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Licensed Insolvency Trustees

## **Joe Debtor: Vulnerable and Struggling**

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## Introduction and Key Findings

The reasons people turn to a Licensed Insolvency Trustee for debt relief vary, not only from person to person but also from year to year. Broad economic factors have a significant impact on the number of insolvencies filed in any given year. This is not surprising; a period of high unemployment is typically followed by an increase in consumer insolvencies. However, what has become evident through our newest Joe Debtor study is that economic factors also have a significant effect on the demographics of *who* files bankruptcy.

Consumer insolvency rates per capita have dropped to 15-year lows in Ontario, despite record levels of consumer debt. Unfortunately, not everyone is benefiting from Ontario's relatively strong economic conditions. Those who are filing a bankruptcy or consumer proposal today are much more likely to be in an at-risk household that is already experiencing financial distress before factoring in debt repayment.

For today's insolvent person, income level is a much greater determinant of whether he or she will file insolvency than in previous years. Our 2017 study revealed that a higher proportion of lower-income earners are filing insolvency than we saw in past studies:

- Joe Debtor's average household income is 41% below the median Ontario household income.
- Almost two-thirds (64%) of insolvent debtors have an after-tax household income in the bottom quartile of household earnings in Ontario.

*"There has been a shift in the face of the average Joe Debtor. Income insecurity is a bigger cause of Ontario insolvencies than ever before. Joe Debtor is using debt JUST to make ends meet." -- Ted Michalos, Licensed Insolvency Trustee and co-founder*

While not living in poverty, today's Joe Debtor is using debt to make up for a low, intermittent or stagnating income. Already having difficulty making ends meet, his lower-than-average income makes it almost impossible for him to manage his debt-repayment obligations once his debts begin to accumulate:

## Methodology

Hoyes, Michalos & Associates Inc. is one of Canada's largest personal insolvency firms, focused solely on helping individuals restructure their debt through personal bankruptcy or a consumer proposal. Operating since 1999, we work exclusively with individuals, not corporations, and as such we have a deep understanding of why people file for insolvency.

As required by law, Hoyes, Michalos & Associates Inc. gathers a significant amount of information about each person who files either a consumer proposal or bankruptcy with us. We know their income, family size, age, gender, assets and debts. Every two years, we examine this data to develop a profile of the average person who files for relief from their debt (we call this person "Joe Debtor"). We use this information to gain insight and knowledge as to why consumer insolvencies occur.

Our 2017 study, the fifth released since 2008, reviewed the details of more than 6,700 personal insolvencies in Ontario from January 1, 2015, to December 31, 2016. We then compared the results of this profile with our previous Joe Debtor reports to identify any trends.

- Joe Debtor owes an average of \$52,634 in unsecured debts, 7% below our previous study. It now takes less debt for Joe Debtor to reach a financial crisis.
- Joe Debtor owes \$1.85 in unsecured debt for every dollar he earns (after tax). His total debt-to-income ratio (including secured debt) is an alarming 778%.

Today, a person filing for debt relief is much more likely to be in a financially vulnerable risk group, such as young millennials (defined as those 18–29 in our study), seniors, student debtors or lone-parents. Women are also much more likely than men to be in a vulnerable risk group.

*“We have seen an alarming increase in insolvency rates among millennials, seniors, lone-parents and debtors with student debt; those most likely to be struggling financially and tempted to turn to debt to keep afloat.” – Doug Hoyes, Licensed Insolvency Trustee and co-founder.*

Joe Debtor’s average take-home pay has dropped 2% since our last study (published in 2015), to \$2,377 a month. The decline is attributable to a higher proportion of income-insecure, at-risk households filing insolvency than in previous years:

- Young debtors aged 18–29 account for 14% of all insolvency filings, up from 12% in our previous study. Six in ten young insolvent debtors list financial issues as a primary cause of their insolvency due to student debt and the use of payday loans.
- Senior debtors aged 60 and over now make up 12% of all insolvencies, continuing the growth trend begun in 2011. Six in ten insolvent seniors live on their own, struggling to repay debt on top of a rising cost of living, all on a reduced income. They are more likely to be widowed, divorced, on a disability and retired than was found to be the case in previous studies.
- Student debt is a factor in 15% of all insolvencies, up from 13% two years ago. One in five female debtors has a student loan.
- Lone-parents account for 17% of all insolvent debtors. Lone-parents are at a substantially higher risk of filing insolvency than dual-parent families. While lone-parent families make up 20% of Canadian families, 43% of insolvent debtors with a dependent are lone-parents.
- Female debtors are almost twice as likely to have student debt as male debtors, and they are more than three times as likely to be lone-parents.

It is not accurate to say that Joe Debtor is simply financially irresponsible; he is not using credit to live beyond his means, he’s using it to make ends met. Joe Debtor is struggling with the rising cost of living and using credit to supplement his below-average income:

- He is spending 41% of his income on housing costs, more than the recommended maximum of 35%.
- He is spending 31% of his income on personal and living expenses, more than the recommended maximum of 20%.
- He has just \$302 a month available to meet his unsecured debt payments.
- His interest costs alone amount to an estimated \$960 a month.
- Each month that goes by increases his overall debt load.

It is this monthly shortfall that causes Joe Debtor to turn to payday loans:

- One in four insolvent debtors (25%) are using payday loans, more than ever before.

In summary, our newest Joe Debtor study paints a stark picture of the insolvent debtor during a prolonged period of economic recovery. This is the “core” insolvent debtor: at-risk households who are struggling financially but are doing just well enough to qualify for more credit. Unfortunately, they enter a cycle of borrowing that is not sustainable and eventually leads to their filing insolvency.

## Joe Debtor: Who Is Still Filing Bankruptcy?

The table below presents a snapshot of today’s average Joe Debtor according to our 2017 study as compared with the average Joe Debtor from our previous study. The typical insolvent debtor is still 44 years old, male and most likely married.

