

What if I Don't Pay..?

Even though debtors prison is a distant memory, there are still serious repercussions if you fail to pay a creditor; unfortunately, debts don't just disappear. A process occurs when a person falls behind on their financial obligations. It is important to realize that falling behind on any debt can impact your ability to receive future credit.

The following flow-chart was designed to show what happens when a person goes from being in good standing to falling behind on their debts. You may wish to reference the previous section 'Understanding Your Credit Rating' while reading through this information.

Account In Good Standing:

this is the ideal situation
payments are made as agreed; on time/all the time
credit rating will be/remain at a '1'

Missed/Late One Payment:

credit rating will drop to a '2'
may receive call/mail from creditor
catching up payments will return status to a '1'
late/missed payment information remains on credit report for 6 years

Missed Two Consecutive Payments:

credit rating will drop to a '3'
regular contact from creditor
catching up payments will return status to a '1'
late/missed payment information remains on credit report for 6 years

Missed Three or More Payments:

credit rating will drop to a '4' or a '5'
frequent contact from creditor/collector
account considered by creditor as 'bad debt'
bad debt sent to either in-house collections department or a collection agency
written off as 'bad debt' (although it still must be paid)
credit rating will drop again to a '9'

Legal Action:

At this point, the debt is now owed in full. There is a strong possibility of legal action, especially if a reasonable repayment arrangement can not be made (by settlement or regular monthly payments). Debts under \$10,000.00 are usually handled through Small Claims Court (a lawyer is not required). When legal action is taken, a person will be served with papers. Once this happens, a person will have 20 calendar days to file a defence (failure to do this can often result in the creditor getting a default judgement). A creditor who wins can obtain a judgment that will allow them to garnish up to 20 % of a person's wages (if employed). Once a judgement is obtained, it is enforceable for 20 years.

* Guidelines differ for debts such as Family Support, Canada Pension, and Revenue Canada.

For more information on Small Claims Court visit:

<http://www.attorneygeneral.jus.gov.on.ca/>