off, angry creditors started calling and things fell apart.

"Suddenly we had these medical bills and we were like anybody else, we put it on credit, thinking with the overtime money we could pay it off," said Jones, a 40-something from a manufacturing town in southwestern Ontario.

"Then the economy hit us and suddenly when we looked at things we were in debt. Hugely."

Bills piled up on the Jones' for about a year, but Brenda didn't look for help because she felt like a failure. Stress took its toll and panic attacks set in.

When Brenda decided to seek help from friends, family and her bank, she realized how many Canadians face a similar situation.

"Don't think of it as a dirty secret because there are other people out there just like you...help each other out because then you don't feel like you're drifting alone in a sea of debt," she advised.

More than 116,300 Canadians filed for bankruptcy last year, a 28 per cent increase from 2008, and economists expect rates to hover there as long as unemployment and personal debtloads remain high.

Tom Reid, director of consumer solutions at TransUnion, said the credit bureau is seeing a spike in Canadians' debt to income ratios.

He said consumers should monitor their credit profiles before they become financially overextended, but added there are steps debt-strapped Canadians can take before resorting to bankruptcy.

Reid said over-burdened consumers should keep their housing costs around 28 per cent of their income and overall debt payments around 35 per cent. It's a warning sign if consumers approach 30 per cent utilization of their credit card limit and 50 per cent utilization is a red flag, he added.

Filing for personal bankruptcy can provide relief to consumers who have taken on too much debt, but it remains for years on a credit file and can severely impair a consumer's ability to borrow or get credit in future.

Experts advise those on the edge of bankruptcy to take measures such as:

-reworking a budget

-selling assets to pay down debt

-consolidating loans

-using savings to pay down

-calling creditors to rework repayment plans

Jones heeded the warning signs eventually and met with financial advisers, who are part of the TD Helps program at her local branch.

TD Bank (TSX: [TD.TO](#)) president Tim Hockey said the program was implemented during the recession, when the bank saw a spike in the number of customers struggling to pay off loans.

"(We realized) we're good at lending them money when they don't need it. We're not great at helping them or lending them money when they do need it," he said.

Hockey added the Jones' story is typical of the more than 30,000 customers who have sought advice through the program

"Literally they feel like they're at wits end, but in many cases it's just 'okay, I can make some simple changes and adjustments and I can actually cope, I just didn't know what to do,'" he said.

Jones walked out of the bank feeling a weight had been lifted. She had a goal, a plan and a budget. And, she was told to stop using credit.

"We had to give up everything, the line of credit, credit cards, we've had to go to cash. We had to change a lot of things in our life," she said.

Jones never had a monthly budget, but now lives on one. Sometimes, it comes to a choice between buying gas or groceries.

"It was hard because you're used to living and having, and then all of a sudden, you have to say 'no you can't have,' and it felt like we were being punished."

She said she was most surprised when she was advised to withdraw their RRSP savings, a move that seemed counter-intuitive, but helped pay off half of the family debt.

"We were saving for tomorrow, but because everything was in the tank it was better to use the money than to save it."

Brenda's panic attacks have subsided, and she no longer fears creditors calling.

"Our heads are above the water, but we're not off the raft. One more thing could happen to us and we'd be in trouble again, but we don't have to worry about people calling us any more, we don't have those kind of debts," she said.

Andrea Bolger, a senior vice-president at Royal Bank (TSX: [RY.TO](#)), said that many customers are not aware their banks have financial organization tools.

"You really only look at (those programs) when you're in a situation of distress which is also a very emotional time. So the more advice we can give people in a simple way, the better," she said.

Meanwhile, Canadians are three times more likely to see better times ahead in the next year than bad, as consumer confidence increased from 85.5 in November to 89 in March, according to a recent Harris-Decima poll.

Mark Halpern, a certified financial planner with [IllnessProtection.com](#) said savvy planners prepare for unforeseen life events when their financial outlook is good.

"They say a wise person has eyes on the top of their head, they can look into the future and see what's down there and plan accordingly," he said.

Halpern said consumers can purchase illness insurance for as little as \$50 each a month, which would have given the Jones' a \$100,000 cheque when crisis hit.

Halpern said Canadians should conduct emergency "crash tests" to work out how much they would have in case of a life emergency, and should save a six-month supply of money to react properly when emergency strikes rather than be in crisis mode.

Jones said if she would go back she would have prepared for a financial emergency through better budgeting.

"But I'm not sure the old me would have listened."