Joe Debtor	2015–2016	2013–2014
<b>Personal information:</b>		
Male	53%	54%
Female	47%	46%
Average age	44	44
Marital status		
Married/Common-law	38%	40%
Divorced or Separated	27%	28%
Widowed	3%	2%
Single	33%	30%
Average family size (including debtor)	2.1	2.2
Single-person household	47%	43%
Likelihood of having dependant(s)	39%	43%
Likelihood of being a lone-parent	17%	18%
Average monthly income	\$2,377	\$2,427
Total unsecured debt	\$52,634	\$56,545
Unsecured debt-to-income	185%	194%
Likelihood they own a home	17%	24%
Average mortgage value (homeowner)	\$191,464	\$197,137
<b>Detailed Information on the amount of average unsecured debt:</b>		
Personal loans	\$18,883	\$19,266
Credit cards	\$16,174	\$20,776
Taxes	\$9,059	\$9,114
Student loans	\$2,110	\$1,849
Other	\$6,408	\$5,540
Filed bankruptcy	43%	45%
Filed consumer proposal	57%	55%

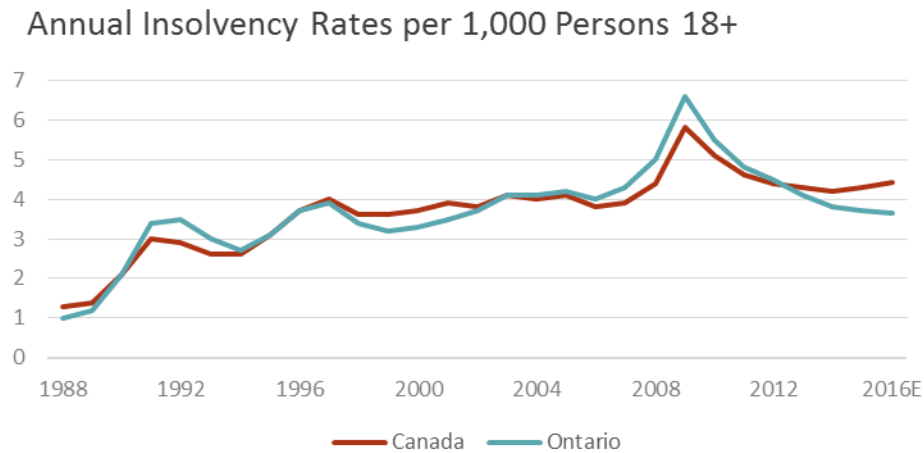
However, this is where the similarities between our current Joe Debtor and the average insolvent debtor of our previous study end.

The following report outlines some of the key risk groups and changing trends in the average insolvent debtor. Detailed tables of our results, by risk group, are included at the end of this report.

## A Changing Debt Landscape

The personal insolvency landscape has changed substantially since we conducted our previous study.

Household debt has continued to skyrocket. As of the fourth quarter of 2016, Canadian consumers owed a record \$1.67 for every dollar of disposable income<sup>1</sup> they earned. Yet insolvency rates per person<sup>2</sup> have fallen since peaking in 2009, with Ontario consumer insolvency rates expected to fall again in 2016 to levels not seen since 2001.



Matching this overall decline in consumer insolvency rates, Joe Debtor’s debts have also fallen. So why are some people filing insolvency while others with massive debt loads are not?

### Joe Debtor: Life on the Margin

Today’s Joe Debtor is not just burdened with debt, he is financially vulnerable. He, or she, is likely part of an identifiable at-risk group: lower income, struggling middle class, student debtors, lone-parents, retired seniors or on disability. These groups represent the “core” insolvent debtor we see today. In the next few sections we look at who is still filing bankruptcy and why.

On average, Joe Debtor is 44 years old, unchanged from our previous study, and debtors aged 30–39 still represent the largest group of insolvent debtors.

Having said that, in this year’s study young millennials and seniors make up a higher percentage of consumer insolvencies compared to past studies.

Age Distribution	2015–2016	2013–2014	2011–2012
<b>18–29</b>	14%	12%	12%
30–39	28%	29%	30%
40–49	26%	28%	30%
50–59	19%	20%	18%
<b>60+</b>	12%	10%	9%

While their debts may differ, these groups have one thing in common: they are earning a below-average income and are getting by financially through a reliance on debt. They are living life financially on the margin, with little protection against any unforeseen economic shock.

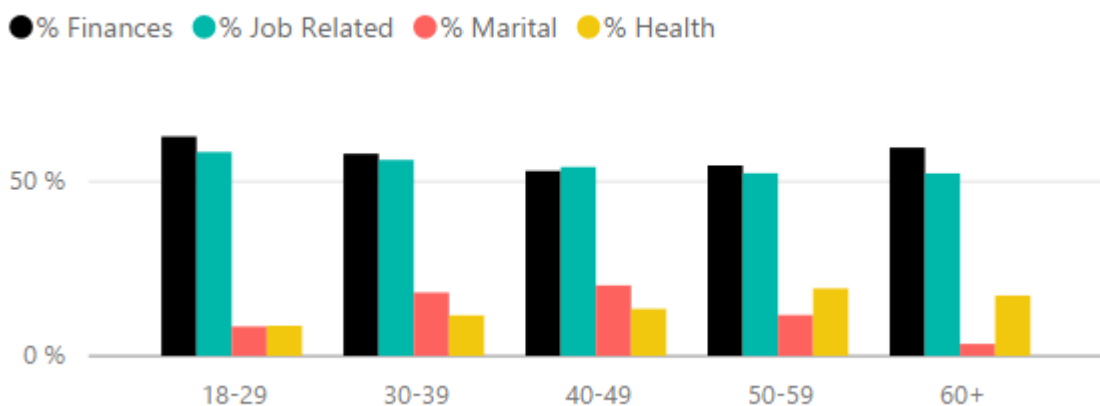
### Young Millennials Caught in Debt Trap

In our current study, 14% of all insolvent debtors are between the ages of 18 and 29, which is up from 12% in our previous two studies.

