

# Roadblock to Recovery:

Consumer debt of low- and moderate-income Canadian households in the time of COVID-19

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Prosper Canada



# ACKNOWLEDGEMENTS

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We would like to thank our Advisory Committee members who provided valuable insights and guidance throughout this project:

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All errors, however, are our own.

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# INTRODUCTION

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Since 1991, rising household debt loads have placed a growing burden on Canadian families and, over time, have created increased risks for Canada's economy. By 2018, the Governor of the Bank of Canada had noted that high debt levels had left individuals and the economy in a vulnerable position.<sup>1</sup> The COVID-19 pandemic and the subsequent economic lockdown has since resulted in job loss or reduced earnings for over 5.5 million Canadians,<sup>2</sup> affecting their ability to meet their financial obligations – particularly those earning lower wages, visible minorities and Indigenous Peoples.<sup>3-5</sup> Many of these households will struggle over the coming months more than ever to manage debt while meeting their basic costs of living.

Federal and provincial governments have enacted effective emergency income benefits and other relief measures to help households weather the economic impact of the pandemic. Some of these actions have directly addressed household debt obligations, such as a six-month moratorium on Canada Student Loan payments.<sup>6</sup> Financial institutions have also responded to the crisis by temporarily reducing credit card interest rates<sup>7</sup> to ease the cost of consumer debt and offering deferrals on mortgage and other credit payments.<sup>8</sup>

As the pandemic and its economic impacts continue to evolve, however, financial pressures are likely to increase for many low- and moderate-income households who remain disproportionately affected by prolonged job loss and diminished earnings relative to higher earners. A clearer and more differentiated picture of household consumer debt can help to inform ongoing efforts by all sectors to help these Canadians sustain or

rebuild their financial stability and security in this challenging period.

To this end, this report analyzes the distribution, amount and composition of non-mortgage debt held by low- and moderate-income Canadian households and explores implications for federal and provincial/territorial government policy makers to consider as they develop and implement COVID-19 economic recovery plans and fulfill their respective regulatory roles.

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## Methods

To understand the distribution, composition and level of consumer debt across Canadian households at different income levels, we analyzed data from Statistics Canada's 2016 Survey of Financial Security (SFS) and conducted a comprehensive literature review of relevant Canadian studies and data on consumer debt and its impact on people living on low and moderate incomes.

The SFS surveys Canadian households on their assets, debts, employment, income and education. The SFS does not include households living in the territories, on reserve or in residences for senior citizens.

Using the most recent (2016) SFS public use microdata file, we analyzed data on households at all income levels (all five income quintiles) to determine the kinds of debt they held and the median amounts of those debts.

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## Glossary

### What do we mean by low- and moderate-income households?

“Low-income” and “moderate-income” refer respectively to households in the lowest and second lowest income quintiles (levels), as defined by Statistics Canada in its 2016 Survey of Financial Security (SFS). We have included the median annual after-tax income of indebted households for each of the five income quintiles later in this report.

### What do we mean by consumer debt?

“Consumer debt” includes all forms of non-mortgage debt, such as secured and unsecured lines of credit, credit card debt, student loans and other consumer loans such as auto loans and high-cost credit.<sup>9</sup>

### What do we mean by indebted households?

“Indebted households” refers to households that carry a debt balance of at least one of the credit types set out in the SFS – mortgages, lines of credit, credit cards and installment loans, student loans, auto loans, and other debt such as payday loans and overdue utilities. This means that households designated as having no debt carried no balances at the time of the survey. However, this does not tell us whether they paid their balances in full or do not have credit products at all.

## FINDING 1

Many, but not all, low- and moderate-income households carry debt.

**Forty-nine per cent of low-income households carry debt**, leaving just over half (51 per cent) with no debt at all.<sup>10</sup>

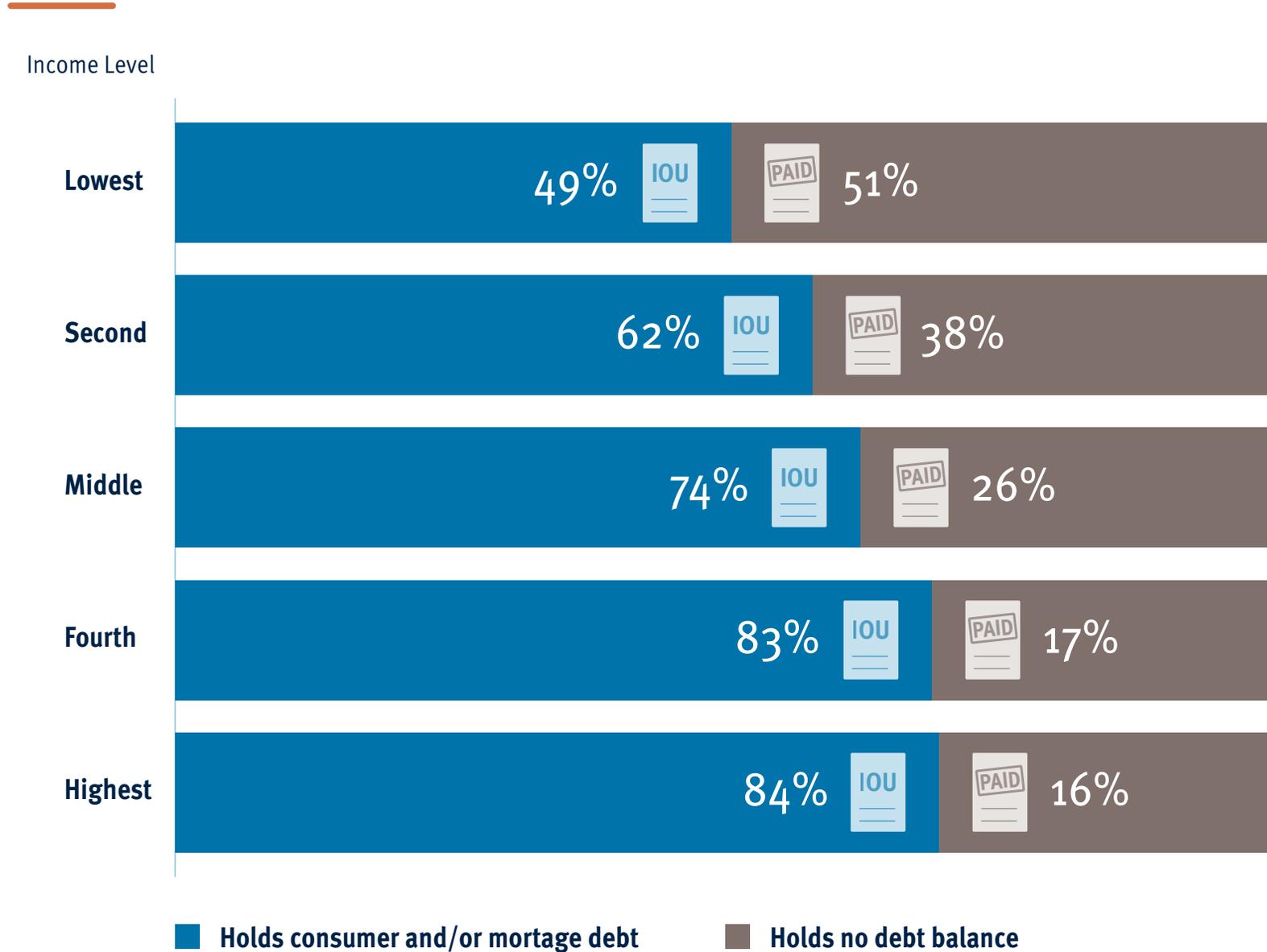
The percentage of indebted households increases with each income level, however, rising to 62 per cent for moderate-income households and escalating to 84 per cent of households with the highest incomes.<sup>10</sup> ([See Figure 1](#))

