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& ASSOCIATES INC. – TRUSTEES IN BANKRUPTCY

Joe Debtor: Who Is He?

Who Is At Risk?

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May, 2013

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Introduction

Hoyes, Michalos & Associates Inc. has provided consumer proposal and personal bankruptcy services to individuals in Ontario since 1999. We are one of the largest firms in Canada practicing in the area of personal insolvency. We work exclusively with people, not corporations, so we have a particular interest in helping individuals solve their personal financial problems.

Imagine dealing with the never ending financial distress of overwhelming debt. This is the experience of clients our trustees help each and every day. But what brought them to this point? Who is the average insolvent debtor – or Joe Debtor as we will call him?

The truth is for Joe Debtor, credit became a way of making ends meet. Joe used credit cards or a bank loan to finance everyday activities. He purchased a house expecting he would be able to afford it.

Joe's debts accumulated over time. He tried his best to maintain his payments then he lost his job, went through a marriage breakup, or suffered an illness. Or after years of struggling, his debts just became too much.

So who is at risk? What does the average debtor look like? Could you follow in his footsteps?

Methodology and Key Findings

As required by law, Hoyes, Michalos & Associates Inc. gathers a significant amount of information about each debtor who files with us. We know their income, family size, age, gender, assets, and debts. Every two years, we examine this data from debtors we assisted over the previous two years to gain an understanding of the average person who files for insolvency. Our study reveals information on the personal characteristics of the average insolvent debtor and his debts. We can use this data to identify risk factors that contribute to financial distress and the eventual choice to file insolvency as a solution.

Our current study, of almost 7,000 insolvencies from 2011 to 2012, revealed that while the average bankrupt looks very much like the average Canadian, there are several factors that put him at risk of having to file bankruptcy or a consumer proposal.

Our key findings:

- Joe Debtor is a 43-year-old male, and he is getting older. While the average insolvent debtor was 41 years old in 2009, the average person filing insolvency 4 years later is 43. Older Canadians are feeling the burden of debts accumulated over several years as a slower economy has forced many into early retirement and reduced the income of others.

- Joe Debtor is married, however there is a high probability that his relationship will end in separation or divorce. Debt issues put stress on marriages and this pressure can often lead to separation and divorce. The subsequent relationship breakdown adds to an already difficult financial situation. The cost of divorce and separation goes well beyond the emotional, ending for many in bankruptcy due to increased divorce debts. In our most recent study, 28% of insolvent debtors were separated or divorced, and 18% listed a relationship breakdown as one of the primary causes of their insolvency. Sadly, divorce and separation as a cause of bankruptcy has trended upward since our previous report.

- Joe Debtor has a job, with a take-home pay of $2,366 a month. It is not true that only the unemployed need to file for bankruptcy. In fact, 81% of insolvent debtors were working at the time of their filing. However 9% of insolvent debtors were on disability leave or were retired, up from 6% two years earlier. This, coupled with an increase in the number of debtors who listed health reasons as a primary cause of their insolvency means dealing with the burden of overwhelming debt is stressful. The continued slow economic recovery combined with on-going debt problems may be felt more acutely by older Canadians and those already experiencing health related issues.

- Joe Debtor has total unsecured debt of $61,096, an increase of 2% over two years ago. There is some good news behind the numbers. Consumers seem to be listening to the warnings about credit card debt. The average owing on credit cards fell to $23,741 compared to $24,390 in our study two years earlier. In addition, the average number of credit cards in Joe's wallet fell from 4.2 to an average of 3.9 cards.

  However, Joe's personal loan debt, including lines of credit, has increased from $18,758 to $19,374, an increase of 3%. Debtors may be exchanging lower interest rate personal loans for higher interest debt, perhaps repaying higher interest credit card debt. While lowering interest rates paid is prudent financial planning, it obscures the fact that total unsecured debt levels are still increasing.

- Joe Debtor has an average tax debt of $7,482. This is a dramatic increase over the average of $5,656 in our previous report. We have seen an increase in the number of insolvencies for self-employed and owner-operated businesses. When these businesses close they typically do not file a business bankruptcy. The debts accumulated are usually personal debts, not business debts, leaving the debtors with little option except to declare insolvency.

- Easy access to credit combined with poor financial management and job related causes (such as job loss and reduction in income) remained the primary causes of insolvency for most debtors, unchanged from previous years. We discovered an increase in the citation of marital and health related matters as a cause of insolvency. The economic recovery in Canada, and in particular in Ontario, has been very slow since the last recession. The pressures of slow economic growth, combined with heavy debt loads, is taking a toll on families and individuals.

Most Canadians in financial difficulty are good, hardworking people, but due to divorce, job loss, health crisis and over-use of credit, are forced into bankruptcy. They do not follow the typical stereotype of the average bankrupt; they are in fact the average Canadian under stress.

Who Is Filing For Insolvency?

Hoyes, Michalos & Associates Inc. is one of the largest firms in Canada practicing exclusively in the area of personal insolvency, including bankruptcy and consumer proposal services.

Every two years, we examine data collected from insolvency filings of debtors we have assisted over the previous 24-month period. We analyze all of that information and developed a profile of the typical bankrupt individual (we call this person Joe Debtor). Our analysis provides us with insight and knowledge into who files a consumer insolvency to their creditors in Canada and why. In particular we can identify those who are 'at risk' of having to choose either bankruptcy or a consumer proposal as a solution to their financial problems.

Joe Debtor – An Overview

Our 2013 Joe Debtor report is based on a review of 7,000 insolvency filings during the period January 1, 2011 to December 31, 2012. We then compared the results of this profile with our previous profile conducted in 2011 to identify any changing trends.

Our typical insolvency debtor, "Joe Debtor', is a 43 year old male. More males filed for insolvency than females (57% of insolvent debtors are male and 43% are female).