Debtors 18–29	2015–2016	2013–2014	2011–2012
% of all debtors	14%	12%	12%
Unsecured debt	\$29,079	\$32,229	\$32,569
Debtor income	\$2,028	\$1,996	\$1,911
Unsecured debt-to-income	120%	135%	142%
Likelihood of owning a home	5%	10%	11%
<b>% who use payday loans</b>	38%	30%	18%
<b>% with student debt</b>	31%	29%	24%

Young insolvent debtors have the lowest unsecured debt-to-income ratio of all age groups, at 120%; however, it is the type of debt that they have which sets them apart from other debtors. Living paycheck to paycheck, young insolvent debtors are much more likely to use payday loans than any other age group. Of those aged 18–29, 38% have at least one payday loan outstanding. Student debt is also a major problem for young millennials, with 31% carrying a student loan—a significant increase from 24% just four years earlier. For young millennial debtors with student debt, their outstanding student loans accounted for 35% of their total unsecured debt.

### Causes of Insolvency by Age Group



Young debtors are more likely to list financial mismanagement and income loss as a primary cause of their insolvency. This is consistent with the fact that they are turning to payday loans in record numbers to make ends meet. Unstable employment and underemployment contribute to the fact



that they have the lowest income of all age groups even though 85% of insolvent debtors between the ages of 18 and 29 are employed.

What is also interesting is the fact that it is young non-homeowners who are declaring insolvency. Only 5% of debtors aged 18–29 are homeowners in our 2017 study. In fact, these are millennials who are barely generating any savings. Only 23% of young insolvent debtors have an RRSP, and their average RRSP is just \$2,722. This is less than the savings revealed in our 2015 study, when 26% of young debtors had an average RRSP savings of \$3,125.

*Job insecurity and the lack of a financial safety net, including an emergency fund, increases the risk that a young millennial will end up becoming insolvent once they begin to add to their student debt with credit cards, payday loans or other unsecured debt.*

So, at least for now, it is not homeownership that is driving insolvency rates for young debtors but rather, it’s the fact that their income does not support their student loan and other debt repayment that is driving them further into the payday-loan trap.

### Seniors Struggling under Severe Debt Load

Seniors continue to be the fastest-growing risk group among all age groups. Debtors aged 60 and older now make up 12% of all insolvent debtors, up from 10% two years earlier and continuing a trend that started with our 2011 study.

On average, seniors carry a total unsecured debt load of \$64,379, which is 22% more than the average Joe Debtor. They have the highest unsecured debt-to-income ratio of all age groups, at 251%.

Debtors 60+	2015–2016	2013–2014	2011–2012
<b>% of all debtors</b>	12%	10%	9%
Unsecured debt	\$64,379	\$69,031	\$68,494
Debtor income	\$2,141	\$2,215	\$2,102
<b>Unsecured debt-to-income</b>	251%	260%	272%
Likelihood of owning a home	17%	25%	24%
<b>% who use payday loans</b>	11%	9%	5%
Payday loan debt	\$3,593	\$3,693	\$2,994

Seniors continue to struggle with credit card debt accumulated over a lifetime. They have the highest credit card debt of all age groups, at an astounding \$25,596. Credit card debt is their largest debt load, accounting for 40% of their total unsecured debt.

Unfortunately, even minimum credit card payments use up a significant portion of their fixed income. The need to keep up with debt repayment along with increasing living costs has resulted in seniors turning to payday loans in record numbers. More than one in ten (11%) insolvent senior debtors have an outstanding payday loan, and the use of payday loans by seniors continues to rise. Borrowing against a stable pension, seniors also have the highest total payday loan debt of all age groups, at \$3,593.

*The insolvent senior debtor is not the affluent senior who has just failed to cut back in his or her retirement. Today's insolvent senior is struggling with rising food and energy costs, medical costs, and other living expenses, all while living on a fixed, and often reduced, income.*

Senior debtors aged 60 and older are, in fact, supporting higher unsecured debt loads on significantly lower income. The average income for insolvent debtors aged 60 and older is only \$2,141; 10% below Joe Debtor, while his average unsecured debt is 22% higher. Even more concerning, the average senior debtor's total household income fell by more than 7% since our last study.

Senior debtors in our study are among the most financially at-risk in our communities. Today's senior debtors are more likely than in our previous study to be widowed (17% versus 14%); divorced (30% versus 28%); retired and living on a fixed income (56% versus 54%); or on disability (5.5% versus 4.6%). Almost six in ten (59%) live in a single-person household, up from 53% in our 2015 study.

Heavily indebted seniors also have little in the way of emergency or retirement savings to fall back on. Only 44% of senior debtors have any retirement nest egg, and as for those who have an RRSP, their average RRSP savings amounts to just \$20,207. Less than 1% of senior debtors have any other form of investment reserves. Those who do, have only \$18,447 in savings and securities, far less than their total unsecured debt.

Tax debt is an issue for almost half of all seniors. In our study, 47% of all seniors have tax debt; for those who do their total tax liability amounted to \$27,329, 33% of their total unsecured debt. We include additional information about tax-debt induced insolvencies later in this report.

After young debtors, senior debtors are the most likely group to blame financial mismanagement as a cause of their financial problems; however, 17% also list health concerns as a cause. It is their desire to accept personal responsibility and deal with their debt that contributes to the decision for many seniors to file a proposal or bankruptcy even though their only source of income, their pension, cannot be garnisheed.

#### *The Risk of Carrying Debt into Retirement*

Following close behind seniors in terms of debt load are pre-retirement debtors (those aged 50–59), having an average unsecured debt of \$62,815. More likely to own a home (21% of pre-retirement debtors own a home compared to 17% for Joe Debtor), slightly more likely to have some money set aside for retirement (50% of debtors aged 50–59 have RRSP savings compared to 44% for Joe Debtor), the pre-retirement debtor is struggling with the conflicting goals of saving for retirement, paying down debt and helping his remaining dependants financially. One in four (24%) pre-retirement debtors still have at least one dependant at home.