While household debt levels have continued to rise since 1999, the proportion of indebted households has remained relatively stable in this same period.<sup>10</sup>



### Figure 1: Almost half of low-income households carry debt

The proportion of indebted households increases as income rises.



Source: Statistics Canada, "Table 11-10-0057-01 Survey of Financial Security (SFS), Assets and Debts by After-Tax Income Quintile, Canada, Provinces and Selected Census Metropolitan Areas (CMAs) (x 1,000,000)."

## FINDING 2

Debt is a major driver of financial vulnerability for households with low incomes, that spend an eye-opening 31 per cent of their income on debt repayment.

**Low-income households spend an average 31 per cent of their incomes repaying debt**, while moderate-income households spend an average 18 per cent.<sup>11</sup> As this average is for all households in these income levels, the rate among indebted low- and moderate-income households is likely substantially higher.

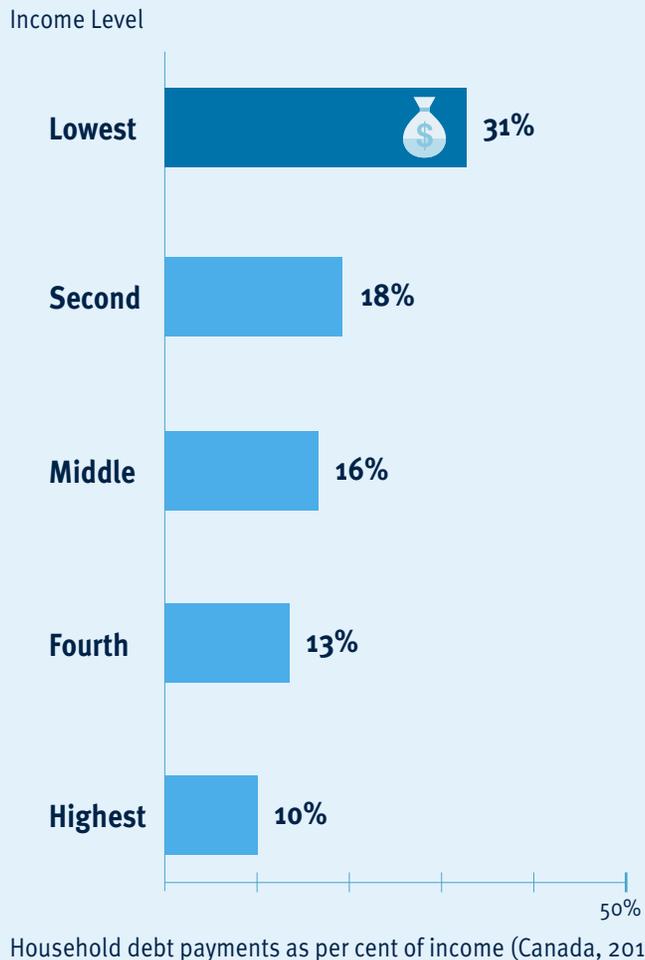
The Bank of Canada uses a debt service ratio (percentage of income used for debt repayment) of 40 per cent as the threshold for financial vulnerability,<sup>12</sup> but argues that households with debt service ratios of 30 to 40 per cent also present a potential risk, as unforeseen income or expense shocks can quickly put them in a financially precarious position.

We can reasonably expect debt service ratios to rise in the coming months as many households continue to struggle with reduced earnings and debt payment deferral plans offered by financial institutions end.<sup>3</sup>



## Figure 2: Low-income households spend an average 31 per cent of their income on debt repayment

Some low-income households risk becoming even more financially vulnerable if their debt repayment costs continue to rise.



Source: Financial Accountability Office of Ontario, "Assessing Ontario Household's Debt Burden and Financial Vulnerability." 2018.