While Joe is more likely to be married (43% of all debtors were married or living common-law) he has a higher than average chance of being divorced or separated at the time of filing.

He has a family. Fifty-nine percent of all debtors were families with an average household of 3 people.

Joe is working (81% of all debtors were employed) with an average take-home pay of $2,366 per month, close to the Canadian average.

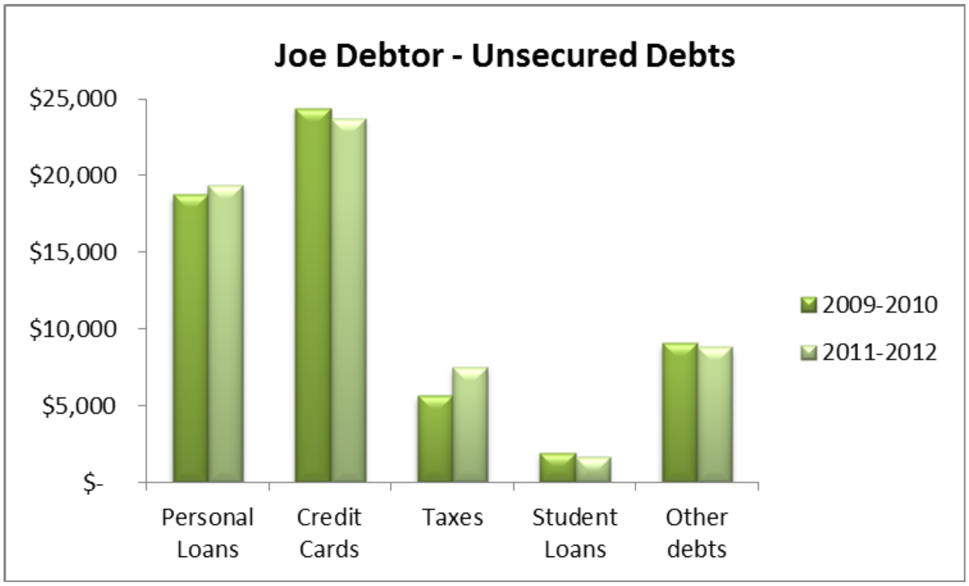
Joe has a total unsecured debt of $61,096, more than three times the average consumer credit per adult in Canada of $18,012[1]. He has an average of 10 unsecured debts including bank loans, credit cards, tax debts and student loans.

Joe Debtor is more likely to rent than own and if he does own a home his average mortgage debt is $208,083.

Joe's largest non-mortgage debt is credit card debt with a total outstanding balance of $23,741. He has an average of 4 credit cards in his wallet.

Debt Facts – Joe Debtor

Joe has $61,096 in unsecured debt, 2% higher than two years ago. The average adult Canadian (18+) has consumer credit (debt excluding mortgages) of $18,012[1]. This is one area where Joe Debtor differs from the average Canadian – he is carrying a debt burden beyond what he can handle.



There is however some good news behind the numbers.

- Almost one in three insolvent debtors (29%) own a home and have a mortgage. Joe Debtor has paid down his mortgage debt. His average mortgage debt declined slightly to $208,083 from $210,754.
- Credit card debt has fallen since peaking in 2010. Joe's average outstanding credit card balances totaled $23,741, a 3% drop from two years earlier. Consumers may be getting smarter about using credit cards as a source of debt. The average number of cards in Joe Debtor's wallet fell from 4.2 to 3.9.

These positive debt trends are partially offset by an increase in both personal loans and tax debts. While debtors may be listening to warnings to reduce their mortgage and credit card debt, some are offsetting this decrease with the use of personal loans and in particular lines of credit (LOC). We will see later in this report that the increase in tax debts is largely due to struggles of self-employed debtors.

For non-insolvent debtors switching from high interest credit card debt to lower interest LOCs, the benefit may be temporary. In the event interest rates increase, more consumers may find themselves at risk of being unable to meet their monthly debt payments and may themselves become an insolvent debtor.

Some other debt facts:

- 94% of insolvent debtors carry a credit card, down from 95%. Joe is carrying fewer credit cards than before. The percentage of debtors with less than two cards increased to 36% (from 32%), while the number of debtors with 5 or more cards declined.

No. of Credit Cards	2011-2012	2009-2010
1	16%	14%
2	20%	18%
3	18%	17%
4	16%	16%
5 or more	30%	36%

- 98% of cardholders use a general purpose credit card (Visa, Mastercard, Amex etc.) and 45% use at least one retail card.
- Of insolvent debtors, 38% owe taxes, either property tax or debts owing to Canada Revenue Agency. The average debt they owe is $19,880 with the majority being amounts owing to Canada Revenue Agency.
- Of insolvent debtors, 12% owe money to payday loan companies and the average debt they owe is $2,499. If Joe has payday loans, he owes the equivalent of one full month's take home pay in multiple loans. The average payday loan is $747 and debtors had an average of 3 payday loans outstanding at the time of filing.
- Of insolvent debtors, 13% had a student loan with an average student loan balance of $13,252, down from $14,370 two years ago. Almost 1 in 5 students also had a payday loan.

Debt Servicing Costs

Low interest rates have continued to keep debt servicing costs affordable for most Canadians, potentially increasing the amount of debt they are willing to accumulate. One way to monitor the burden of carrying debt is to look at debt servicing costs in relation to income. For Joe Debtor, even assuming he is only making the minimum monthly payments on his debts, his debt service ratio is more than 80% of his take home pay. Prior to filing, Joe will try and sell whatever he might own to make his payments. He will then borrow more money from friends, family or payday loans. Soon he will begin missing payments in order to "spread" his paycheque as far as possible. This strategy will eventually result in either legal action and/or bankruptcy.