Pre-retirement debtors also face an added risk of a sudden drop in income due to an unexpected illness. One in ten insolvent debtors aged 50–59 were on disability and 19% listed health reasons as a primary cause of their insolvency.

With more baby boomers aging and entering retirement with debt and little to no savings, the rate of insolvency among seniors will continue to rise.

## Lone-Parents Disproportionately Filing Insolvency

More than half of all insolvencies in our 2017 study involved families, defined as married and common-law couples, couples with or without children, and single parents with dependents.

Although 54% of all insolvencies involve families, our study results reveal one staggering fact: lone-parents are unquestionably at a higher risk of filing insolvency than dual-parent families. While lone-parent families make up 20% of Canadian families with children<sup>3</sup>, our study found that lone-parent families account for 43% of insolvent debtors with a dependent.

Household Demographics	All Families	Lone-parents	Two-parent
% of all debtors	54%	17%	22%
% with dependent(s)	73%	100%	100%
Average number dependents	1.4	1.7	2.0
% female	50%	75%	39%
Household income	\$3,551	\$2,990	\$4,127
Unsecured debt	\$56,966	\$47,612	\$59,826
Unsecured debt-to-income	187%	136%	197%

*Lone-parent debtors are struggling to keep up with the rising cost of raising a family alone and are at an increased risk of filing insolvency as they turn to debt to make ends meet. This is particularly true for women.*

Lone-parents are supporting a family on a single income that, at \$2,990 a month, is 28% below that of two-parent households.

Many are balancing both student debt repayment and family care; 21% of lone-parents have student debt compared to 15% for Joe Debtor.

Lone-parents are more likely to turn to payday loans as a last resort to help make ends meet until they can no longer borrow. One-third (33%) of lone-parent debtors have at least one payday loan outstanding compared to 25% for Joe Debtor.

Lone-parent mothers account for 75% of lone-parent debtors. Not only do insolvent lone-parent mothers significantly outnumber lone-parent fathers, they are more likely to use payday loans (35% versus 28% for lone-fathers) and are significantly more likely to have student debt (26% versus 6% for lone-fathers).

Lone-mothers also have less financial security than lone-fathers leading to an increased likelihood that they will use debt to make ends meet. Already earning less than two-parent families, insolvent lone-mothers have a household income of \$2,865; 15% below insolvent lone-fathers. Only 13% are homeowners, compared to 18% for insolvent lone-fathers. They have less set aside in RRSP savings at \$9,847; compared to \$11,846 for insolvent lone-fathers.

## Women Facing Higher Financial Risk Overall

In our 2017 study, 47% of all insolvent debtors were female, up from 46% in 2015 and 43% in 2013. However, it is Jane Debtor’s relative financial position in comparison to the average male debtor that sets her apart. Her risk factors increase the probability that she will file insolvency.

Jane/Joe Debtor	Female	Male
% of all debtors	47%	53%
Unsecured debt	\$43,921	\$60,400
Average debtor income	\$2,261	\$2,481
Average household income	\$2,743	\$3,082
Unsecured debt-to-income	162%	203%
<b>% employed</b>	75%	80%
<b>% divorced</b>	30%	24%
<b>% with dependant(s)</b>	45%	34%
<b>% lone-parents</b>	27%	8%
<b>% with student debt</b>	20%	11%

Jane Debtor has a much lower level of unsecured debt than her male cohorts. She owes on average \$43,921, substantially less than the \$60,400 average of unsecured debt for male debtors.

Jane Debtor’s take-home pay is 9% below male debtors, while her household income is 11% lower. Her debt-to-income ratio is also lower at 162%, versus 203% for male debtors.

*While her debts are lower, Jane Debtor is much more likely to be a member of a financially vulnerable risk group, making it difficult for her to meet her daily financial obligations without relying on debt.*

Jane Debtor is more likely to be divorced or separated (30% as compared to 24% for male debtors). She is much more likely to have dependants (45% versus 34% for males) and an astounding 27% of female debtors are lone-parents (compared to only 8% for male debtors).

One in five (20%) female debtors carry a student loan, while only one in ten (11%) male debtors have student debt.

Jane Debtor is less likely to be employed (75% are employed versus 80% for male debtors) and she is more likely to be on maternity or child leave, retired or on disability.

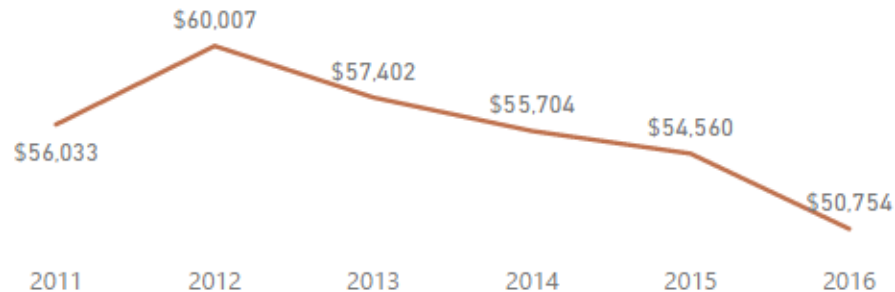
Female debtors are also five times more likely to be widowed than males.

Despite having a substantially lower debt-to-income ratio, Jane Debtor is using a larger portion of her pay to keep up with personal living costs for herself and her family. She has much less left over than male debtors do for debt repayment.

## It Takes Less Debt to Trigger Insolvency

One of the surprise findings of our 2017 study was that Joe Debtor’s average unsecured debt has continued to decline. Joe Debtor owes an average \$52,634 in unsecured debt, 7% less than he did two years before. In fact, unsecured debt has declined steadily since 2012, and by 2016 it was 15% below the 2012 level.

Average Unsecured Debt by Year of Insolvency



Joe Debtor’s unsecured debt-to-income ratio also declined to 185% -- down from 194% in our 2015 study and 204% in our 2013 study.