## Implications

- **High debt burden is not evenly distributed across Canadian households – lower income households are at greatest risk.** While higher income households tend to have much higher debt loads, their debt payments as a percentage of their income are lower than lower-income households. Consequently, they are often able to manage debt effectively by drawing on income surplus for their needs and accumulated savings and wealth.<sup>13</sup>
- **High debt repayment costs compromise the ability of people with low incomes with debt to meet basic needs** as their incomes are often already below the poverty line. With job losses and reduced earnings due to economic lockdowns, low-income households with high debt loads are likely to need help to regain the financial stability needed to pursue pathways out of poverty.
- **COVID-19 is likely to further increase the risk of insolvency among households with high debt repayment costs.** Lost jobs and earnings, and the closure of schools and daycares many parents rely on to return to work, have increased the risk that many households will be unable to meet their financial obligations as they exhaust their savings, debt relief measures expire, and rent payments deferred by many households become due.<sup>14</sup> While debt deferral plans and interest rate reductions have alleviated cash flow pressures for many households, deferred payments and accumulating interest costs will result in higher debt payments as relief measures are lifted, further increasing the risk of insolvency for over-leveraged households.<sup>15</sup>
- **The return of jobs as the economy recovers will not necessarily alleviate these pressures.**<sup>3</sup> Economic forecasters expect that insolvencies will begin to rise in the fall and continue to rise for some time thereafter as households spend down their savings and run out of options to service their debts.<sup>14</sup>
- **Any economic recovery plan, as well as longer term efforts to build the financial stability and security of people with low and moderate incomes, will need to address household debt** to be effective. This means actively supporting households at risk to manage their debt to avoid widespread insolvency. It will also require governments to work with financial institutions and other credit providers to ensure flexible repayment options are available to households to help prevent avoidable insolvencies during the recovery period. The federal government will need to be equally flexible with low- and moderate-income Canadians who need to repay Canada Emergency Response Benefit (CERB) payments they may not have been entitled to or other benefit over-payments.

## FINDING 3

Low- and moderate-income households with debt primarily carry consumer debt – not mortgage debt.

Fewer low-income households hold debt backed by assets than their higher-income counterparts. **Only 20 per cent of indebted low-income households<sup>a</sup> and 39 per cent of indebted moderate-income households carry mortgage debt**, compared to 55 to 71 per cent of indebted households at higher income levels. ([See Figure 3](#))

Instead, more low- and moderate-income households carry unsecured forms of debt, like credit card debt and installment loans, and debt backed by depreciating assets, such as auto loans.<sup>10</sup>

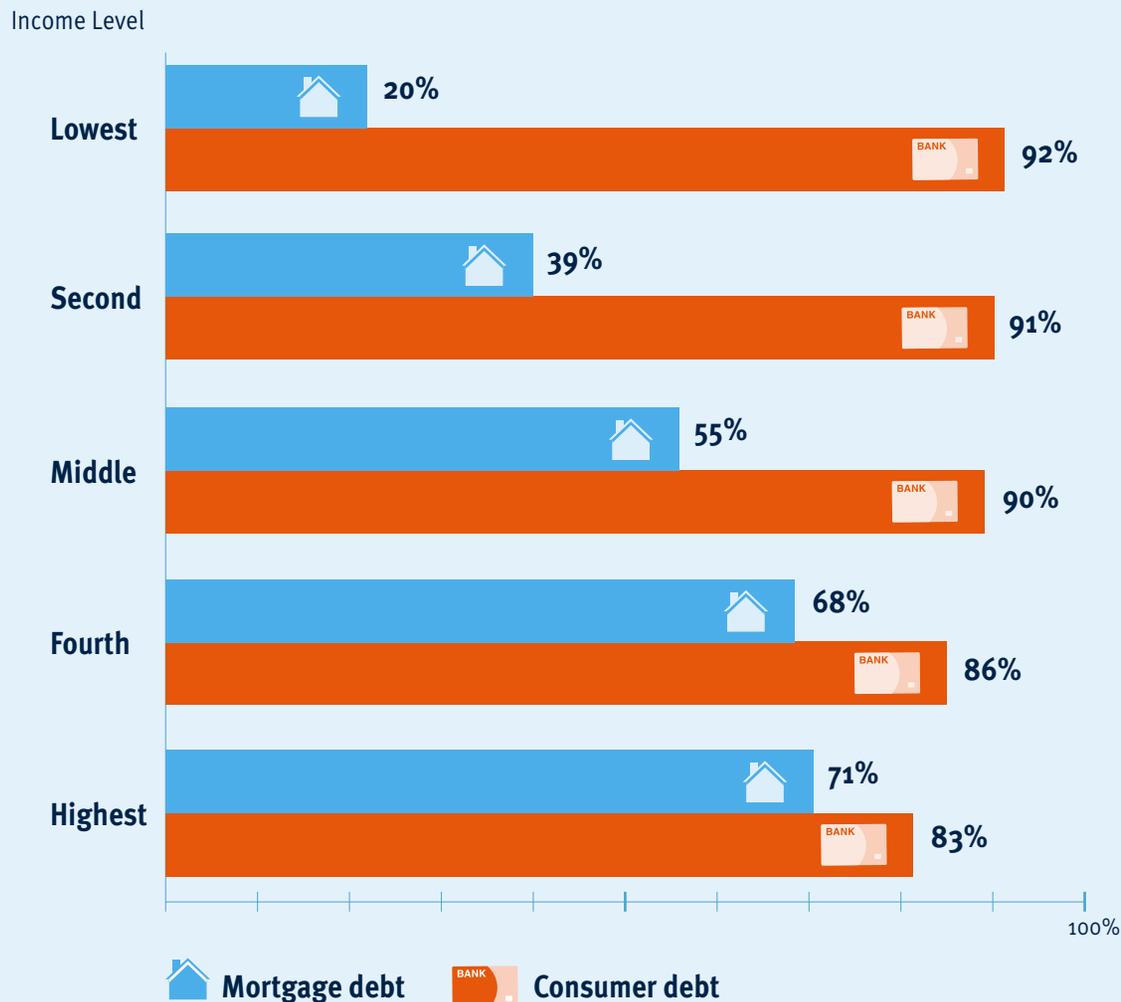
Moreover, mortgages and lines of credit are more common among indebted moderate-income households than low-income households, suggesting that as income rises, households may have more opportunities to enter the housing market and access credit at lower interest rates.

