



# COMMON CENTS

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# Summer



## Diagnosing a Debt Problem

The shape of your financial fitness has a lot to do with your debt level. And while living without debt is the dream of many Canadians, it is not the reality.

Some debt is fine, and in fact the wise use of credit is an integral part of most people's financial planning. Determining when you are overdosing on the debt is the key to maintaining financial balance in your life.

To decide if your debt level is nearing the danger zone, calculate how much debt you have relative to your annual income. Once your debts, excluding mortgage payments, begin to nudge past 15% of that income, you could be headed for trouble. Sometimes even 15% is too high. If you find yourself worried about your debts, they are probably too high. The characteristic signs of credit trouble include using one credit card to pay off another, not being able to make all of your minimum payments each month, using credit cards for necessities, such as groceries and spending more than you have coming in each month.

The simplest solution for too much debt, of course, is to pay it off. While that's easier said than done, there are ways to tackle the problem.

- \* Develop a budget that identifies your income, expenses and your savings no matter the amount. As time continues adjust and revisit your spending plan and banish any debt and unnecessary wants. All in all it is an effort that involves your time and dedication to track the results. This will allow you to see how quickly you are moving toward your short & long term goals, and will help you realize how helpful a budget can be.

- \* Don't incur any more debt until you've reduced or, preferably, eliminated your current debts.

- \* Use your current savings to lower your debt load.

- \* Start by repaying the debts that carry the highest interest rate-usually credit cards.

- \* Liquidate assets you don't need and use the proceeds to pay off the debt. (However, consider carefully before using RRSPs to pay off debts. You are borrowing from the future and could incur tax liabilities).

- \* Consolidating your loans into one overall loan with a lower rate is an option if your credit rating and cash flow are good.

- \* Seek help from a not-for-profit credit counselling agency.

## Did You Know?

If you had a total debt of \$10,000 on credit cards and made \$10 per hour at your job, it would take you approximately 200 hours of work per year just to make the interest payments on your debts. Based on a 40 hour work week, this means that you would have to work 5 weeks a year just to make the interest payments. This is the same as working 5 weeks for free! Most people do not want to work for free. But many people are in debt, which is essentially like not getting paid to work. It is very important to shop around for interest rates when considering debt. Also, the money you could save by not having to make those interest or debt payments could add up to good savings quickly.

These facts presented by Dr. Fred Wadell, known as the "Money Doctor" in the United States. Dr. Wadell has written many articles and books on money matters.

## FYI.....

You don't have to be drowning in debt to use our services. Learn how to make better use of your money and achieve your future goals! We offer free confidential money management sessions. It's never too late to learn how to handle your resources better!

**Call us today.....**  
**(705) 254-1424**



## Rules of Thumb For Borrowing



- **borrow only as much as you need** (sales people often try to ‘upsell’; don’t be talked into more money just because they say you can have it)
- **repay as soon as possible** (a shorter term will usually mean reduced interest charges)
- **apply as large a down payment as possible** (by borrowing less you will pay less interest over time and commit less of your future income)
- **shop around for the best interest rate** (you can often negotiate a lower rate because it is a very competitive market)
- **understand the contract** (take your time; determine the total cost of the loan after all interest and service charges)
- **always have a contingency plan** (e.g. in case I can no longer afford the payment, I can still sell the car and pay out the loan)

For more information call Credit Counselling Service at **254-1424** today!

## Planning Ahead: Saving for a Vehicle



One of the best ways to save up enough money for a down payment on a vehicle is to determine the amount you can afford to pay each month for the car payment. Set this money aside each month for a least six months in order to accumulate a good down payment. In saving towards this goal it will improve the chances of getting the loan, reduce the total cost of borrowing and reduce the amount of the monthly payment. In turn this will provide you with the confidence that the payment will be affordable each month once you sign the loan papers to purchase the car.

If you find it difficult to set the payment aside each month for the down payment, this is a good indication that you will not be able to make the monthly loan payments. It is suggested to revisit your spending plan to see what payment you can comfortably afford to set aside each month.

Planning ahead by setting goals allows you to accomplish things that you may have thought were impossible. This is definitely good money management planning.

### Credit Counselling Service of

### Sault Ste Marie & District

Phone (705) 254-1424 Fax (705) 254-2541

E-mail: [info@creditcounsellingssm.ca](mailto:info@creditcounsellingssm.ca)

Website: [www.creditcounsellingssm.ca](http://www.creditcounsellingssm.ca)

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## Depth on Debt



*“Time is like money, the less we have of it to spare the further we make it go.” Josh Billings*