*It now takes significantly less unsecured debt for the average debtor to declare insolvency. This is partially because the core insolvent debtor is much more likely to rely on expensive sub-prime borrowing options than in that past.*

Unsecured Debt	2015–2016	2013–2014	2011–2012
Personal loans	\$18,883	\$19,266	\$19,184
Credit cards	\$16,174	\$20,776	\$23,708
Taxes	\$9,059	\$9,114	\$6,834
Student loans	\$2,110	\$1,849	\$1,689
Other	\$6,408	\$5,540	\$6,557
<b>% with credit card debt</b>	89%	92%	93%
<b>Average # credit cards</b>	3.3	3.7	3.9

The good news is that credit card debt has declined an astounding 22% since our previous study, to just \$16,174. While credit card debt is still the second-largest unsecured debt after personal loans, fewer insolvencies are being triggered solely because of credit card debt. In fact, only 89% of all insolvent debtors carried outstanding credit card debt, down from 92% in our previous study. The average number of credit cards for those with credit card debt also declined, to 3.3.

It should be noted that the lower incidence of credit card use may also be a signal that a higher percentage of today’s at-risk debtors may not have access to credit card debt.

## Payday Loans Balancing the Budget More than Ever

While total personal debt declined 2% in our 2017 study to \$18,883, the composition of this debt has changed significantly. Traditional bank debt and lines of credit still account for most of Joe Debtor’s personal loans; however, the use of alternative lending products has grown.

*Payday loan usage among insolvent debtors increased substantially, worsening the trend identified in our 2013 study. Insolvent payday loan borrowers are highly likely to borrow from multiple payday loan lenders and end up owing more in payday loans than they make in a month.*

Today, one-quarter of all insolvent debtors carry a payday loan, up from 18% in 2015 and 12% in 2013.

Payday Loans	2015–2016	2013–2014	2011–2012
<b>% of all debtors</b>	25%	18%	12%
<b>Total loan debt</b>	\$2,997	\$2,749	\$2,463
Average loan size	\$891	\$794	\$743
Number of loans	3.4	3.5	3.3

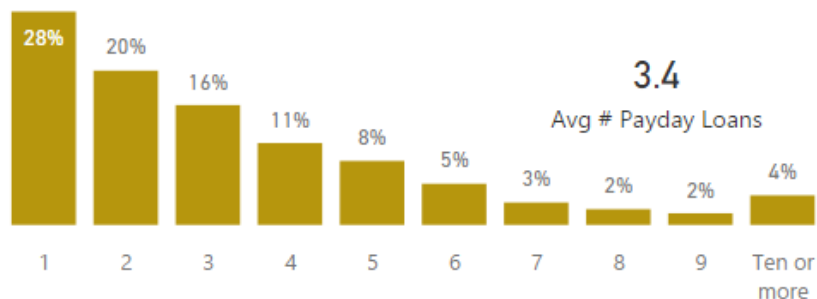
Insolvent debtors using a payday loan now owe a total of \$2,997 on 3.4 payday loans, accounting for 9% of his total unsecured debt. An insolvent payday loan borrower owes a total of 121% of his monthly take-home income to payday lenders.

Why has payday loan debt increased despite consumer warnings about the high cost of these loans? Simply put: cash flow. Struggling financially without access to additional available credit, debtors turn to a payday lender to make ends meet.

### *Borrowing Cycle Leads to Multiple Payday Loans*

Unfortunately for most, this starts a cycle of borrowing that leads to multiple payday loans. Less than one in three insolvent payday loan borrowers have only one payday loan outstanding. The average debtor has 3.4 payday loans outstanding at the time of their insolvency. Multiple loans are not hard to obtain because most payday lenders don’t report loans to the credit bureaus and there is no central database to track payday loans.

% Payday Loan Borrowers by Number of Payday Loans



### *Middle- and Higher-Income Earners Heavy Payday Loan Users*

It is a common misconception that payday loans are used primarily by low-income earners. Our current Joe Debtor study confirms that middle- and higher-income earners are much more likely to use payday loans to excess. The average income for a payday loan borrower is \$2,481, compared to \$2,377 for all debtors. Eight in ten payday loans users earn over \$2,000 a month. In addition, payday loans are as likely to be used by debtors with an income over \$4,000 as they are to be used by those with an income between \$1,001 and \$2,000.

Payday Loans	\$0– \$1,000	\$1,001– \$2,000	\$2,001– \$3,000	\$3,001– \$4,000	\$4,001+
% using payday loan	13%	23%	30%	27%	23%
Number loans outstanding	2.9	3.2	3.3	3.7	3.8

High-income earners are also much more likely to have taken out multiple payday loans than are lower-income earners. Payday loan borrowers with a monthly income over \$4,000 have an average of 3.8 payday loans outstanding, while debtors with incomes between \$1,001 and \$2,000 list an average of 3.2 loans.

### *Young Debtors Use Often; Seniors Borrow More*

Younger debtors are much more likely to use payday loans than are older debtors, although their average loan size is much smaller even in terms of their income level. Debtors aged 40–49 take out the highest number of payday loans, while seniors have the largest average loan size at \$1,168 and the highest overall payday loan debt at \$3,593.

Payday Loans	18–29	30–39	40–49	50–59	60+
% with payday loan	<b>38%</b>	29%	24%	20%	11%
Payday loan debt	\$2,292	\$2,897	\$3,421	\$3,283	<b>\$3,593</b>
Payday loan as % of income	107%	112%	127%	134%	158%
Number of loans	3.1	3.3	<b>3.7</b>	3.4	3.1
Average payday loan size	\$732	\$877	\$932	\$963	<b>\$1,168</b>

### *More Alternative Products Adding to Debt Burden*

Average payday loan sizes are also increasing. The average typical payday loan increased from \$794 in 2015 to \$891 in our current study. Payday loan companies, and online lenders, now offer a wider array of products including larger and longer-term cash loans. The use of these alternative loans is on the rise. In fact, the percentage of individual payday loans with an amount of \$2,500 and over has increased to 4% of all payday loans in our current study, up from 2% in 2015 and 1% in 2013.