<sup>a</sup>This analysis looks at mortgage debt on a primary residence only. If we included mortgages on other properties, the proportions would rise to 23 per cent for the lowest income level, 42 per cent for the second income level, 58 per cent for the middle income level, 71 per cent for the fourth income level and 78 per cent for the highest income level.



**Figure 3: Among indebted low- and moderate-income households, over 90 per cent carry consumer debt, but most do not hold a mortgage**

Most kinds of consumer debt do not directly contribute to building assets and wealth.



Source: Analysis by Prosper Canada using the 2016 Survey of Financial Security

## Implications

- **While mortgages are a factor in average national household debt levels,<sup>1</sup> they are not the primary driver of debt for low- and moderate-income households.** Consequently, efforts to cool overheated housing markets and to tighten access to mortgage financing will not directly benefit many of these households. Actions focused on increasing the supply and affordability of rental housing are more likely to be effective in relieving financial pressure for low- and moderate-income families.
- **There are likely multiple factors contributing to growing consumer debt at the household level though, without more research it is unclear which of these are causal.** Low-interest rates, expanding forms of high-cost credit and rising house prices have all contributed to the growth of household consumer debt levels.<sup>16,17</sup> For low- and moderate-income households in particular, the rising costs of living and wage stagnation have also contributed to households using consumer credit to finance necessary expenses.<sup>18–20</sup> In fact, household-level data from the Bank of Canada shows that a sizeable portion of non-mortgage debt goes towards paying down existing debts.<sup>21</sup>
- **Longitudinal and observational studies of households and their finances can help to illuminate these relationships but there is currently little such research underway in Canada.** With appropriate investment in targeted research to determine the major drivers of debt burden among low- and moderate-income households, governments will be far better equipped to develop focused and effective policy solutions for these households.

## FINDING 4

Credit card and installment debt are the most common types of debt held by low- and moderate-income households, but a small proportion of their overall debt load.

**Fifty-nine per cent of indebted low-income households and 56 per cent of indebted moderate-income households carry some amount of credit card and/or installment loan debt,<sup>b</sup> making this the most common type of debt among these households.**

Relative to student loans or mortgages, the median amount of credit card and installment loan debt among low- and moderate-income households is modest, standing at \$1,700 and \$2,400 respectively.<sup>10</sup> ([See Appendix](#))

However, credit card debt is almost ubiquitous among those struggling with insolvency, appearing in 92 per cent of consumer proposals and 88 per cent of bankruptcies according to 2007 data from the Office of the Superintendent of Bankruptcy (OSB).<sup>22</sup>

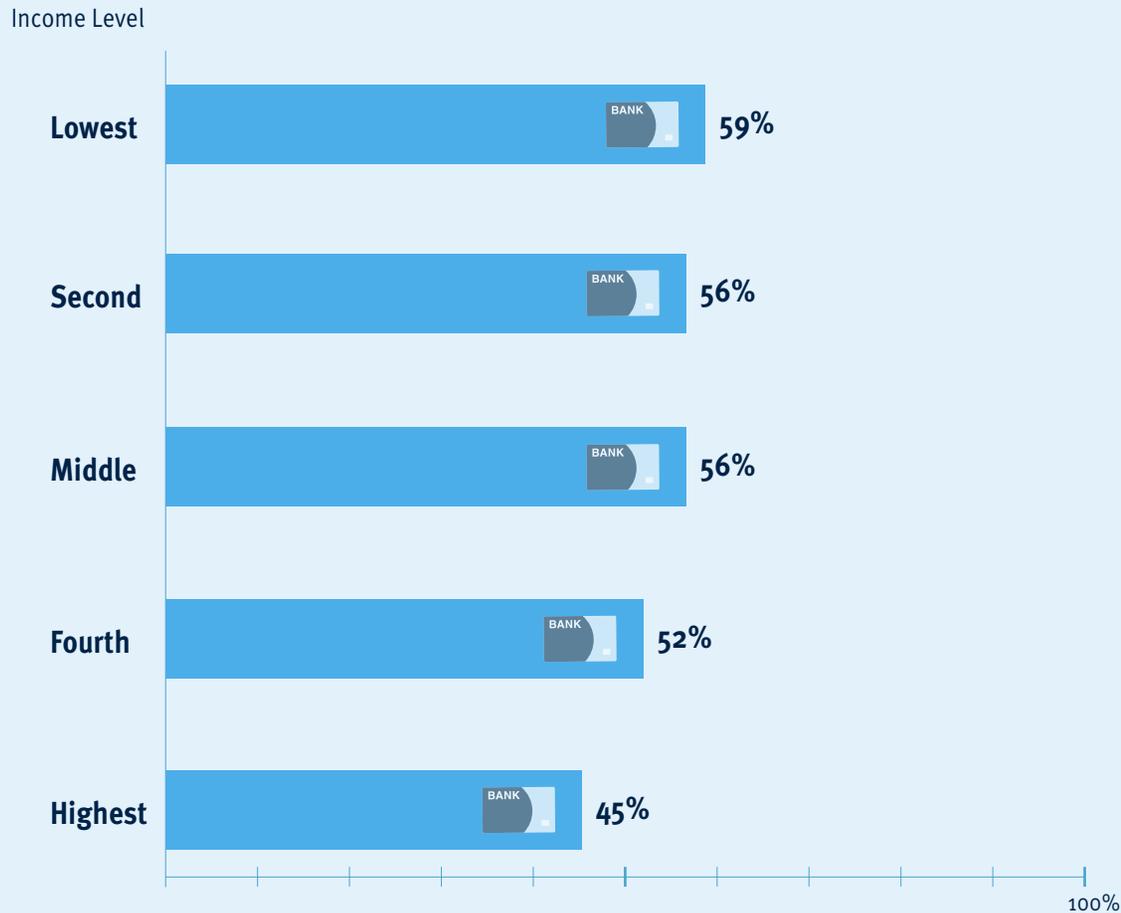
With longer-term lengths and greater principals, installment loans from high-cost credit lenders have emerged as a new alternative to payday loans and are the fastest growing form of consumer credit in Canada.<sup>17,23</sup>



<sup>b</sup>The SFS microfile dataset combines credit card debt and installment loans so we cannot differentiate between households that hold one, the other, or both these forms of debt.