Estimated monthly payments required to service their unsecured debt:

Personal loans – 10% interest, 3% minimum	$581
Credit cards –19% interest, 2% minimum	$475
Taxes – 1% interest per month, 12 months to pay	$665
Student loans– mixed rate of 10%, 2% minimum	$34
Other debts – mixed rate 25%, 2% minimum	$176
Total unsecured debt monthly payments	$1,931
Average take-home pay Joe Debtor	$2,366
Joe Debtor's debt servicing costs as a % of income	82%

Joe Debtor Profile Data

Joe Debtor	2011-2012	2009-2010*
Personal Information:		
Male	57%	58%
Female	43%	42%
Average age	43	41
Marital status		
Married/Common-law	43%	45%
Divorced or Separated	28%	26%
Widowed	2%	2%
Single	27%	27%
Average family size (including debtor)	2.3	2.3
Single person household	41%	41%
Likelihood of having dependant	44%	45%
% Lone Parent	16%	16%
Average monthly income	$2,366	$2,240
Total unsecured debt	$61,096	$59,814
Unsecured debt-to-income	215%	223%
Likelihood they own a home	29%	28%
Average mortgage value	$208,083	$210,574
Detailed Information on the amount of average unsecured debt:		
Personal loans	$19,374	$18,758
Credit cards	$23,741	$24,390
Taxes	$7,482	$5,656
Student loans	$1,690	$1,945
Other	$8,809	$9,064
Filed bankruptcy	44%	59%
Filed consumer proposal	56%	41%

*some debts have been reclassified from the 2009-2010 data to be more comparable with current reporting

Age	Distribution
18 – 29	12%
30 – 39	30%
40 – 49	30%
50 – 59	18%
60 – 69	7%
Over 70	3%

Household Size	Distribution
1	41%
2	23%
3	15%
4	13%
5	5%
6 or more	3%

Income	Debtor	Household
$NIL	4%	2%
$1 - $1,000	7%	5%
$1,001 - $2,000	28%	20%
$2,001 - $3,000	36%	29%
$3,001 - $4,000	17%	20%
$4,000 +	8%	24%

What Triggers Insolvency?

Canadians are deeper in debt than ever before. The ratio of Canadian household debt to disposable income rose to a record 165.0%[2] in the fourth quarter of 2012. Some Canadians have a lower ratio, others have a much higher ratio. The end result of high household debt levels is that more than 100,000 Canadians file insolvency in Canada each year.

For some the cause may be over-extension of credit or poor financial decisions but, for most, the causes are unexpected. Only 37% of insolvent debtors listed over-extension of credit or financial mismanagement as the sole reason for their insolvency. That means that almost 2 in 3 insolvencies are caused by unexpected events such as job loss, illness or relationship breakdown.

Causes of Financial Difficulty[3]	2011-2012	2009-2010
Overextension of credit, financial mismanagement, unexpected expenses	55%	55%
Job related (unemployment, layoff, reduction in pay)	39%	39%
Marital or relationship breakdown	18%	14%
Illness, injury, and health related problems	16%	12%

Even if debtors have a good income and are comfortable today, high debts coupled with an unexpected layoff, accident or illness or major expense could be the tipping point between being able to manage your debts and not.

The Debt-Stress-Debt Cycle

Debts typically accumulate over time. We take on debt based on the assumption that we will be able to pay it back. We incur debt for cars, mortgages on houses, and other consumer items. But too often the burden of repaying that debt becomes overwhelming.

For families living with the constant, daily stress of dealing with staggering debt levels, the burden is both emotional and financial. Once the pressure of meeting monthly debt payments begins to build, insolvent debtors often turn to more credit as a solution. They may use credit card debt to pay for daily living expenses and rely on payday loans to make ends meet until the next paycheque arrives.

For many, this leads to a debt-stress-debt cycle that adds to their already difficult financial situation. Filing insolvency becomes the only solution.

Job Related Bankruptcy

While 81% of insolvent debtors were working at the time of their insolvency, many experienced periods of job loss or income reduction prior to filing. When a consumer who is responsible for providing financially for his family finds his income reduced, the temporary solution is to turn to credit to pay for day-to-day living expenses such as food and utilities.

The slow economic recovery in Canada, and Ontario in particular, has made it difficult for many to recover. More than one in three of our clients (39%) indicated that job related issues contributed to their financial difficulties – unchanged from 2011 despite recent job growth. Unfortunately, the financial impact of a job loss can be felt for many years.

Divorce and Bankruptcy

Financial problems and stress over money are one of the top reasons couples divorce. It is not the case however that bankruptcy causes divorce, but more that bankruptcy can be the financial outcome of divorce.

Faced with debt, couples being to argue about money. When that stress leads to separation or divorce, the debt-cycle continues. Now separated, ex-spouses are faced with managing on one income rather than two. Operating two households, each partner will have their own rent, utilities and other expenses. While adjusting to their new situation, recently separated people often rely on credit to pay their bills.

Combine this with the potential legal costs associated with a marital breakdown and debts grow even larger. It is unfortunate, but divorce and bankruptcy often go hand in hand as a result of this debt-divorce-debt cycle.

Marital Status	2012 Stats Canada[4]	2011-2012	2009-2010
Married or Common-law	60%	43%	45%
Divorced or Separated	9%	28%	26%
Widowed	6%	2%	2%
Single	25%	27%	27%

Twenty eight percent of insolvent debtors were divorced or separated at the time of filing. When explaining the reasons they filed insolvency, 18% of insolvent debtors cited marital or relationship breakdown as the cause of their financial difficulties. These numbers are increasing, suggesting that more and more Canadians are unable to weather the financial impact of an unexpected event such as divorce or separation.