Payday lenders are not the only alternative borrowing options available for Joe Debtor. Our current study also reveals a growth in instances of other sub-prime lending options among Joe Debtor’s personal loans, including online loan lenders and credit repair companies.

## Student Debt a Problem but Mostly for Women

Student debt has been a growing concern for many years. As the number of graduates with student loans has increased, so too has student debt driven the number of insolvencies. In our current study, 15% of all insolvent debtors carry a student loan, up from 13% in our previous two studies. For those carrying a student loan, the average student debt has increased to \$13,851 in 2017.

In addition to carrying more student loans, the average insolvent student debtor is getting younger. The average student debtor was 35.4 years old in our 2017 study, compared to 35.7 two years earlier and 35.9 years in our 2013 study.

Even more concerning, overwhelming student debt is primarily a problem for women. In 2017, 62% of student debtors were female, up from 60% two years earlier and just 57% in our 2013 study.

Student Debtors	2015–2016	2013–2014	2011–2012
% of all debtors	15%	13%	13%
Student debt	\$13,851	\$13,818	\$13,242
<b>Average age</b>	35.4	35.7	35.9
<b>% female</b>	62%	60%	57%
% using payday loans	37%	26%	19%

The female student debtor is struggling with higher student debt than her male cohort. Jane Student Debtor owes an average of \$14,328 in student debt, 10% more than the average male debtor with student loans.

Jane Student Debtor’s income level, at \$2,282, is roughly comparable to that of male student debtors (\$2,298); however, female student debtors are much more likely to be unemployed. Whereas 88% of male student debtors were employed at the time of their insolvency filing, only 80% of female student debtors were employed when they filed. She is much more likely to be out of work for other reasons including maternity leave and child care, affecting her ability to maintain a stable income source.

Student Debtor	Female	Male
Average student debt	\$14,328	\$13,071
Average debtor income	\$2,282	\$2,298
<b>% employed</b>	80%	88%
<b>% with dependant(s)</b>	55%	34%
<b>% lone-parents</b>	35%	4%

It is this susceptibility to having an intermittent income level that makes it difficult for Jane Student Debtor to keep up with her student loan repayments. Consequently, she has a higher student debt level, across almost all age groups, than do male student debtors.



*In general, the student debtor is unable to find a stable job with an income level sufficient to both repay their student debt and raise a family, and this is experienced much more acutely among women.*

Adding to her financial pressures, Jane Student Debtor is also much more likely to have a dependant. While 34% of male student debtors have at least one dependant, this increased to 55% for female student debtors. Jane Student Debtor is also nine times more likely to be a single parent: 35% of female student debtors were lone-parents compared to just 4% of male student debtors.

## Homeowners Have a Reprieve

The percentage of insolvent debtors who own a home has declined steadily over our last two studies. In our 2017 study, only 17% of insolvent debtors own a home, down from 24% in 2015 and 29% in 2013.

In our 2017 study, the average insolvent homeowner carries a mortgage of \$191,464. On top of this, he owes an average of \$72,510 in unsecured debt, has an unsecured debt-to-income ratio of 216% and has a total debt-to-income ratio of 849%. Homeowners are the only at-risk group to have substantially higher unsecured debts than they did two years earlier.

<b>Insolvent Homeowners</b>	<b>2015–2016</b>	<b>2013–2014</b>	<b>2011–2012</b>
% of all debtors	17%	24%	29%
<b>Unsecured debt</b>	\$72,510	\$68,045	\$70,317
Unsecured debt-to-income	216%	200%	210%
Secured debt-to-income	633%	637%	675%
Total debt-to-income	849%	837%	885%

Insolvent homeowners have significantly higher personal loans and credit card debt than Joe Debtor. The average insolvent homeowner owes \$24,917 in credit card debt, 72% more than insolvent non-homeowners. He also owes \$29,833 in personal loans, 79% more than insolvent non-homeowners.

Although a small percentage of insolvent homeowners turn to payday loans to make mortgage payments, this is not the norm (just 13% have a payday loan compared to 28% for insolvent non-homeowners). Instead, financially strapped homeowners who have better access to traditional credit max out their credit cards and lines of credit.

The average insolvent homeowner owes a total of \$191,464 in secured mortgages. Almost one in ten (9%) have negative equity in their home, even before considering selling costs. Once commissions and other selling costs are included, only 57% of insolvent homeowners have a positive net realizable value in their home. For those with a positive net realizable value, the average available for creditors is only \$20,708, or 9% of the average home value of \$224,306.

For the insolvent homeowner, a consumer proposal becomes a solution to eliminate their unsecured debt and keep their home. Eight in ten (81%) insolvent homeowners file a consumer proposal over bankruptcy.

*The difference between heavily indebted homeowners who file insolvency and those who do not, are that the insolvent homeowner has already utilized his home equity to restructure his debts.*

It should be noted that the lower rate of homeowner insolvencies does not necessarily mean that more homeowners are not experiencing debt problems. While only 17% of insolvent debtors own a home, a separate analysis of our 2017 incoming call data shows that roughly 30% of people contacting our office for debt relief are homeowners with a reported unsecured debt average of \$47,000. The decline in homeowner insolvencies can be attributed primarily to increasing house prices in many markets and not necessarily lower debt levels. Those not filing insolvency today turn to other options, including debt consolidation and home equity loans. However, if these homeowners continue to build debt or housing prices fall, they will become the next group of insolvent homeowners.

### Tax-Debt Burden Increases

Tax debts include HST, source deductions and personal income taxes owing to the Canada Revenue Agency, as well as property taxes.

While the number of tax-driven insolvencies declined from 42% of all debtors in our 2015 study to 40% of all debtors in our 2017 study, those who owe taxes owe more. The total average tax liability for debtors with a tax debt increased to \$22,900 from \$21,907 two years earlier, even though the tax debtor's average income declined. For those with a tax debt, taxes accounted for 33% of their total unsecured debt, up from 30% two years ago and 25% in 2013.

