

STRIVING TO BE DEBT FREE

Carrying debt isn't always a bad thing, but it can be stressful and costly if your debt load becomes too much to manage. If you're struggling to manage your monthly payments or having a hard time seeing how you'll ever get out of debt, this resource might be a great place to start.

What does debt look like?

Carrying debt means owing something, typically money, to someone. That someone could be a bank, a loan company, a friend, or anyone else willing to lend you money with the understanding that you'll pay them back. Having debt isn't necessarily a bad thing, as long as it is managed in a sustainable way. This means that you can confidently meet your repayment obligations and are positive that you'll pay the debt off in full within a reasonable time frame. Debt is often described as being either 'good, bad, or ugly'.

Good debt:

Debt that you carry as a means to build your credit score or to earn points or rewards that are offered through the creditor. It's borrowed money that does not go beyond your means to repay that debt. Typically, good debt has a lower interest rate, or if the interest rate is high, the amount being borrowed is low and easily repaid.

Bad debt:

Debt carried from month to month with high interest being charged on borrowed amounts and an inability to pay that debt off in full. Typically, bad debt comes as a result of relying on credit to pay for your basic needs without having the means to pay for them from your own resources.

Ugly debt:

Debt that has caused you to fall behind on payments and unable to keep up with the interest charges alone. Typically, ugly debt leaves borrowers very stressed because there is seemingly no way they'll ever get out of debt.

Carrying too much debt can negatively impact your overall wellbeing - it may leave you with limited money leftover each month to pay for things you need, it may cause your credit score to drop, and the stress of too much debt can become overwhelming. Let's take a look at some steps you can take to work towards a debt-free life.



Creating a Budget

The first step to better manage your debt is to fully understand your regular income and expenses. Doing this will help you figure out if and how long it will take you to achieve your goals based on your current situation. If you don't already have a budget, visit the MNO's "[How to Make a Budget](#)" resource to get started.

Creating a Debt Plan

Once your budget is complete, you'll have a good idea of how much money you can put towards paying off debts each month. Remember, nothing is ever set in stone when it comes to budgets and debt plans. You have complete control and the flexibility to make changes so they work for you and your situation. Here's a list of the steps to create your debt plan.

STEP 1: List all of your debts

It's often helpful to list them in order from smallest amount owed to largest amount owed. For each debt, include the following:

- Name or type of credit
- Credit limit
- Balance or total amount owed
- Minimum monthly payment
- Interest rate charged

STEP 2: Consider consolidation, if appropriate

Consolidation involves transferring debts from higher-interest credit to lower-interest credit. This could happen by transferring debts between existing credit sources, or by opening a new credit source to transfer debts to, commonly through a debt consolidation loan. It's a good idea to speak to a financial professional first if you are considering this option to make sure it's a good fit for you.

STEP 3: Consider negotiating existing debts, if appropriate

Occasionally, creditors may be willing to reduce the interest rate being charged on certain types of debts or to increase the length of time you're required to repay your debt. Both of these options would reduce your monthly payment obligation, meaning you could allocate more money to whichever debt you are working towards paying off first. Again, it's a good idea to speak to a financial professional first so you can better understand your negotiating power.

STEP 4: Decide on a debt repayment strategy

There are two main approaches for paying off debts – debt waterfall and debt avalanche methods. Both of these focus on paying off one debt at a time while meeting minimum payment requirements of all other debts. The difference is in how you prioritize which debt to pay first.

Debt Snowball Method: this focuses on paying off the smallest debts first. Once the smallest is paid off in full, the amount that would have been paid to the first debt is now applied to the second smallest debt. Once that is paid off, amounts that used to be allocated to the second smallest debt are now applied to the third smallest debt, and so on.

Debt Avalanche Method: this focuses on paying off the debts with the high interest rates first.

Similar to Debt Snowball Method, once the highest interest debt is paid off, the amount that would have been paid to that debt is now applied to the debt with the second highest interest rate, and so on until all debts are paid off.

STEP 5: Avoid taking on more debt

Paying off debt can be a tedious process that requires consistency over a long period of time. It's important that you focus on not accumulating more debt while you're trying to pay off existing debt. Of course, this can be very challenging to do. Here are a few tips to consider to help you stick to your debt repayment plan:

- Avoid 'buy now, pay later' plans
- Build savings for larger purchases rather than applying to available credit
- Apply any extra money towards your priority debt whenever possible
- Reduce banking fees or amounts paid to non-sufficient fund (NSF) fees, wherever possible.

Getting Help

Navigating your finances can be a challenging task. A budget or credit counsellor can provide a range of services, such as confidential one-on-one counselling, group courses or seminars, and assistance with debt management plan creation. They are often a great resource as you work towards getting out of debt.

Credit counselling services are offered by both not-for-profit and for-profit agencies or companies. Before committing to any one agency or company, do some research to make sure they are in good standing with a provincial or national association and that there haven't been any serious or unresolved complaints about them.

Asking your budget or credit counselling agency or company these questions might be a great place to start:

- Is the first consultation free?
- What services are you able to provide?
- What fees are involved with each available service?
- What qualifications and/or experience do your counsellors have?
- Will the agency provide a written proposal describing how they can help?
- What support is offered to help improve money management skills?

Resources

Metis Nation of Ontario Debt-Related Resources

[How to Make a Budget](#)

[Budget Planner](#)

[Understanding Credit Scores](#)

General Debt Management Information

[Financial Consumer Agency of Canada](#)

[Ontario Securities Commission](#)

Find a Credit Counselling Agency

[Ontario Association of Credit Counselling Services \(OACCS\)](#)