Illness, Injury and Stress

The effect of illness, injury and stress extend well beyond the physical and emotional. It also affects families financially. Income loss due to time off work for an illness, accident or other medical reason can make it difficult to pay the bills. During their recovery, some may use credit to pay their day to day expenses. Additional medical costs can add to already mounting debts.

Debts can also be the cause of illness, particularly stress and depression related illnesses. Stress can lead to time off work, reducing income. To cope with stress, debtors may find themselves spending more than they should, increasing their use of credit, and debts soon spiral out of control. Once debts become more than they can handle, a proposal or a bankruptcy is often the final result.

Insolvencies due to medical-related issues seem to be on the rise. 16% of our clients cited illness, injury, and health related problems as a cause of their financial difficulties, up from 12% two years ago. In addition, 3.4% of our clients were on disability income, again an increase from our previous report (2.7%). Already experiencing record debt levels, many Canadians have little room to maneuver in the event of an unexpected illness or injury.

Debtor Profiles : Who Is At Risk and Why?

While Joe Debtor resembles the average Canadian, averages tell only part of the story. The truth is that bankruptcy affects Canadians from all walks of life - all ages, all income brackets, married or single, working, retired or unemployed.

We can look beyond the averages, and gain a better understanding of who goes bankrupt and why.

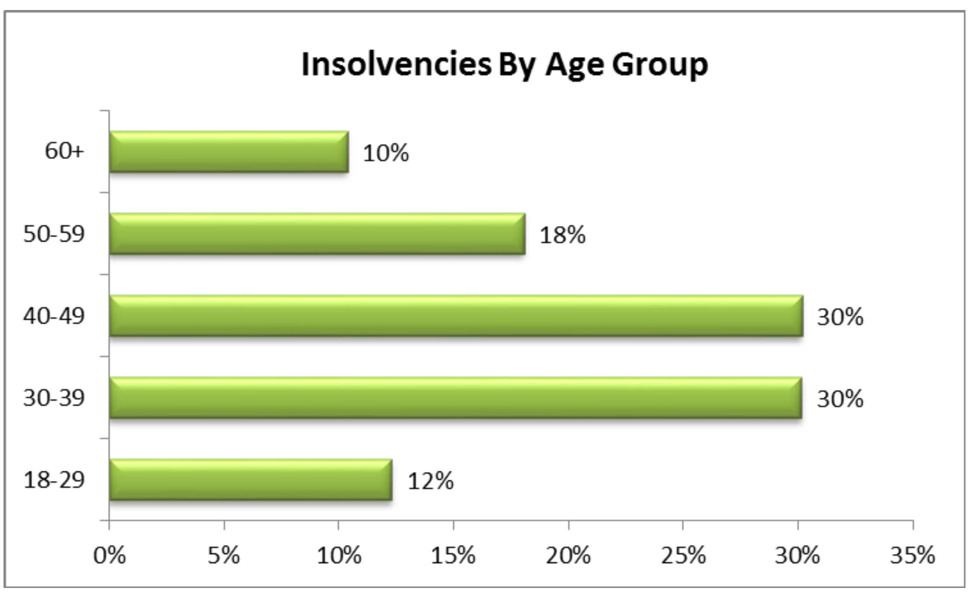
Our analysis reveals several 'at risk' groups:

- The Young Debtor
- Family Debtors
- Pre-retirement Debtors
- Senior Debtors
- Student Debtors
- Self-Employed Debtors
- Female Debtor vs Male Debtor

The remainder of this report looks at these groups and the financial and demographic characteristics that place them at risk of having to declare insolvency.

The Young Debtor:

The percentage of Young Debtors who filed insolvency dropped from 16% of all files to 12% in our 2013 report. Young Debtors are single but are as likely to be female as male. They are mostly working (86%) and only 10% are unemployed.



The average Young Debtor owes $32,686 in unsecured debts. Their average debts are the lowest of all age groups but so is their income. They have the lowest unsecured debt-to-income ratio of all age groups at 142%. So why are they in financial trouble?

Second only to Senior Debtors, Young Debtors were most likely to mention poor financial management followed by income reduction as the cause of their bankruptcy.

> *"Lack of steady employment; credit mismanagement."*

With a below average take-home pay, the Young Debtor is using up all of his or her income to pay for living expenses. The truth is there is little left over to cover debt repayments. One in three Young Debtors (31%) also has a dependant to support and 12% are lone parents.

Younger Debtors are most likely to file a bankruptcy (53%) over a consumer proposal (47%), because their income level may not be sufficient to support a long term proposal to creditors.

The Family Debtor

Two out of every three insolvent debtors are between the ages of 30 and 49. These are the years that Joe Debtor is getting married and starting a family. In his 30s only 33% of insolvent debtors are single. By his 40s only 18% are single. More than half have a dependant.

While Joe's income is growing, so are his debts. One in three will purchase a home and he will see a dramatic increase in credit card use to cover home costs and living expenses. By his 40s Joe's credit card debts will have ballooned to $26,849 and his total unsecured debts will have reached over $67,000.

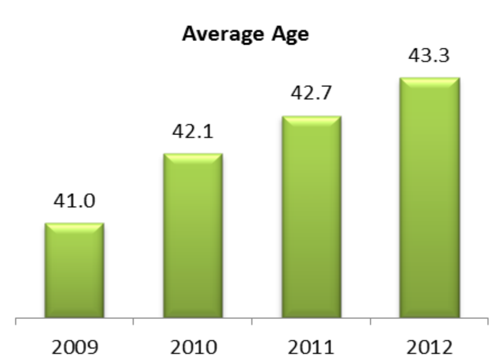
The added stress of repaying such a sizable debt puts added strain on his marriage and by his 40s more than one in three will be divorced or separated. Of all insolvent debtors, Family Debtor is most likely to mention marital difficulties as a cause of their insolvency. Twenty percent of insolvent debtors in their 30s & 40s are single parents.