<b>Tax Owning</b>	<b>2015–2016</b>	<b>2013–2014</b>	<b>2011–2012</b>
% of all debtors	40%	42%	38%
Tax debt	\$22,900	\$21,907	\$18,166
<b>Taxes as % unsecured debt</b>	33%	30%	25%

The largest groups with tax-debt obligations are self-employed debtors and seniors.

Two-thirds (67%) of insolvent self-employed and small business owners have tax debts and those who do owe a total of \$51,535 in tax debts. The self-employed debtor, however, is not declaring insolvency solely due to tax debts. The self-employed debtor owes an average of \$98,382 in unsecured debts. These debts arise from the use of personal credit to fund business operations as well as from a failure to submit tax instalment payments, often to finance operations when cash flow runs short.

Almost half of all insolvent seniors have tax debts (47%) and those who do owe an average \$27,329 in taxes. Seniors often fail to consider the tax implications of post-retirement financial decisions and this can lead to unexpected tax debts. Previously used to having sufficient income tax withheld from their employment earnings, seniors often find they become liable for additional taxes due beyond the minimum withholding taxes taken by their financial institution on RRSP withdrawals (either for living expenses or to pay down debt). Seniors who work while drawing a pension may also find themselves owing additional taxes, as their dual sources of earnings place them in a high tax bracket.

## Using Credit to Make Ends Meet

While the causes and types of debt may vary by risk group, one underlying factor is that today's Joe Debtor is struggling to make ends meet. It is a misconception that most people who file bankruptcy used credit frivolously. In fact, they used credit to pay the mortgage or rent, to buy groceries, to pay the hydro bill and to pay for the unexpected repair or emergency need.

*Today's insolvent debtor is more financially vulnerable than ever before. He is barely getting by on an income under the median but is not necessarily in poverty.*

Joe Debtor has an average household income of \$2,922, which is 5% less than he did in our last study. The decline is not because incomes have dropped, it's because an increasing share of lower-income working Canadians are filing insolvency.

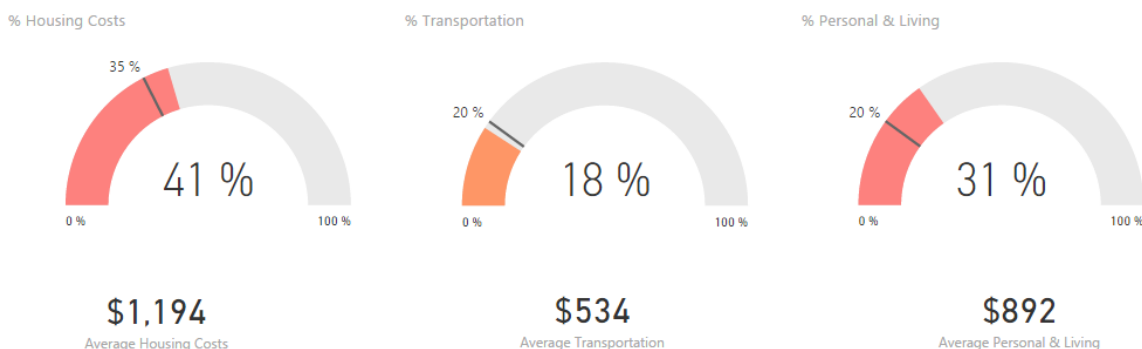
Joe Debtor's average household income is less than half the after-tax income earned by the average Ontario household of \$6,110 per month<sup>4,6</sup> and 41% less than the median after-tax income in Ontario of \$4,993 a month<sup>5,6</sup>. Almost two in three insolvent debtor households (64%) have a take-home pay in the lowest quartile of earnings for Ontario households.

Income Decile	2014 Ontario average monthly income <sup>4</sup>	Joe Debtor distribution 2017 <sup>6</sup>	Joe Debtor distribution 2015
<b>Lowest decile</b>	\$758	<b>15%</b>	12%
<b>Second decile</b>	\$1,842	<b>25%</b>	22%
<b>Third decile</b>	\$2,683	<b>24%</b>	23%
Fourth decile	\$3,483	15%	16%
Fifth decile	\$4,358	11%	13%
Sixth decile	\$5,358	6%	8%
Seventh decile	\$6,500	3%	4%
Eighth decile	\$8,008	1%	1%
Ninth decile	\$10,125	0%	0%
Highest decile	\$16,142	0%	0%
Average income all deciles	\$5,925		
Median income <sup>5</sup>	\$4,841		

More than half (54%) of insolvent debtors are families, with an average household size of 3.0 (including the debtor) and 1.4 dependants. An astounding 31% of insolvent family debtors are lone-parents. These indebted families have an average household income of \$3,551; still well below the provincial median.

Household Size	Distribution	Average Household Income
1	47%	\$2,200
2	22%	\$3,072
3	14%	\$3,550
4	11%	\$4,085
5	4%	\$4,434
6+	2%	\$4,643

Our 2017 study confirms that Joe Debtor is living paycheque to paycheque and is struggling to make ends meet. Joe Debtor is spending more than the recommended maximum percentage of his household income on housing costs and personal and living expenses. He is already experiencing financial distress before adding in debt repayment.



Joe Debtor has just \$302 in household income available a month for unsecured debt repayment (excluding his mortgage and car loan). Add in unsecured debt repayment, and he is unable to balance his finances.

At his current levels of unsecured debt, Joe Debtor's interest costs alone amount to an estimated \$960 a month. Not only can Joe Debtor not repay his current debts, he has a recurring cash shortfall that adds to his debt levels every month. This is the reason so many insolvent debtors turn to payday loans out of desperation. Unfortunately, once they take out a single payday loan, or add to their debt through any means, their monthly shortfall increases.