#### Figure 4: Credit card and installment loan debt is widespread across all income levels

Credit card debt and installment loans are the most common form of debt for low- and moderate-income households with debt.



Percentage of indebted households with credit card debt and/or installment loans, 2016

Source: Prosper Canada analysis of data from 2016 Survey of Financial Security

#### Table 1: Credit card debt and installment loans at a glance, 2016

Income level	Median annual after-tax income*	Median debt amount
Lowest	\$20,279	\$1,700
Second	\$43,109	\$2,400
Middle	\$64,881	\$3,000
Fourth	\$90,881	\$3,500
Highest	\$141,139	\$5,000

\*Our analysis focused on those households that carried some form of debt (mortgage debt or consumer debt). Median incomes therefore reflect those of all indebted households, even if they do not hold credit card debt or installment loans.

Source: Prosper Canada analysis of data from 2016 Survey of Financial Security

# Implications

- **The prevalence of credit card and installment debt – but at relatively low amounts – suggests low- and moderate-income borrowers have a need for short-term, small principal loans.** However, high-cost credit options — like installment loans and payday loans — often hold borrowers to a fixed payment structure and charge additional fees that can lead borrowers into debt cycles or even defaults.<sup>24</sup>
- **Regulatory tightening of payday lending in recent years has been followed by the rapid growth of installment loans, which have been subjected to less regulatory scrutiny** by provincial and territorial governments.<sup>17</sup>
- **Based on issues already identified with installment loans, it will be important to increase research on their impact, strengthen regulatory monitoring and potentially introduce new regulation** if there is evidence of predatory practices and rates.
- **The federal government can play a key role, as it did with payday loans** when the Financial Consumer Agency of Canada facilitated research and knowledge exchange with provincial/territorial regulators to support much needed, evidence-informed, regulatory changes.<sup>25</sup>
- **At the same time, access to safe affordable credit options is an essential component of financial inclusion<sup>26</sup> and will become increasingly important** as households face a prolonged and potentially difficult recovery from the pandemic. We need to do more to increase access to safe and affordable, small dollar credit and reduce reliance on high-cost, high-risk credit products, particularly for underserved communities – i.e., people with low incomes, newcomers and people living in First Nations, northern and remote communities.<sup>24,27</sup>
- **There is a need for collaboration among governments, financial institutions and communities to explore safer and more affordable, small-dollar credit alternatives** that can effectively meet the borrowing needs of low- and moderate-income households that currently rely on high-cost credit products, as has occurred in other jurisdictions.<sup>28</sup> For example, the Government of New Zealand has funded community organizations to provide micro-finance loans to low-income households since 2013<sup>29</sup> and increased funding for this service in response to the pandemic.<sup>30</sup>
- **Expanded access to safe and affordable small dollar credit products from mainstream banks and credit unions is one way to decrease high-cost lending.**<sup>31</sup> As solutions are unlikely to lie with one sector alone, however, any investigation should include non-profit, government and financial institution solutions and those involving cross-sector partnerships.
- **In the short term, the federal government should explore ways to work with banks and credit unions to backstop low-cost, small dollar loans to households,** as they have with small businesses,<sup>32</sup> to help Canadians as they transition back into employment and rebuild their financial stability. Small bridging loans can potentially help some households to avoid evictions and insolvencies during this period.

## FINDING 5

Student loan debt is more common among indebted low-income households than other households, and their median student loan debt is the highest at \$15,000.

**Twenty-four per cent of indebted low-income households carry student loan debt** compared to just 15 to 17 per cent of households at other income levels. ([See Figure 5](#))

Among indebted low- and moderate-income households, median student loan debt stands at \$15,000 and \$12,000 respectively. These are the highest median debt loads of any consumer debt category for these households.<sup>10</sup> ([See Table 2](#))

Education loans can be productive forms of debt as successful post-secondary attainment has generally been shown to lead to higher lifetime earnings.<sup>33</sup> However, low- and moderate-income households will likely be paying for their education for much longer after graduation than higher income households. In addition, low- and moderate-income households may have acquired other consumer debt during their education to pay for expenses not covered by the student loan program.



It can also be financially detrimental to take on student loans without obtaining a certificate of completion. According to a study on the financial impact of student loans, the net worth of student loan borrowers without a post-secondary degree or diploma is significantly lower than that of borrowers who complete post-secondary education.<sup>34</sup>

Borrowers with some college, trade, or university education, including current students, are more likely than others to say they are behind on one or more bill payments,<sup>35</sup> suggesting that they may be struggling with debt from their time spent in school while not experiencing the financial benefits that typically come from completed post-secondary education.

**Table 2: Student loans at a glance (2016)**

Income level	Median annual after-tax income*	Median debt amount
Lowest	\$20,279	\$15,000
Second	\$43,109	\$12,000**
Middle	\$64,881	\$12,000
Fourth	\$90,881	\$11,000
Highest	\$141,139	\$13,000

