GUIDE 03

The Debt-Free Roadmap for Canadian Families

A practical, step-by-step strategy for getting out of debt without giving up your life or starting over from scratch.

Sukrah Mebude | Phummie Mebson Financial Services Inc.

Inside this guide:

Introduction

Debt is the financial condition most Canadians share and least like to talk about. Whether it is a combination of credit cards, car loans, student debt, a line of credit, or the pressure of a mortgage that stretches the budget thin, carrying debt affects not just your finances but your relationships, your sleep, and your sense of possibility.

The most important thing to understand is this: debt is a math problem. And math problems have solutions. People with far more debt than you have paid it off completely by following a consistent strategy. This guide gives you that strategy, explained in full, with real examples.

REALITY CHECK

Debt-to-Income Ratio

Statistics Canada regularly reports that Canadian households carry significant debt relative to their disposable income. Understanding your own debt-to-income ratio — total monthly debt payments divided by monthly net income — is the first concrete step to changing it.

Step 1: Know Exactly What You Owe

Most people have a general sense of their debt but avoid looking at the precise numbers. This avoidance is understandable but costly. You cannot build a plan for something you have not measured. Sit down with all your statements — physical or digital — and complete this exercise.

Creditor	Balance Owing	Interest Rate	Min. Monthly Payment	Payoff Priority
Credit Card A	$______	19.99%	$______	High

Creditor	Balance Owing	Interest Rate	Min. Monthly Payment	Payoff Priority
Credit Card B	$______	24.99%	$______	High
Car Loan	$______	7.5%	$______	Medium
Line of Credit	$______	Prime + 2%	$______	Medium
Student Loan	$______	5%	$______	Lower
Personal Loan	$______	12%	$______	High
TOTAL	$______	——	$______	——

Fill this table in for your real debts. The interest rate column is the one that matters most. A 20% credit card is not the same financial weight as a 5% student loan, even if the balances are identical.

Understanding What Debt Really Costs You

The true cost of debt is almost always invisible because we only see the minimum payment, not the total interest we will pay if we make only that payment for years.

Debt Amount	Interest Rate	Min Payment Only	Time to Pay Off	Total Interest Paid
$5,000 credit card	19.99%	$100/month	29 years	$9,430
$5,000 credit card	19.99%	$200/month	3 years	$1,380

Debt Amount	Interest Rate	Min Payment Only	Time to Pay Off	Total Interest Paid
$5,000 credit card	19.99%	$300/month	19 months	$830
$10,000 line of credit	8%	$150/month	8 years	$4,230
$10,000 line of credit	8%	$300/month	3 years	$1,280

The $5,000 credit card balance paid at minimum payments costs nearly double the original amount over 29 years. Adding just $100 per month reduces the total interest by almost $8,000 and eliminates the debt 26 years sooner. This is the power of paying more than the minimum.

Step 2: Stop Adding to Your Debt

Before making any extra payments, stop the leak. Every new credit card charge that is not paid in full at month end is a backward step. This does not mean eliminating all spending. It means temporarily removing friction — put the credit card in a drawer, use cash or debit for variable spending categories, and commit to a 30-day period where the balance does not grow.

This step is psychological as much as financial. The moment you stop accumulating new debt, your plan has a fixed target. A target you can hit.

Step 3: Choose Your Repayment Strategy

Two strategies dominate personal debt repayment. Both have been validated extensively. The difference is in how they use math and psychology. For situations involving very high-interest debt, collections, or amounts that feel unmanageable, professional advice from a Licensed Insolvency

Trustee may be more appropriate than either strategy alone.

Strategy A: The Avalanche Method

Pay the minimum on all debts. Direct every extra dollar toward the debt with the highest interest rate. When that debt is paid off, roll its entire payment into the next highest-rate debt. Repeat. This is the mathematically optimal approach — it minimizes total interest paid.

Strategy B: The Snowball Method

Pay the minimum on all debts. Direct every extra dollar toward the debt with the smallest balance, regardless of interest rate. When that debt is paid off, roll its payment into the next smallest balance. This builds psychological momentum through early wins.

Comparison	Avalanche	Snowball
Optimizes for	Lowest total interest paid	Fastest early payoffs (motivation)
Best for	Math-driven people who trust the process	People who need visible wins to stay committed
Total cost	Lower	Slightly higher if rates differ significantly
Time to first payoff	May take longer initially	Faster first win
Research-backed?	Yes (financial planning data)	Yes (behavioral economics data)

SUKRAH'S TAKE

I never tell a client which method to use until we have talked for at least ten minutes. Some people are energized by numbers and long-term math — the avalanche is for them. Others need to see progress to believe the plan is working — the snowball keeps them in the game. The method that gets followed is always better than the theoretically optimal one that gets abandoned.

Step 4: Save While You Pay Off Debt

Counter to what many financial plans suggest, stopping all savings to aggressively pay debt leaves you dangerously exposed. Any unexpected expense during your repayment period — a car repair, medical cost, appliance failure — sends you straight back to the credit card.

The solution is a parallel approach: build a $1,000 emergency fund first, then split your monthly surplus between debt repayment and savings in a ratio that reflects your interest rates.