> *"Relationship breakdown with common law partner and loss of employment. Now back to work but at significantly reduced wages. Unable to pay debts in full."*

Given his income and assets (one third own a home), Joe is more likely to file a consumer proposal to deal with this debts than file for bankruptcy. Overall 58% of Family Debtors filed a consumer proposal to eliminate their debts.

The Aging Debtor

Our analysis reveals that the age profile of the average insolvent debtor is older than in previous years. Joe Debtor was 41 in 2009 and by 2012 the average debtor to file insolvency was 43.3 years old.



While the majority of insolvent debtors were between the ages of 30 and 49 (60% of all debtors), the fastest growing group were debtors aged 50 and older.

One would expect that as Joe grows older he should be reducing his debts, would be close to paying off his mortgage and preparing for retirement. Unfortunately older Canadians are continuing to assume more debt at a rather alarming rate.

These growing debt levels are causing older Canadians to file insolvency more than ever before.

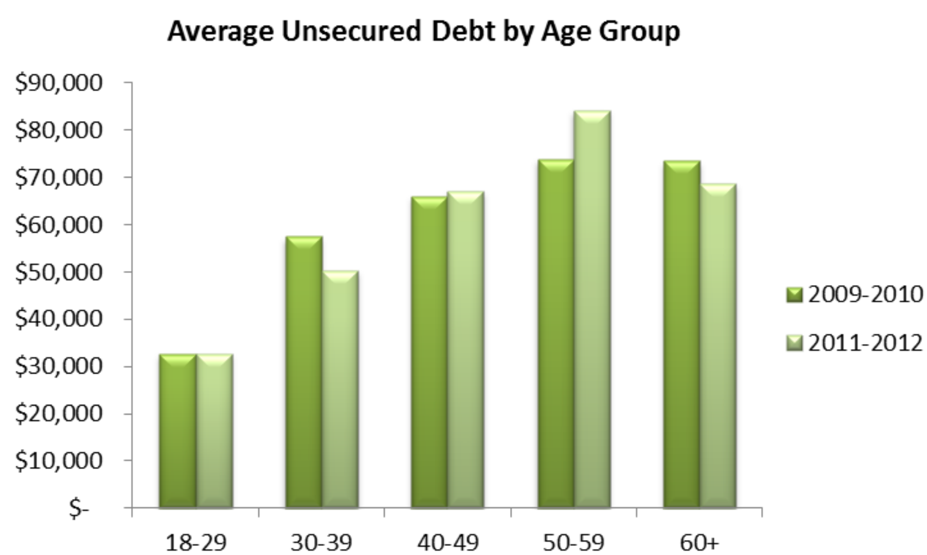
The percentage of older Canadians (aged 50 and older) rose to 28% of all insolvent debtors, compared to only 24% from 2009-2010.

Of greater concern is the high level of debt carried by older Canadians. Insolvent debtors aged 50-59 had the highest level of unsecured debts of all age groups at $84,199, 14% higher than 2 years earlier. Senior debtors had the second highest unsecured debt levels at $68,776 and the highest credit card debt at $37,161, 57% higher than Joe Debtor.

Age Distribution	2011-2012	2009-2010	Unsecured Debt	Debt-to-Income Ratio
18 – 29	12%	16%	$32,686	142%
30 – 39	30%	31%	$50,351	173%
40 – 49	30%	29%	$67,180	218%
50 – 59	18%	16%	$84,199	297%
60+	10%	8%	$68,776	273%

Pre-retirement Debtors

The most at risk group in our study are those approaching retirement. Insolvent debtors aged 50-59 have the largest average unsecured debt of all age groups at an astounding $84,199 and this debt is growing, up 14% compared to our previous study.



Although the majority of debtors in this age group are still working, their income falls below that of debtors aged 40-49. Pre-retirement workers were more likely to list job related or health reasons as the primary cause of their bankruptcy.

> *"I was unable to find employment since being laid off in 2007."*

> *"I have been off work for several years due to illness".*

This drop in income has contributed to pre-retirement insolvent debtors having an unsecured debt-to-income ratio of 297%, the highest among all age groups. Having accumulated debts over a period of time, they can no longer sustain their payments after an unplanned drop in income.

Another factor: 30% of pre-retirement debtors still have a dependant at home. This may be a dependant parent, an adult child returning home or still in school, a younger child or grandchild. The increased financial costs of supporting dependant children or parents can easily lead to the use of credit to make ends meet in what is seen as a temporary situation.

> *"One child in post secondary school. Other child has a disability who we have to care for."*

Older Canadians who are approaching retirement with significant, or even increasing debt loads, may find themselves struggling to maintain their standard of living into retirement or may face the prospect of filing bankruptcy in their retirement years.

Senior Debtors

While total insolvencies have declined in Canada in recent years, our study showed insolvency filings among Senior Debtors (aged 60+) trended upward. Senior Debtors accounted for 10% of all insolvency filings in our study, up from 8% two years ago. Senior Debtors were the only age group to experience a net increase in total insolvencies, up 4%.

The average Senior Debtor owed $68,776 in unsecured debt, the second highest among all age groups. In some good news, this was down 6% from $73,494 two years ago.

Even more significantly, Senior Debtor's credit card debt was $37,161, the highest credit card debt of all age groups and 57% higher than Joe Debtor. With an average of 5 credit cards per debtor, Senior Debtors often rely on credit cards to pay for daily living expenses and their credit card debt accumulates over a period of time beyond what they can afford to repay.

The average take home pay for Senior Debtor was $2,098, the second lowest of all age groups. In fact they are trying to service larger debts on less income than the average Joe Debtor. Our study showed that 59% of Senior Debtors were retired or on disability. The average Senior Debtor's unsecured debt-to-income ratio (excluding mortgage debt) was a whopping 273%.

