

## Consumer Insolvency in Canada Pre- and Post-Recession

Phyllis J. Johnson, University of British Columbia<sup>1</sup>

Karen A. Duncan, University of Manitoba<sup>2</sup>

Janet Fast, University of Alberta<sup>3</sup>

In the years just prior to the 2008-09 recession, the financial condition of Canadian households was characterized by rising incomes, low unemployment, low savings rates, and rising levels of debt (LaRochelle-Côté & Gilmore, 2009; Sauvé, 2010, 2011). By 2010 household incomes had recovered to their 2008 average and the unemployment rate had dropped to 8.0% from 8.3% in 2009, still higher than the pre-recession rate (Sauvé, 2011; Statistics Canada, 2012). However, the debt-to income ratio continued to rise post-recession, reaching a record 150% of disposable income in 2010, as households took advantage of low interest rates to borrow more (Sauvé, 2011).

Consumer insolvency rates in Canada increased both during and after the 2008-09 recession, reaching 5.1 per thousand Canadians in 2010, the most recent year for which data are available (OSB, 2012). It is not clear however, whether the debt profile of insolvent households differed post-recession. The purpose of this study is to identify whether there were differences in the types of debts held and/or the sociodemographic and financial characteristics associated with the debt profile of insolvent households pre- and post-recession. Such information is needed to provide benchmark data on Canadian households that have undergone an insolvency procedure, to anticipate changes in demand for insolvency procedures, and to inform preventative and rehabilitative efforts for financially distressed households.

Under the federal Bankruptcy and Insolvency Act (BIA), there are two procedures for debtors facing insolvency. In a consumer proposal, an alternative debt repayment schedule is proposed to the creditors; with bankruptcy, relief from unsecured creditors is provided to "honest but unfortunate debtors" (OSB, 2011). A 2009 change to the BIA that increased the debt threshold for consumer proposals from \$75,000 to \$250,000 is an extenuating factor that complicates the pre- and post-recession comparison of insolvent debtors.

A random sample of consumer insolvency files was drawn by the Office of the Superintendent of Bankruptcy; 4,000 from the calendar year 2007 and 4,000 from the calendar year 2010, resulting in a full year of data prior to, and a full year subsequent to, the technical start and end dates of the recession. Data included sociodemographic variables, financial characteristics, reasons for insolvency and liabilities. All dollar values in the 2007 sample were converted to 2010 dollars.

Bivariate analyses were used to compare insolvent debtors' liabilities between 2007 and 2010. Multivariate logistic regression was used to examine which sociodemographic and financial characteristics and reasons for insolvency were associated with the likelihood of having the particular type of debt. For all comparisons, bankruptcies and consumer proposals were analyzed separately.

Five types of debt differed significantly between 2007 and 2010: average bank loans, bank credit card debt, other credit card debt and mortgage debt were significantly higher in 2010 than 2007 for both debtors declaring bankruptcy and those filing consumer proposals, and student loan debt was higher in 2010 than 2007 for debtors declaring bankruptcy.

Multivariate logistic regression analyses showed that, among debtors filing for bankruptcy, being older was associated with the probability of holding other credit card debt in both 2007 and 2010, and being younger was associated with the probability of holding bank loan debt in 2007 and student loan debt in both years. Men were more likely than women to have bank loan debt in 2010, and women were more likely than men to have bank credit card debt in 2007, other credit card debt in both years, and student loan debt in both years. There were no age or gender effects for mortgage debt. For insolvent debtors who filed proposals, gender mattered only in the equations for student loan debt. Women were more likely to hold this type of debt than men in both 2007 and 2010.

Operating a business within the past five years was associated with a higher probability of holding bank loan debt and other credit card debt in 2010 and bank credit card debt and mortgage debt in both years for insolvent debtors who filed for bankruptcy. Although the effect of region varied depending on the type of debt, in both 2007 and 2010 bankruptcy filers from Quebec were less likely to hold bank loan debt, other credit card debt, and mortgage debt, bankruptcy filers from Atlantic Canada were less likely to hold

<sup>1</sup>Associate Professor, Department of Sociology, University of British Columbia, Vancouver, BC, Canada. Phone: 604-822-4300. Email: Phyllis.Johnson@ubc.ca

<sup>2</sup>Associate Professor, Department of Family Social Sciences, Faculty of Human Ecology, University of Manitoba, Winnipeg, MB, Canada. Phone: 204-474-6702. Email: Karen.Duncan@ad.umanitoba.ca

<sup>3</sup>Professor, Department of Human Ecology, University of Alberta, Edmonton, AB, Canada. Phone: 780-492-5768. Email: jfast@ualberta.ca

bank credit card debt and more likely to hold mortgage and student loan debt, and filers from British Columbia were less likely to hold other credit card and student loan debt than filers from Ontario.

There is evidence that economic conditions affected debtors in financial distress. Unemployment as a cause of bankruptcy was associated with the likelihood of holding bank loans, bank credit card debt, and mortgage debt in the multivariate analysis. Operation of a business in the past five years was significantly associated with an increased likelihood of having mortgage debt among those filing for bankruptcy. A prior insolvency was commonly associated with a lower likelihood of having bank loan or bank credit card debt, raising the possibility that a prior insolvency may make it harder for these debtors to qualify for mainstream financial products and push them toward the fringe financial sector.

These findings point to the importance of economic conditions in the demand for consumer insolvency procedures and the need to factor changes in these conditions into education and information aimed at households in financial distress. Information about who is declaring insolvency and the types of debts incurred is important if public policy is to be effective in addressing high rates of insolvency, particularly those efforts aimed at preventing households from reaching the point where debt becomes so unmanageable that protection under the BIA is sought.

### References

- LaRochelle-Côte, S., & Gilmore, J. (2009, December). Canada's employment downturn. Perspectives on Labour and Income (Statistics Canada cat no. 75-001-X), 10(12), 5-12.
- Office of the Superintendent of Bankruptcy. (2011). Declaring bankruptcy. Retrieved from <http://www.ic.gc.ca/eic/site/bsf-osb.nsf/eng/br02048.html>
- Office of the Superintendent of Bankruptcy. (2012, January). Annual consumer insolvency rates by province and economic region. Retrieved from <http://www.ic.gc.ca/eic/site/bsf-osb.nsf/eng/br01819.html>
- Sauvé, R. (2010). The current state of Canadian family finances: 2009 Report. Ottawa: Vanier Institute of the Family. Retrieved from Vanier Institute of the Family website: [http://www.vifamily.ca/pub\\_page/5](http://www.vifamily.ca/pub_page/5)
- Sauvé, R. (2011). The current state of Canadian family finances: 2010 Report. Ottawa: Vanier Institute of the Family. Retrieved from Vanier Institute of the Family website: [http://www.vifamily.ca/pub\\_page/5](http://www.vifamily.ca/pub_page/5)
- Statistics Canada. (2012). Table 282-0102: Labour force survey estimates (LFS), by immigrant status, age group, Canada, regions, provinces and Montreal, Toronto, Vancouver census metropolitan areas. Retrieved from: <http://www5.statcan.gc.ca/cansim/pick-choisir?lang=eng&p2=33&id=2820102>

### Acknowledgements

The authors gratefully acknowledge funding support from the Office of the Superintendent of Bankruptcy (OSB) for this research. The views expressed in this paper do not necessarily reflect the opinions of the OSB or of the federal government.