Rebounding from credit despair

BY JEFF MITCHELL
Staff Writer

Seven years ago, Steve Naiman was on a roll.

He had a good job in sports broadcasting, a new car and a promising future.

He also had a solid-gold credit rating, the result of years of using credit and store-charge cards and faithfully paying monthly charges.

By the time he was 30, he had amassed a wallet full of cards — VISA, MasterCard, Amex, The Bay, Simpsons — and an ever-increasing credit limit on all that plastic.

"I was a great customer," Mr. Naiman said. "They loved me."

In time, he was carrying a huge accumulation of debt — he estimates it was in excess of $25,000 — but was not overly concerned. He was young, employed and determined to meet his obligations.

"I never anticipated anything would go wrong," Mr. Naiman said.

Then he got sick.

The Aurora man's mental breakdown precipitated a long fall into ill health that has been defined as including panic and anxiety disorders, a mixed personality disorder and other debilitating illnesses. He was incapacitated, unable to work. His world screeched to a halt.

But the wheels of the credit industry kept on turning.

His former friends, the bankers and company credit officers, turned into enemies, demanding payment on the huge sums he had rung up on his plastic.

Phone calls came at all hours of the day as collection agents and skip tracers tried to track him down. Letters threatening garnishees and asset seizures began arriving.

Now on a disability pension, Mr. Naiman is, essentially, untouchable. Creditors cannot garnish a welfare cheque.

But he lives with the legacy of bad debt.

Mr. Naiman freely admits he is responsible for the debt he amassed. But he also feels he fell, like so many others, into the credit trap.

"You've got a dollar in the bank, they give you a credit card," he said. "You've got a job, they give you a credit card.

"They've made it almost impossible in this country to live without a credit card."

It can be said credit is a way of life for North Americans. We buy houses by taking out mortgages and purchase automobiles by arranging loans. We pay for clothes, vacations and dinners out with our plastic.

As credit card use increases, so do our unpaid balances, according to the federal government's financial consumer agency.

