

# FLY WITH THE WIND!

## Engaging Inuit Youth in the Canadian Economy

### Getting Out of Debt

The “Good Debt vs. Bad Debt” fact sheet looks at how some forms of debt and borrowing are “good.” This kind of borrowing includes getting loans to go to school, to build a business or to invest in something that will make money. Borrowing to do these things will help you make more money and you will more likely be able to repay the borrowed amount sooner. “Bad” debt is usually related to impulse, buying things you may want but don’t really need. A holiday, that extra pair of expensive shoes, or taking your friends out for dinner can be a lot of fun. But, if you don’t have the money to pay these things off, you can quickly build up a debt problem that can be hard to handle.

#### Some signs that you have a debt problem include:

- Not being able to pay off your credit card every month
- Your credit card balance is growing much faster than you can repay it
- You are having trouble keeping up with other bills, such as rent, cell phone, or car payments
- You find that you are losing sleep over debt problems
- You are feeling like you may never pay off your debts
- You actually miss your bill payments, and/or
- You are getting calls from collection agencies, or your credit card is declined at stores.

Getting into too much debt can be very stressful and can affect your relationships with other people, your self-esteem and damage your credit rating. Depending on the situation you are in, the people you owe money to can take action against you.

This can include:

**Collection agencies** Some places you owe money to may send a collection agency to get the money from you.

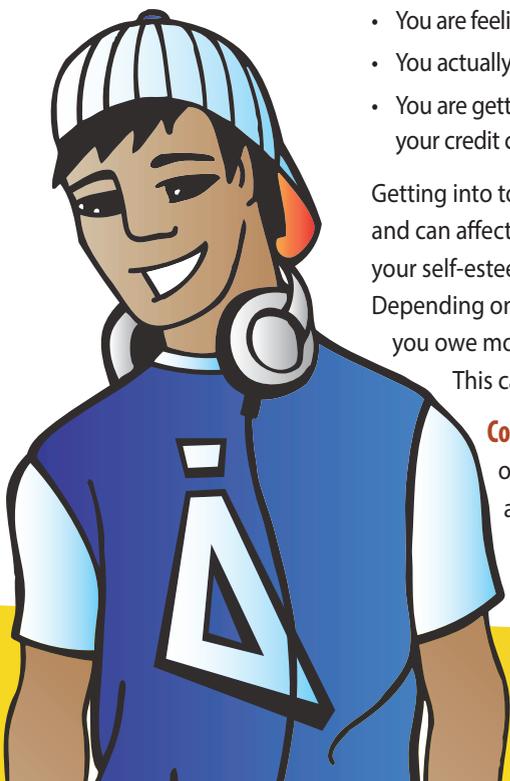
This may lead to some embarrassing phone calls and rather direct conversations with collection agency staff. They may contact your employer and even your family and friends for information.

**Repossession** If you borrowed money to buy something but can’t pay for it, the company can take back the item (repossess it).

**Garnishment** Someone you owe money to may get legal permission to take the money you owe them from your wages or bank account.

Getting into debt way over your head is not a great experience and one you should avoid at all costs. Don’t worry though. With some planning and some discipline, you can start reducing your debt right away. Prepaid cards are better than a credit card and maybe a good option to think about.

1. The first thing to do is figure out how much debt you have. If it’s just one credit card you are having problems paying off, that makes it simpler. If you also have other payments or bills you aren’t able to pay off regularly, add them all up. Identify the ones that have the highest rates of interest. Usually credit cards from stores or other specialty credit cards have the highest interest rates. The interest rate is the amount the card company charges on the money you have put on the card, and is what they charge you for borrowing money from them. The rate may be as high as 29%, which is very high.
2. Next, make a list of the money you bring in every month, including wages and government money (employment insurance, tax credits, family allowance, or pensions). Add up this amount (income).
3. Now list all your regular bills and other costs that have to be paid every month. This includes your rent, food and bills like electricity, heat, house insurance and transportation or car payments. These should be all the things that you really need to live (the essentials).



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Take your income for the month (2) and subtract the amount for all your essential costs (3). The result is called your “disposable income.” This is the amount you can spend after all your basic needs are met. Remember, all the numbers you use should be monthly amounts. Using the budgeting tool included in this pack or on the IWBV website may help with this.

To reduce your debt, you are going to have to control your spending on things you don't need and use more of your “disposable income” to pay off your debt. It is best to try and put as much money towards your debt as you can, as you will save money on the interest charges and will get out of debt faster.

#### Things to help you stay on track:

- Some people find it easier to put aside a certain amount each month as “play” money, an amount they can use for non-essential costs, like entertainment or restaurants. Once that money is gone, you have to wait until the next month to have more “play” money.
- Look for ways to save money. Try to bring your own lunch to work. Eating out every day can really add up over time.
- Avoid “impulse” purchases. Try and wait 24 hours to see if you really want that new coat or cell phone. If you still want it after that time, only spend as much as you have in your “play” money.
- Learn to love leftovers. Sure they get boring, but they help you stay on budget and keep your debt low.
  - Avoid loans from credit cards as they have high interest rates. With a little planning and willpower, you will save a fortune.

- Build up a little emergency fund. This could be some money you hide from yourself to use only in an emergency. This could save you from being forced to borrow money at an expensive interest rate or to have to go without something you really need.
- If you are finding it tough to keep up with your payments, contact the people you owe money to and let them know. They may be willing to let you skip a payment, reduce the interest rate, or at least be more patient. Being honest is the best policy.
- If you are in debt and it is causing problems make and stick with a budget, try saving money, control your spending, be honest and pay back your debts.

One way of dealing with debt is to bring in more money and use the additional funds to pay off your debt. If you have a good paying job it is a good practice to pay down debt and do not spend money all at once or at one time. A part-time job, selling some items, or taking some training that will lead to a better paying job are some ways you can bring in more money. For some people, this may not be an easy option.

Getting in debt is easy, but keeping it under control and making sure you can pay it off can be hard. Realizing that your debt may be a problem and creating a plan to fix it is an important start.

#### You can do it.



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