Conquering the debt demons

Worried about defaulting on your mortgage? All of a sudden, your financial life feels a bit like that blockbuster movie: the one with the hero being pursued by some powerful and relentless alien monster. In your nightmares, though, it's called "debt" – and it's just as ugly and frightening. The good news is that the hero generally wins – by finding the right weapon at the right time. Fighting debt is a lot the same. When you're feeling pursued by the debt demons, it's time to get smart about finding your own best weapons.

If you're barely staying ahead of the mortgage, you're not alone. For many Canadians, a drop in income has meant a struggle to keep up with monthly bills. As a nation, we're starting to pile on credit-card debt – just to get by.

According to Equifax, the average delinquency rate for all types of credit excluding mortgages was up 19% in May 2009 over 2008. BMO Capital Markets recently estimated that more than 150,000 households in Canada were experiencing some degree of stress in meeting their debt obligations. And other stats show the same picture – Canadian Bankers Association reports mortgage arrears were 0.4% in May 2009, up from 0.26 a year earlier, while the Office of the Superintendent of Bankruptcy noted that consumer bankruptcies rose 31% year over year to the end of April 2009.

It can be tempting to want to conceal your debt problem for as long as possible – but that's almost never the best strategy. Your mortgage lender doesn't want to see you default on your mortgage; they'd much rather help homeowners find a way to keep their home.

For mortgages insured by the Canada Mortgage and Housing Corporation (CMHC), they have identified several tools available to help you ride out a period of economic uncertainty:

1. You may be able to convert a variable-interest rate mortgage to a fixed-rate mortgage: a strategy that can protect you in the event of a sudden jump in interest rates.
2. Your lender may be willing to offer a temporary payment deferral, or other flexible options for short-term relief. If you've made any lump-sum payments against your mortgage in the past – or if you've been on an accelerated payment schedule before – that history can help.
3. You may be able to extend your amortization period to reduce your monthly payments. You can shorten the amortization again later if your circumstances change.
4. If you've actually missed a few payments already, you may ask if the lender is willing to add them to the mortgage balance and extend the payment period accordingly. (Best, however, to start talking before you start missing payments!)
5. A special payment arrangement for your situation may also be possible.

Ultimately though, it's best to seek help at the first sign of financial trouble. A chat with an experienced independent mortgage planner is often a great place to begin – because they are working for you, not the lender, and they know what the lenders are after. It can be easier to be completely open about your situation. Independent planners also have access to a huge range of lenders, so they can help you build a tailored financial solution.

It's possible that your financial situation just requires some extra penny-pinching to stay on budget. But if you find yourself adding to your credit card debt – or borrowing to make mortgage payments – then it's time to call an experienced mortgage planner. The earlier you get help, the easier it will be to conquer your debt demons!

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