> *"Debts accumulated over the years. We are now retired and unable to pay debts in full."*

> *"Husband was forced into early retirement. Lost half his salary which had lead to the use of credit cards to meet payments."*

Other factors that put Senior Debtors at risk of having to file for bankruptcy:

- Half of Senior Debtors are living on their own (50%), trying to maintain their debt payments on a single income. They are more likely to be widowed (12%) or divorced or separated (30%) at the time of their insolvency.

  "Decrease in family income upon spouse's death."

- Senior Debtors have a high likelihood of citing illness, injury, and health related problems as a cause of their financial difficulties (20%). Earlier than planned retirement or reduced income combined with medical expenses incurred in caring for themselves or family members make meeting monthly debt payments difficult.

  "Illness and surgery over the past ten years, and now cannot service debt on current income."

- Only 56% of senior debtors had RRSP savings and the average total RRSP value for those with RRSPs was only $19,464. Approaching retirement without a safety net of savings, combined with higher debt levels, significantly increases the risk of bankruptcy.

  "Reduction in pension income as a result of a decline in the stock market."

While for some Seniors carrying debt into retirement may be manageable today, particularly given recent low interest rates, it is the unexpected event that can significantly increase the risk of financial disaster. Combine a high level of debt with a reduction in income or unexpected expense due to illness or retirement, and the need to file for insolvency quickly becomes a reality. Our recommendation is to plan ahead for retirement. That means not only planning for savings but ensuring that you have a proper debt repayment plan during your working years.

Comparison of Debtors By Age Profile	18-29	30-39	40-49	50-59	60+
Personal Information:					
Male	49%	56%	59%	60%	58%
Female	51%	44%	41%	40%	42%
Average age	26	35	44	54	67
Marital status					
Married/Common-law	62%	43%	47%	46%	49%
Divorced or Separated	9%	24%	34%	35%	30%
Widowed	0%	0%	1%	3%	12%
Single	62%	33%	18%	16%	9%
Average family size	1.8	2.6	2.6	1.9	1.6
Single person household	59%	37%	33%	44%	50%
Likelihood of having dependant	31%	55%	57%	30%	6%
% Lone Parent	12%	20%	20%	12%	2%
Average monthly income	$1,916	$2,429	$2,571	$2,366	$2,098
Total unsecured debt	$32,686	$50,351	$67,180	$84,199	$68,776
Unsecured debt-to-income	142%	173%	218%	297%	273%
Likelihood they own a home	12%	28%	36%	31%	24%
Average mortgage value	$193,694	$204,091	$223,153	$198,002	$185,381
Detailed Information on the amount of average unsecured debt:					
Personal Loans	$11,929	$18,034	$22,681	$22,639	$16,501
Credit Cards	$10,772	$18,157	$26,849	$29,735	$37,161
Taxes	$2,240	$5,063	$8,798	$12,741	$7,759
Student Loans	$2,810	$2,993	$1,044	$665	$82
Other	$4,935	$6,104	$7,808	$18,420	$7,273
Filed bankruptcy	53%	43%	41%	40%	50%
Filed consumer proposal	47%	57%	59%	60%	50%

Student Debtor

The average student leaves school with an estimated $28,000 in debt and will take 14 years to repay that debt. For students who cannot find a good paying job after graduation, paying that debt can become unmanageable.

13% of our clients had student loan debt at the time of their insolvency and their average student loan debt was $13,252. Those declaring insolvency with student loan debt are more likely to be female, are 36 years old and single with an average unsecured debt of $50,791 of which $13,252 is student loans.

The average student loan has declined from $14,370 since our previous study. This is due to:

- a lower interest rate environment that our previous study,
- more older Student Debtors than younger Student Debtors who may have already partially repaid their student debt.
- changes to the *Bankruptcy and Insolvency Act* made in 2008 that reduced the period of automatic discharge for student loans in a bankruptcy from 10 to 7 years.

One in five Student Debtors (23%) were between the ages of 18 & 29. The average student loan for younger Student Debtors was $11,845, up 11% from $10,702 two years earlier.

In contrast, student loan debt for older Student Debtors declined since our previous study. The average student debt for the largest group of Students Debtors (those aged 30-39) fell from $15,166 two years ago to $14,228 while the average for Student Debtors between the ages of 40 and 49 fell even more sharply to $12,709 from $16,529.

Another trend is the decrease in the percentage of Student Debtors filing bankruptcy. In our previous study, 69% of Student Debtors filed bankruptcy with the remainder filing a consumer proposal. In our 2013 study, only 53% of Student Debtors filed bankruptcy while 47% filed a proposal with their creditors.

The profile of the average Student Debtor is very similar to previous years.

- 57% of insolvent debtors with student loans are female, 43% are male.
- The average insolvent debtor with student loans was 36 years old. The majority of student debtors are between the ages of 30 and 39 (50%).
- Because the typical Student Debtor is younger than the average debtor, she is more likely to be single. She also has a higher likelihood of being a single parent than the average Joe Debtor.
- Of insolvent debtors with student loans, 86% are employed. The average take-home pay for Student Debtor was $2,217, slightly below that of Joe Debtor, definitely below that of the average Canadian.