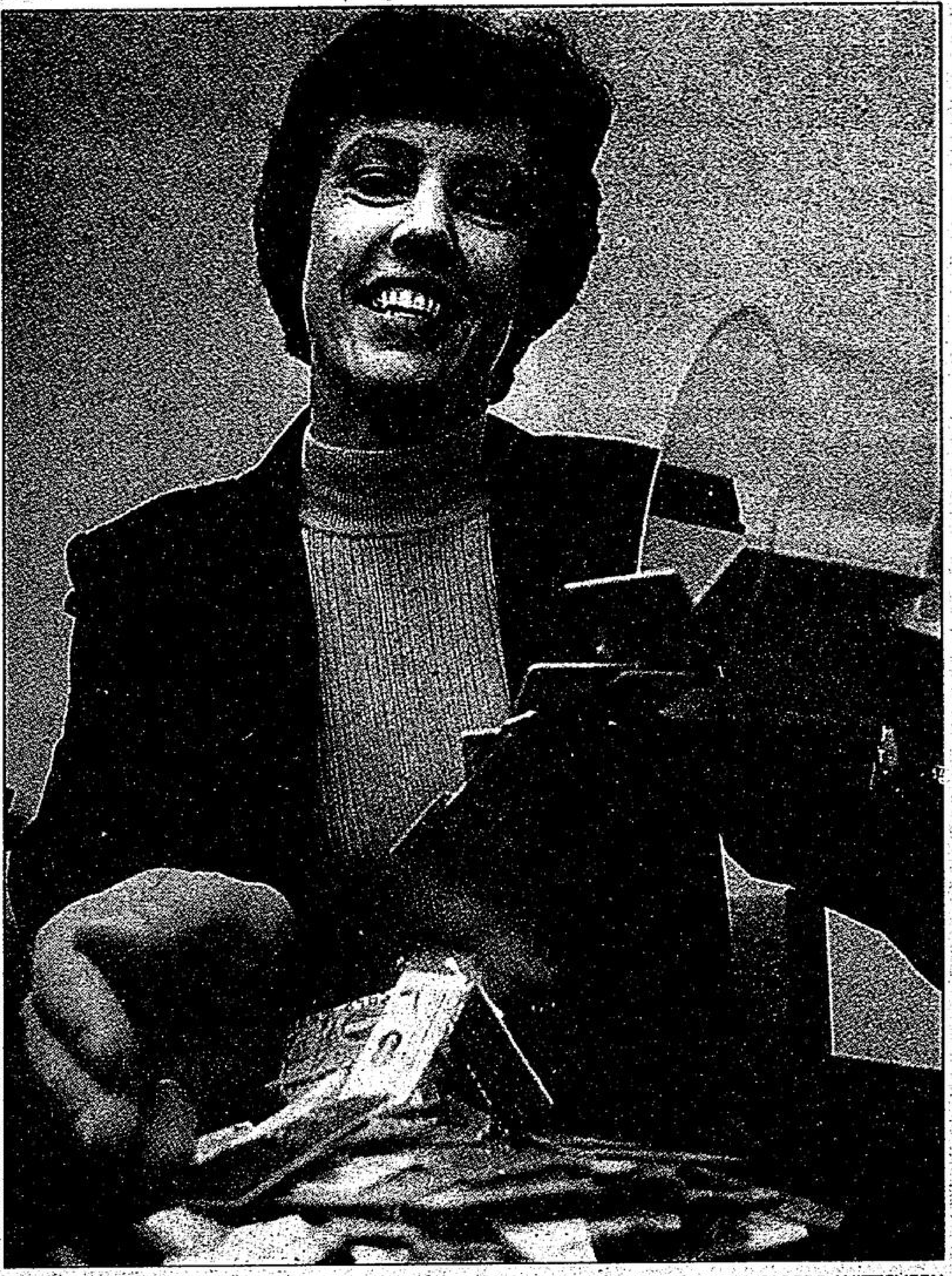
Its latest Credit Cards and You report, issued in April, showed a 10-per-cent increase in the number of VISA and MasterCard credit cards in circulation in Canada and a corresponding 5.9-per-cent increase in the number of accounts with unpaid balances.

There were an estimated 68.6 million credit cards in circulation in Canada at the end of 2001. More than 75 per cent of Canadians over the age of 18 have at least one credit card. Fully one-fifth of those customers carry forward balances each month on which they are charged interest ranging from 12.9 per cent for low rate bank-issued cards to 20 per cent and more for retail cards.

Alan Farber, head of the country's largest personal bankruptcy firm, A. Farber & Partners, said credit is the underwater hazard that tears the bottom out of many a household's finances.

"The inability to handle credit and failure to see the huge cost of credit — the hidden cost of credit — are factors" in the majority of personal finance crises, Mr. Farber said.

Credit offers a bridge over the gap that separates us from what we want and what we can afford. We have a desire to acquire and then to improve upon what we own. Credit is the fuel that feeds that fire.



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Cathy May, credit counselling supervisor at Markham Stouffville Family Life Centre, displays a pile of cut-up credit cards at her Hwy. 7 office.

Those were harsh lessons for Tamara and her husband, who went bankrupt in the early '90s. Newly married, both had good jobs — she was a customer service rep working for a large company downtown, he had a flourishing contracting business — and they saw no need for concern when, in 1989, they bought a pricey condo in Richmond Hill.

"We bought it for $225,000 at 13.5-per-cent interest, with condo fees as well," Tamara said. Their monthly accommodation costs came to a whopping $2,900.

Then the recession hit.

"Within seven months, we started to feel the pinch," Tamara said. Her husband's business dried up, virtually overnight.

"There were no tenders to even bid on," she said. "With him not working, it was impossible to pay that sort of money."