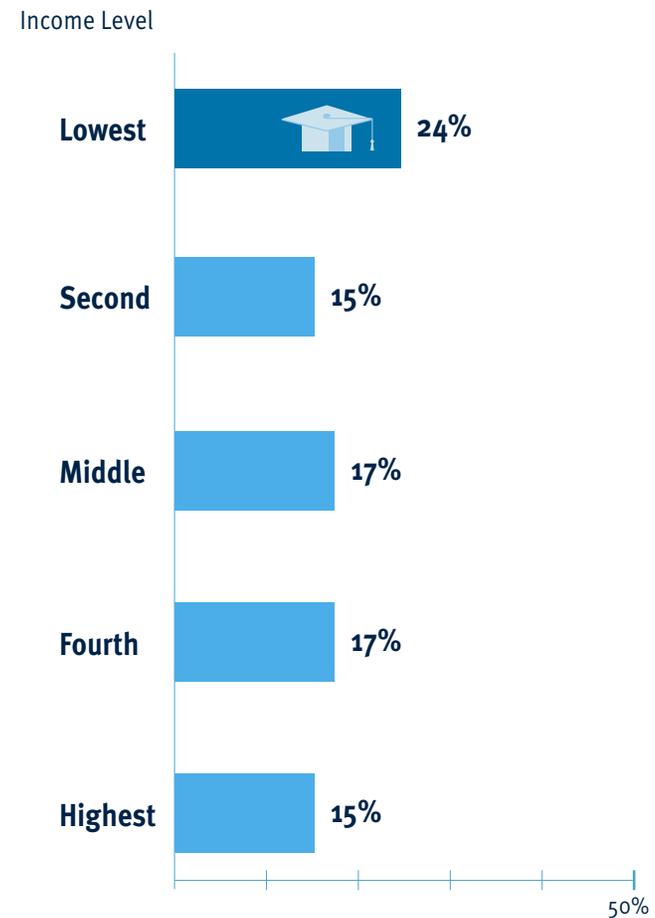
\*Our analysis focused solely on households that carried some form of debt (mortgage debt, any type of consumer debt, or both). Median incomes therefore reflect all indebted households, even if they do not hold student debt.

\*\*Statistics Canada suggests using this figure with caution

Source: Prosper Canada analysis of data from 2016 Survey of Financial Security

**Figure 5: Student loan debt is more common among low-income households than other households**

Low-income households also carry the highest median student debt loads (\$15,000).



Percentage of indebted households with student loans, 2016

Source: Prosper Canada analysis of data from 2016 Survey of Financial Security

# Implications

- **The fact that low- and moderate-income households carry student debt loads disproportionate to their incomes signals a serious issue with Canada’s post-secondary education financing system.** Excessive student debt can be a deterrent to post-secondary education participation and attainment,<sup>29</sup> impeding opportunity for individuals and frustrating efforts to ensure Canada’s labour force has the education and skills to succeed in the labour market and support a strong economy.
- **In the medium term, federal and provincial/territorial governments should give priority to a joint, collaborative review of Canada’s student financing regimes** to assess whether they are placing a disproportionate and regressive debt burden on low- and moderate-income households and, if so, take coordinated action to redress this imbalance.
- **In the short term, student loan payments have resumed for many low- and moderate-income households** that took advantage of debt deferral measures to help make ends meet. This will place additional financial pressure on many households that have not yet returned to pre-COVID-19 income levels.
- **Federal and provincial/territorial governments should review their student loan relief and forgiveness programs to see if the measures in place and related eligibility criteria need to be revised, extended or expanded** to more effectively support borrowers during the recovery. If governments want to quickly relieve pressure on households, expanded debt forgiveness for low- and moderate-income student loan borrowers could be an effective way to help, shortening the journey back to financial stability for many households and accelerating Canada’s economic recovery.

**Table 3: Regulatory responsibilities**

Federal	Provincial
 Federal banking and financial institutions*	 Provincial credit unions
 Insolvency processes	 High-cost lending including payday loans and installment loans
 Interest rates	 Auto loans
 Student loans	 Student loans

\*Other than provincial credit unions

## FINDING 6

The recent growth of extended term and subprime auto loans has increased the risk of low- and moderate-income households entering positions of negative equity – where households owe more on their auto loan than the vehicle is worth.

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For many households, especially those outside urban centres, automobiles are a necessity of life.<sup>36</sup> However, **auto loans pose several risks to low- and moderate-income households and borrowers with low credit scores.**



Unlike other forms of consumer credit, accessing an auto loan typically involves interacting with a sales representative at a dealership who liaises with multiple potential lenders and decides which loan options to present to the borrower, often factoring in the commission the salesperson will receive.<sup>36</sup>

For low- to moderate-income borrowers, the need to keep monthly payments low makes them vulnerable to high-cost, extended-term loans. In fact, dealers increasingly offer seven to eight-year terms on new car loans, as opposed to traditional three to five-year loans.<sup>37</sup> Longer term lengths allow borrowers to pay a lower monthly payment but result in interest payments that can exceed the cost of the car.<sup>24,37</sup> In 2015, extended term loans made up 69 per cent of all auto loans in Canada.<sup>37</sup>

Borrowers with poor or no credit history are often only able to access subprime loans, with interest rates from 15 to 28 per cent annually, plus additional fees.<sup>37</sup>

Borrowers also encounter misleading sales tactics from dealers and lenders, including falsifying consumer credit histories to successfully secure financing and associated commissions.<sup>37</sup>

High interest rates, extended term lengths and unnecessary fees and add-ons all increase the risk of negative equity – where the value of the vehicle is lower than the remainder of the loan still owed by the borrower.<sup>24,36,37</sup> Since automobiles depreciate quickly and the first two years of auto loan payments largely cover interest, negative equity is likely to arise within the second year of an auto loan.<sup>36</sup>

Negative equity can also occur by refinancing a new vehicle and rolling an existing loan into a new, larger loan.<sup>24</sup> This is especially problematic for low- and moderate-income households as larger loans leave them with less financial flexibility and the inability to respond to job losses and expense shocks,<sup>36</sup> common realities at the best of times, but more so now as a result of COVID-19.

## Implications

- **With 69 per cent of auto loans covering an extended term of seven to eight years, auto loan debt could remain a burden for households for much longer than other types of consumer debt.** Like student loan payments, auto loan payments have resumed for many low- to moderate-income households who made use of deferral options to make ends meet during the COVID-19 shutdown. In the case of extended-term auto loans, this may mean low- and moderate-income households are covering higher interest payments than anticipated, increasing their risk of entering negative equity.<sup>36</sup>
- **The need for many people to have a vehicle means that low- and moderate-income households may prioritize auto loan payments over other financial needs.** Households that rely on their vehicles to commute to work or care for family could face difficult financial decisions as multiple debt payments resume.
- **In the short term, the federal government can work with financial institutions holding auto loans to encourage flexible repayment options** to enable borrowers who are financially struggling to retain their vehicles and avoid insolvency.
- **In the medium term, federal and provincial territorial governments should coordinate to review auto lending regulations and share best practices** to prevent predatory and fraudulent behaviour, and lending practices that are likely to result in negative equity for borrowers.