Student Debtor	2011-2012	Joe Debtor
Personal Information:		
Male	43%	57%
Female	57%	43%
Average age	36	43
Marital status		
Married/Common-law	38%	43%
Divorced or Separated	19%	28%
Widowed	<1%	2%
Single	43%	27%
Average family size (including debtor)	2.3	2.3
Single person household	40%	41%
Likelihood of having dependant	51%	44%
% lone parent	22%	16%
Average monthly income (net of deductions)	$2,217	$2,366
Total unsecured debt	$50,791	$61,096
Unsecured debt-to-income	191%	215%
Likelihood they own a home	17%	29%
Average mortgage value	$196,664	$208,083
Detailed Information on the amount of average unsecured debt:		
Personal Loans	$13,368	$19,374
Credit Cards	$15,299	$23,741
Taxes	$3,542	$7,482
Student Loans	$13,252	$1,690
Other	$5,330	$8,809
Filed bankruptcy	53%	44%
Filed consumer proposal	47%	56%

*some debts have been reclassified from the 2009-2010 data to be more comparable with current reporting

Self-Employed Debtor

Small businesses drive the Canadian economy. According to Industry Canada, there are over 1 million small businesses in Canada with fewer than 100 employees. Even more striking, there are a further 1.3 million businesses in Canada without registered employees but whose workforce consist of self-employed contract workers, family members and owners. In fact, approximately 15% of all workers in Canada in 2011 were self-employed.

On average approximately 99,000 new small businesses are created each year. Unfortunately almost as many business exit the market each year (through failures or closures). Only a small proportion of these businesses file for business bankruptcy. Many just close the doors. For self-employed and small business owners the financial solution may be to file personal insolvency.

Our results show debtors who are self-employed or running a small business seem to be a higher proportion of insolvent debtors than in past years.

- The number insolvencies for self-employed persons rose from 9.6% to 10.0%.
- More telling, the number of debtors who listed business failure or closure as a reason for their insolvency increased from 4.3% to 4.7%.
- Insolvent Self-Employed Debtors have an average unsecured debt of $87,253 the largest of all risk groups. A significant portion of this debt includes tax debts ($22,284) for unpaid income tax, HST and other business related taxes. 61% of all Self-Employed Debtors had tax debts compared to only 38% for Joe Debtor.
- Often using credit to fund business expenses, insolvent Self-Employed Debtors had an average credit card debt of $31,917, 34% higher than Joe Debtor.
- With a below average income and above average debts, insolvent debtors unsecured debt-to-income ratio was a staggering 349%.

Self-Employed Debtors were the most likely of all risk groups to mention job related causes for their insolvency (48%). Although 96% of self-employed debtors were working at the time of their insolvency, for many income reduction and business failures were a significant contributor to their financial difficulties.

> *"Reduction in business income due to downturn in economy and loss of clients. No longer able to service debt on current income."*

More than half of insolvent Self-Employed Debtors chose to file a consumer proposal as a way of dealing with their debts including their tax debt.

Self Employed Debtor	2011-2012	Joe Debtor
Personal Information:		
Male	70%	57%
Female	30%	43%
Average age	45	43
Marital status		
Married/Common-law	51%	43%
Divorced or Separated	23%	28%
Widowed	1%	2%
Single	25%	27%
Average family size (including debtor)	2.2	2.3
Single person household	41%	41%
Likelihood of having dependant	42%	44%
% lone parent	11%	16%
Average monthly income (net of deductions)	$2,083	$2,366
Total unsecured debt	$87,253	$61,096
Unsecured debt-to-income	349%	215%
Likelihood they own a home	29%	29%
Average mortgage value	$225,159	$208,083
Detailed Information on the amount of average unsecured debt:		
Personal Loans	$21,683	$19,374
Credit Cards	$31,917	$23,741
Taxes	$22,284	$7,482
Student Loans	$1,530	$1,690
Other	$9,839	$8,809
Filed bankruptcy	48%	44%
Filed consumer proposal	52%	56%

Jane Debtor

Roughly 43% of insolvent debtors are female and this trend has not changed in recent years.

Some basic characteristics of the female debtor:

- Jane Debtor is more likely to be divorced, separated or single than her male counterpart.
- More female debtors listed marital or relationship breakdown as a cause of their financial difficulties (21% versus 16% for male bankrupts).
- Female debtors are more likely to have a dependant and a staggering 27% of female bankrupts are lone parents compared to only 6% of male debtors.
- Female debtors owe, on average, $50,299 in unsecured debt compared to $69,266 for male debtors. Their unsecured debt-to-income ratio is below that of male debtors however their income, at $2,200 per month, is 12% below male debtors. Female debtors, particularly single parents, struggle to pay basic mortgage or rent payments, food and utility bills and other day-to-day living expenses let alone maintain their debt payments.

  "Single income to support family of 3, can no longer afford to support debt payments; credit mismanagement."

- Female debtors have a higher proportion of credit card debt and student debt than male debtors. For debtors with student loans, female debtors have a much higher amount of student loan debt ($13,868 for female debtors with student loans compared to $12,443 for male debtors with student loans).
- Female debtors are less likely to own a home. Only 1 in 4 female debtors own their home compared to 1 in 3 for male debtors.

Female debtors are more likely to file bankruptcy than male debtors reflecting lower income levels and lower levels of home ownership. Jane Debtor filed bankruptcy in 48% of insolvencies compared to only 41% for male debtors.