Monthly Surplus After Minimums	Emergency Fund Built?	Recommended Split
Under $200	Not yet	100% to emergency fund until $1,000 reached
Under $200	Yes	100% to highest-rate debt
$200 to $500	Not yet	$150 to emergency fund, rest to debt
$200 to $500	Yes	$350 to $450 to debt, $50 to $100 to savings
$500 to $1,000	Yes	$400 to debt, $100 to savings (TFSA)
Over $1,000	Yes	Structured plan based on full picture

Common Debt Traps in Canada

Payday Loans

A payday loan for $300 with a fee of $45 (for 14 days) carries an annual interest rate of approximately 391%. In Canada, the Criminal Code prohibits effective annual rates above 60%, but payday loan legislation is provincial and includes fee structures that often operate near this limit in practice. Breaking a payday loan cycle requires: paying it off in full as a priority, building even a small emergency fund to avoid needing the loan again, and asking your bank about a small line of credit or overdraft protection as a far cheaper alternative for short-term gaps.

The Minimum Payment Trap

Credit card companies set minimum payments low on purpose. A $75 minimum on a $5,000 balance at 19.99% barely covers the monthly interest. You would pay over $9,000 in interest before the debt is cleared — taking nearly three decades. Always pay more than the minimum, even if only by $20 to $50.

Consolidation Without Behaviour Change

Debt consolidation loans reduce your interest rate and simplify payments into one — but they only work if you do not accumulate new debt on the cards you just paid off. The most common consolidation failure is paying off three cards with a loan and then running all three cards back up within a year. Consider cutting up or locking away cards as part of a consolidation plan.

REALITY CHECK

$2,300+

is what the average Canadian pays in credit card interest annually. Eliminating a single credit card balance and redirecting those interest payments to savings or investment can generate tens of thousands of dollars in wealth over a decade.

Your Rights with Debt Collectors in Canada

If you have accounts in collections, it is important to know your legal rights. Collection agencies in Canada are provincially regulated. Key rights include:

- Collectors cannot contact you before 7 a.m. or after 9 p.m. on weekdays, or at restricted hours on weekends and holidays
- They cannot contact you at work if you have told them your employer does not permit such calls

- They cannot use threatening, profane, or harassing language
- You have the right to request in writing that they only contact you through your lawyer
- Debts have a statute of limitations (typically 2 to 6 years depending on province) after which a collector cannot sue to collect — though the debt still exists
- A collector cannot report a debt to a credit bureau if the limitation period has expired

If a collector is violating your rights, you can report them to your provincial consumer protection authority. Keep records of all contact including dates, times, and what was said.

When to Consider Professional Debt Help

Sometimes debt has grown beyond what a budget change alone can resolve. If your total unsecured debt exceeds your annual income, or you consistently cannot meet minimum payments, two formal options are available through a Licensed Insolvency Trustee (LIT):

Consumer Proposal

A legal offer to repay a negotiated portion of your debt over up to five years. A Licensed Insolvency Trustee files the proposal with the Office of the Superintendent of Bankruptcy. Creditors representing the majority of the debt must vote to accept. Once accepted, interest stops, collection calls stop, and the remaining balance is forgiven at completion. A consumer proposal stays on your credit report for three years after the proposal is completed.

Bankruptcy

A last-resort legal process that eliminates most unsecured debt. A first bankruptcy is typically discharged in 9 to 21 months. Some assets are protected by provincial exemptions (clothing, basic household goods, tools of your trade, part of your home equity). A first bankruptcy stays on your credit report for six years after discharge. Consult a LIT before deciding — a consumer proposal is frequently a better option.

A consultation with a Licensed Insolvency Trustee is free and confidential. They are regulated by the federal government and legally required to explain all your options, not just formal insolvency. Look for one at insolvency.ca.

QUICK WIN

This week: Complete the debt inventory table on page 3. Calculate your debt-to-income ratio (total monthly debt payments divided by monthly net income). If it exceeds 20%, bring that number to your next session and we will build a concrete plan together.

Your Debt-Free Action Plan

Step 1
List every debt you carry with the exact balance, interest rate, and minimum payment.

Step 2
Calculate the true cost of each debt using the minimum-payment approach (use a free online calculator).

Step 3
Identify and immediately stop any spending that is adding to your credit card balance.

Step 4
Build a $1,000 emergency fund before making any extra debt payments.

Step 5
Choose the avalanche or snowball method and write down your target debt list in order.

Step 6
Set up automatic minimum payments on every account so you never miss a payment due date.

Step 7
Direct every available dollar above the minimums to your top-priority debt each month.

Step 8
When a debt is paid off, immediately roll that payment amount into the next debt on your list.

Step 9
Review your progress monthly. Celebrate each payoff. Adjust the plan if income changes.

Step 10
If debt feels unmanageable, contact a Licensed Insolvency Trustee or book a free session.

About Your Guide

Sukrah Mebude is a finance educator with Phummie Mebson Financial Services Inc. With a focus on plain-language education and practical guidance, Sukrah works with clients across North America to help them understand their options, build lasting financial habits, and take confident steps toward their goals.

This guide is part of a free educational series covering the topics Canadians and newcomers ask about most. All sessions are completely free. No charge, no hidden fees, no obligation.

How to Connect	Details
Phone	(289) 244-3466
Website	phummiemebsonFSinc.ca
Company	Phummie Mebson Financial Services Inc.
Book a Session	Visit phummiemebsonFSinc.ca to get started (always free)

The information in this guide is for educational purposes only and does not constitute regulated financial advice. Always consider your personal circumstances and consult qualified professionals for your specific situation.