## FINDING 7

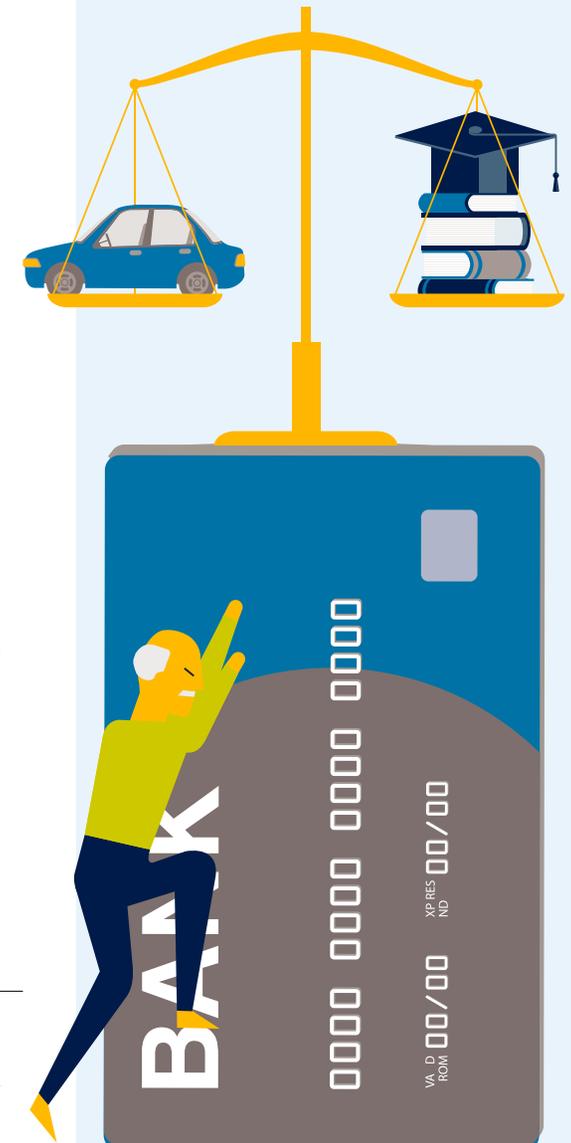
Financial counselling supports for insolvent borrowers are of uneven quality and there are few sources of free, quality financial counselling available to Canadians struggling to avoid insolvency.

When someone can no longer pay their debts, they may file for bankruptcy. Filing for bankruptcy means a licensed insolvency trustee arranges payment to a borrower's creditors by liquidating the borrower's assets, according to the provisions of the *Bankruptcy and Insolvency Act*. The *Act* requires mandatory financial counselling sessions that are covered through bankruptcy fees.<sup>38</sup>

**However, many repeat bankruptcy filers indicate misuse of credit as the leading cause of their insolvencies, suggesting that mandatory counselling may not be effective in reducing multiple filings.<sup>39</sup>**

Similarly, many credit counsellors offering Debt Management Plans (DMP) provide counselling. Two research studies using mystery callers suggest that these counselling sessions consist primarily of helping borrowers create a budget that allows for DMP payments to creditors, but little counselling on personal finances more broadly, or on how to avoid unmanageable debt or manage debt effectively in the future.<sup>40</sup>

For borrowers who continue to make regular payments but struggle with high debt loads, there are few free, neutral, quality counselling supports available to them.<sup>41</sup>



## Implications

**Table 4: Comparing options for insolvent borrowers and those approaching insolvency** <sup>19,38-40,42-44</sup>



### Options for insolvent borrowers

Option	Recorded on credit report	Allows borrowers to keep their assets	Provides financial counselling support	Covers debt from high-cost credit lenders
Bankruptcy	✓	✗	✓	✓
Consumer Proposal	✓	✓	✓	✓



### Options for those approaching insolvency

Option	Recorded on credit report	Allows borrowers to keep their assets	Provides financial counselling support	Covers debt from high-cost credit lenders
Consolidation Loan	✓	✓	✗	✗
Debt Management Plan (DMP)	✓	✓	✓	✓
Orderly Payment of Debts (OPD)*	✓	✓	✗	✓

\*OPD is a provincial program currently only available in Alberta, Saskatchewan, Nova Scotia, and Prince Edward Island.<sup>40</sup>

- **Canada lags nations like Australia,<sup>45</sup> the United Kingdom<sup>46</sup> and New Zealand<sup>47</sup> in ensuring households have access to free, quality, financial help** to deal with money and debt problems.<sup>48</sup>
- **Governments in these nations had all established national money management and/or debt counselling services prior to COVID-19 and subsequently expanded these** to help citizens manage additional financial pressures caused by the pandemic.<sup>30,49,50</sup> Many of these services are stand alone, but growing evidence suggests that integrating financial counselling into other public services – e.g., welfare, employment, housing, shelter and primary healthcare – can act like a “super vitamin,” helping participants to improve financial outcomes while also boosting other target service outcomes.<sup>51</sup>
- **Federal and provincial governments in Canada should quickly explore similar options and invest in scaled financial help services** targeted to financially struggling low- and moderate-income households to encourage and support their participation in Canada’s economic recovery.
- **This would have the added benefit of preventing many family, health, productivity and social problems that arise from financial stress and crises,<sup>52</sup>** reducing downstream demand on public social and health services and costs to employers<sup>53</sup> from lost productivity and absenteeism.<sup>54-55</sup>

## FINDING 8

More comprehensive national data collection, monitoring and research is urgently needed to understand who is most affected by debt and why.