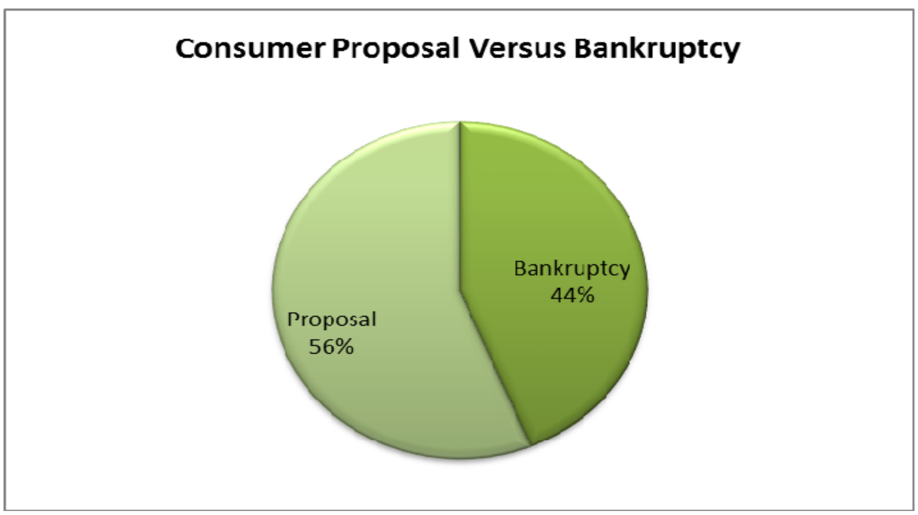
Comparison of Female and Male Debtor		
Personal Information:	**Female**	**Male**
Average age	42	44
Marital status		
Married or Common-law	32%	52%
Divorced or Separated	34%	23%
Widowed	3%	1%
Single	30%	24%
Average family size	2.2	2.3
Single person household	40%	42%
Likelihood of having dependant	48%	41%
% lone parent	27%	6%
Average monthly income (net of deductions)	$2,200	$2,492
Total unsecured debt	$50,299	$69,226
Unsecured debt-to-income ratio	191%	231%
Likelihood they own a home	25%	32%
Average mortgage value	$197,411	$214,286
Detailed Information on the amount of average unsecured debt:		
Personal Loans	$16,150	$21,802
Credit Cards	$20,281	$26,346
Taxes	$4,881	$9,441
Student Loans	$2,338	$1,201
Other	$6,648	$10,436
Filed bankruptcy	48%	41%
Filed consumer proposal	52%	59%

Bankruptcy or Consumer Proposal

In our most recent study, Joe Debtor was more likely to file a consumer proposal than a bankruptcy. A consumer proposal allows an insolvent debtor to settle their debts for less than they owe while avoiding bankruptcy.

Why choose a consumer proposal? Each situation is unique however some of the reasons debtors choose a consumer proposal:

- Most people don't want to go bankrupt unless they have to. A consumer proposal allows people to deal with their debts and gain piece of mind that they have paid what they could.
- Depending on your income level, a bankruptcy may be a very expensive option and require extra monthly payments (called surplus income). A consumer proposal allows the debtor to offer more to their creditors than they would receive in a bankruptcy, but spread those payments over a longer period of time.
- A consumer proposal is a formal procedure governed by the *Bankruptcy and Insolvency Act* and administered by a trustee in bankruptcy. It provides protection from legal actions by your creditors and provides the peace of mind that your debt settlement program follows a federally monitored process.
- If you have assets such as a home, investments or second car, a consumer proposal allows you to obtain debt relief while keeping those assets.



Almost two thirds of all debtors filed a consumer proposal. And three out of four debtors who own a home chose to file a consumer proposal over declaring bankruptcy. This is a significant change from two years ago when only 41% of all files were a consumer proposal. Legislative changes to the *Bankruptcy and Insolvency Act* increased the threshold for the eligibility of filing a Consumer Proposal from $75,000 to $250,000 of unsecured debts and this has resulted in more Canadians than ever choosing a Proposal over a Bankruptcy.

Joe Debtor Versus The Average Canadian

Many Canadians are in a state of denial about the magnitude of their overall debt load and the risk they face. In a recent Hoyes Michalos / Harris Decima study we found that four in ten Canadians (38%) still report having an outstanding balance on a credit card and a quarter of Canadians (26%) reported having an outstanding balance on a line of credit.

In our study, we saw that the typical insolvent debtor is very much like the average Canadian. They are hardworking individuals trying to provide for their families. To make ends meet they often turn to credit as a solution and their debts accumulate over time, to more than they can manage. Due to a change in circumstances – perhaps a job loss, income reduction, retirement, marital breakdown or illness – they find themselves facing the need to file a proposal or bankruptcy to deal with their financial situation.

We have been able to identify several risk factors that can help assess whether or not a debtor is at risk of a severe financial meltdown. Some of those risks are:

- Using credit cards or other unsecured debt for everyday living expenses and growing your unsecured debt over time.
- Making only the monthly minimum payments towards your outstanding debt or falling behind on payments.
- Paying more than 40% of your monthly take-home pay in debt payments.
- Having an unsecured debt-to-income ratio of more than 50% of your annual after tax income.
- Carrying debt into retirement.

Worrying about money and debts has a devastating effect on individuals and families. Recognizing the need for help and talking to a reputable professional, such as a trustee in bankruptcy for advice, is the first step in eliminating overwhelming debt problems.

Comparison of Joe Debtor to Average Canadian		
Personal Information:	**Joe Debtor**	**Average Canadian**
Male[5]	57%	49%
Female[5]	43%	51%
Average age[6]	43	41
Marital status[4]		
Married or Common-law	43%	60%
Divorced or Separated	28%	9%
Widowed	2%	6%
Single	27%	25%
Total unsecured debt[1]	$61,096	$18,012

References

1. Statistics Canada: Consumer Credit, Seasonally Adjusted (Table 176-0032) calculated on a per adult 18+ basis based on Population (Table 051-0001).
2. Statistics Canada: Credit market debt to disposable income (Table 378-0123)
3. Tabulated from the reasons given by the debtors on the Statement of Affairs, when asked to give reasons for their financial difficulties. The numbers do not add to 100% since some debtors give more than one cause for their insolvency.
4. Statistics Canada: Estimates of population by marital status, 18+ (Table 051-0042)
5. Statistics Canada: Population by Sex, 18+ (Table 051-0001).
6. Statistics Canada: Median age all Canadians 2011
7. Statistics Canada: Census families, average size 2011