As the situation worsened, the couple attempted to renegotiate the terms of their mortgage with the bank. No luck. They considered selling the condo, on which they still owed $189,000, but in three years the going price for the units had fallen to $140,000; they could sell, but still be left owing almost $50,000.

Despite pleas, the bank refused to relent in its pursuit of the mortgage and the interest owed on it. After all, this was the Great Recession; everybody was taking a bath and breaks were hard to come by.

"They started coming after us, so we had to file for bankruptcy," Tamara said. "They were pretty nasty."

The couple abandoned their condo and moved into a rental unit and began to rebuild their lives.

Tamara said she and her husband saved diligently, scraping together a $25,000 down payment on the semi-detached home they now own in Aurora. They bought a new mini van with $13,000 savings, reducing the outstanding balance upon which they'd have to make payments.

Always careful with money, Tamara now budgets cautiously — and absolutely refuses to tread anywhere near the credit trap.

"It was a lesson we learned the hard way," she said. "This is never going to happen to me again."

Indeed, management of finances — striking that elusive balance between income and expenses, the necessary and the extravagant — is what it's all about, said Cathy May, a credit counsellor with the Markham Stouffville Family Life Centre.

"We see many people here who've learned the hard way," said Ms May in an interview room at the centre's Unionville offices.

Those approaching the centre range from young people who've just graduated from school and are snowed under by huge student loans, to career workers who have struggled with debt for years before seeking help, Ms May said.

"For a number of reasons, it has got away from them," she said.

By the time they come for assistance, many people are totally stressed out and unable to see a tenable solution to their problems, Ms May said. They may have fallen into arrears with payments and are being pursued by collection agencies.

The first advice a good counsellor will give a client is to calmly and rationally assess the situation, seeking solutions that will be manageable for the consumer and acceptable to the creditor, she said.

It is essential to maintain lines of communication and show creditors good faith, Ms May advised.

"Even when it has reached that point, there are still options," Ms May said. "Do not ignore your creditors. These are your financial obligations. No matter how you've got into them, these are your obligations."

Clients are immensely relieved to learn creditors will be flexible, Ms May said. Ultimately, the creditor's goal is to recover the money. That may mean lowering interest rates or monthly payments or coming to some other arrangement. But as long as the debtor works diligently to repay what he owes, solutions are, in most cases, possible, she said.

"Many of the major creditors have working relationships with credit counselling and, in fact, will refer (debtors)," Ms May said.

A credit counsellor can play a number of roles, from helping a client establish a budget and a plan to repay debt, to acting as a trustee to whom the debtor makes regular payments that are doled out to creditors.

Often, counselling can show someone the situation is not as hopeless as it appears.

"For a lot of people, coming in for just that initial appointment is enough," Ms May said.

The most basic advice given by counsellors can prove the most sound: Avoid credit, pay off credit card balances and household bills each and every month and, above all, live within your means.

Although bankruptcy is a source of fear and dread for many, it can be a necessary and conclusive measure in erasing overwhelming debt and starting over, Mr. Farber said.

"The great pity is that the vast majority of people come to see us relatively too late," Mr. Farber said.

Still, trustees are obligated to explore all possibilities for resolution of outstanding debt, including negotiating with creditors on repayment plans, as alternatives to bankruptcy.

"People often have a limited view of options available to them," Mr. Farber said. "Many people feel they're in a black hole and they can't see the exit to that black hole."

Ultimately, fewer than half the clients who approach A. Farber & Partners are assigned to bankruptcy, he said, but as many as 80 per cent of them hire the firm to help them out of the hole they've dug.

While it comes at a cost, both in terms of personal anguish and financial obligations, the declaration of bankruptcy can be a new start. And one of the requirements of declaring bankruptcy is to attend mandatory credit counselling.

"Our job is to make sure they don't get into this problem again," Mr. Farber said. "Why shouldn't a young guy who gets into trouble when he's 27 be able to dream of owning a home when he's in his 30s?" he asked.