The SFS has provided valuable information on household debt burden since 1999. However, Statistics Canada has only administered the survey five times, most recently in 2019. **This infrequency means that the data we have is often years out of date and may not accurately reflect the actual debt experiences of households.**

The SFS and other national surveys related to the household balance sheet also do not consistently collect important demographic characteristics of survey respondents, such as race, gender, sexual orientation, disability, Indigenous status, immigrant status and whether they live in urban, rural or remote communities.

As a result, there is little publicly available data and analysis in Canada on the amount and composition of debt held by different groups of Canadians and their respective debt burdens currently and over time. This impedes our ability to identify differences in debt composition and burden and to investigate the drivers of excessive debt for diverse groups.



# Implications

- **Without a clearer understanding of who is most affected by debt and why, it is unlikely that we will succeed in stemming the rising tide of household debt in Canada.** We currently lack any detailed breakdown of which demographic groups and geographies are most affected and have made little progress over the last decade in identifying the causes of rising household debt, despite the severe strain this is placing on many low- and moderate-income households and the growing associated macro-economic risk.
- **In the short term, a more comprehensive national monitoring and reporting system is needed** that accurately tracks debt burdens, missed payments and other indicators across various types of credit at the household level. A better real-time picture of how household debt is evolving would provide policy makers with evidence to inform recovery plans and address what may be an unprecedented rise in insolvency.<sup>3</sup> Timely and transparent public reporting would also enable communities to target more effective supports to those who need it most to maintain their financial stability and avoid insolvency.
- **Statistics Canada and the Financial Consumer Agency of Canada should also expand current surveys to enable meaningful exploration of the debt profiles of diverse groups** – e.g., by ethnocultural, gender, disability and Indigenous status, and by geographic communities, similar to the recent changes made to the Labour Force Survey.<sup>56</sup> This would give researchers and policy makers a more detailed understanding of the diversity of debt experiences and open the door for more in-depth research on what is driving debt in specific populations – a precondition for developing effective solutions that reduce excessive household debt.
- **Finally, Canada needs a national longitudinal survey on household finance if we want to understand the complex interplay of factors driving household financial decision-making and outcomes.** We have seen the savings rates of Canadians plunge and their debt rise to historic levels over the past 30 years, with little evidence to indicate why. We cannot afford to remain in ignorance any longer. Similar to the impact of Canada's former National Longitudinal Survey on Children and Youth, a longitudinal household finance survey would attract an expanded cohort of talented researchers, fuel ground-breaking research and equip policy makers, financial service providers and communities with the insights they need to help Canadians rebuild their financial health and their resilience against future economic shocks.

## CONCLUSION

The COVID-19 pandemic has highlighted in stark terms how unprepared most Canadians are to weather a major economic shock.

Record high household debt levels prior to the pandemic have compounded this problem. Unprecedented insolvency levels are expected as emergency relief and debt deferral measures wind down and households are confronted with higher debt payments.

Our research shows that low- and moderate-income Canadians are particularly affected. While less likely to carry debt than higher income households, they carry a proportionally higher debt burden that, for many affected low-income households, impacts their ability to meet basic needs.

The mix of debt held by households varies by income level, requiring differentiated targeted strategies to help households reduce excessive debt. A more comprehensive national monitoring and research program is needed to learn more about who is negatively affected by excessive or unmanageable debt and why. This includes more frequent and comprehensive data collection,

active exploration of the experiences of diverse demographic groups, and longitudinal research to better understand household finance dynamics and the fundamental drivers of excessive debt in diverse groups.

As policy makers plan for Canada's economic recovery, the urgent risks posed by excessive debt for households themselves and for Canada's economy demand active measures to address household debt and to help financially struggling Canadians rebuild their financial health. Canada lags other nations in introducing national financial and debt counselling programs for households, but we have organizations, expertise and program models we can quickly scale up with the appropriate investment.

Policy makers should also be working with financial institutions to create strategies to help Canadians safely navigate the pandemic recovery. Strategies should include extended credit, more flexible repayment schemes, ways to alleviate the



disproportionate burden of education debt borne by low- and moderate-income households, and closer regulatory attention to high-cost, high-risk installment and auto loans.

Timely investment in Canada's financial health infrastructure – research and programs to support households – would offer us a chance to mitigate the worst financial impacts of COVID-19, to prevent personal insolvencies and stem the tide of rising household debt, and to help Canadians build their financial health and resilience against future shocks.

Modest public spending now to address these gaps would be a wise investment in everyone's future – helping indebted Canadians to stabilize and rebuild their financial health and removing a major brake on Canada's broader economic recovery.

# APPENDIX

## Proportion of indebted households carrying different types of debt by income quintile, 2016

	Mortgages	Lines of credit	Credit card and installment loans	Student loans	Vehicle loans	Other debt
All income quintiles	50%	31%	54%	18%	42%	14%
Lowest income quintile	20%	14%	59%	24%	21%	20%
Second income quintile	39%	28%	56%	15%	36%	17%
Middle income quintile	55%	32%	56%	17%	49%	14%
Fourth income quintile	68%	38%	52%	17%	51%	10%
Highest income quintile	71%	42%	45%	15%	51%	9%

Source: Analysis by Prosper Canada using the 2016 Survey of Financial Security

## Median amount of debt for those holding different types of debt by income quintile, 2016

	Mortgages	Lines of credit	Credit card and installment loans	Student loans	Vehicle loans	Other debt
All income quintiles	190,000	15,000	3,000	12,000	17,000	4,200
Lowest income quintile	143,000	9,600*	1,700	15,000	11,500	2,000*
Second income quintile	120,000	10,000	2,400	12,000*	12,000	3,000*
Middle income quintile	152,000	12,000	3,000	12,000	16,000	6,000*
Fourth income quintile	190,000	15,000	3,500	11,000	18,000	6,500*
Highest income quintile	245,000	30,000	5,000	13,000	20,000	6,000*

Source: Statistics Canada, "Table 11-10-0057-01 Survey of Financial Security (SFS), Assets and Debts by After-Tax Income Quintile, Canada, Provinces and Selected Census Metropolitan Areas (CMAs) (x 1,000,000)."

\*Statistics Canada suggests using these figures with caution

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