Joe Debtor	Debt	Interest Rate
Payday loans <sup>7</sup>	\$752	548%
Other personal loans	\$18,131	12%
Credit card debt	\$16,174	19%
Taxes	\$9,059	5%
Student loans	\$2,110	6%
Other debts	\$6,408	25%
<b>Estimated blended rate</b>	<b>\$52,634</b>	<b>22%</b>

### Generating Negative Wealth Daily

Many experts consider the focus on record debt-to-income levels in recent years to be misleading as it ignores the accumulation of wealth. While it is true that Canadian households on average have about \$6 in total assets for every \$1 in debt<sup>8</sup>, this is not true for the heavily indebted person.

Joe Debtor owes roughly \$52,634 in unsecured debt. The gross value of all his assets equates to just \$54,559. Factoring in selling costs and exempt assets (clothing, furniture, a low-value car, most

RRSPs) the net realizable value of his disposable assets amounts to just \$3,211. Whether a homeowner or not, Joe Debtor has no assets large enough to repay his debts.

Joe Debtor	Non-homeowner	Homeowner
Unsecured debt	\$48,689	\$72,510
Secured debt	\$8,130	\$212,871
Total debt	\$56,819	\$285,381
Assets	\$14,846	\$254,448
<b>(Negative) Wealth</b>	<b>(\$41,973)</b>	<b>(\$30,933)</b>

Only 44% of all insolvent debtors have any RRSP savings. Those who do, have an average of \$14,260 in RRSP assets. Less than 1% have other investment and securities with an average of \$9,399 in other savings.

*Joe Debtor has accumulated little in the way of asset value for all his debts. In fact, he has significant negative equity, and the longer he remains in debt, the bigger his shortfall becomes.*

While owing more than you own is the definition of insolvent, it is the size of his shortfall and the fact that this shortfall grows with each pay that creates such a massive financial and emotional burden for Joe Debtor.

### Car Loan Rollovers Adding to Debt Load

More than half of all financed vehicle purchases in Canada are for terms of 84 months or longer<sup>9</sup>. Longer-term car loans are causing a financial hardship for Joe Debtor. Not only is he likely to owe more than the realizable value of his vehicle, but this creates an added burden when it comes time to renew the loan.

A vehicle is likely the largest asset owned by most insolvent debtors. Almost 7 in 10 insolvent debtors (68%) have at least one vehicle (financed or owned) at the time of their insolvency. The average trade-in value was \$10,548.

Most insolvent debtors can keep their car, either because it is financed and they choose to keep up with their car payments or, if the car is owned, because its value is below the Ontario exemption limit. The average value of an owned vehicle in our study was \$3,163, significantly below the current exemption limit of \$6,600 in Ontario.

In total, 49% of vehicles were financed, with an average vehicle value of \$13,478 secured by an average car loan outstanding of \$15,138. If Joe Debtor has financed a vehicle, he has an average vehicle loan shortfall of \$1,660.

*Our 2017 Joe Debtor study suggests that car loan rollovers could be adding to the financial burden for many insolvent debtors.*

Car loan rollovers have become an increasing concern, especially for individuals with poor credit. To purchase a new car, individuals are often forced financially to roll the balance owing on their old car loan into their new car loan.

Over one-third (34%) of all financed vehicles in our 2017 study have a negative car equity, up from 33% in 2015 and 31% in 2013. For vehicles with a shortfall, the average car loan was under water by \$9,385 and this, too, has increased over our last three reports. Such a sizeable shortfall is an indicator that many insolvent debtors are likely rolling old debt into new when financing a vehicle purchase.

<b>Vehicles</b>	<b>2015–2016</b>	<b>2013–2014</b>	<b>2011–2012</b>
% of all debtors with vehicle	68%	70%	74%
Average owned-vehicle value	\$3,163	\$2,911	\$2,720
Average financed-vehicle value	\$13,478	\$12,769	\$11,376
Average financing debt	\$15,138	\$14,431	\$12,281
<b>% with loan shortfall</b>	34%	33%	31%
<b>Average loan shortfall</b>	\$9,385	\$9,283	\$7,045

## Conclusion

Our 2017 Joe Debtor study reveals a much different picture of the average Joe Debtor than in our past studies.

Low interest rates have made it possible for the average Canadian to keep up with ever-increasing debt levels. Rising housing prices have allowed homeowners with large unsecured debts to tap into their new equity to refinance. In contrast, Joe Debtor is struggling and is financially vulnerable despite economic growth. Not living in poverty, he has an income insufficient to keep up with the rising costs of housing, energy, daycare and other everyday living expenses. Add in unsecured debt, and he is under water financially. We can call today's Joe Debtor the "core" insolvent debtor. This is the honest but unfortunate debtor for whom credit became the enemy rather than the liberator.

It must be pointed out, however, that while Joe Debtor no longer looks like the average Canadian of our past reports, this can change. As seen in Alberta, Manitoba, Saskatchewan, and Newfoundland and Labrador in 2016, an economic shock can, and will, substantially increase the level of consumer insolvencies.

The Bank of Canada has recently issued several warnings about the elevated levels of household debt and the increased proportion of highly indebted households. Yet personal borrowing continues to increase and savings remain low.

The growth in household debt, while affordable for now, is not sustainable. Fewer Canadian households will be able to withstand even the smallest change in economic circumstances. A modest increase in interest rates combined with a tightening of credit or rise in unemployment is likely to result in a significant increase in the insolvency rate in Ontario. If the downturn is severe, or prolonged, insolvencies could possibly reach levels beyond those seen in 2009.

**Data Table 1: Joe Debtor Profile—by Age Group**

<b>Comparison of Debtors by Age Group</b>					
	18–29	30–39	40–49	50–59	60+
% of all debtors	14%	28%	26%	19%	12%
<b>Personal information:</b>					
Male	52%	53%	52%	55%	52%
Female	48%	47%	48%	45%	48%
Average age	26	35	44	54	67
<b>Marital status</b>					
Married/Common-law	26%	39%	40%	38%	40%
Divorced or Separated	6%	22%	35%	36%	30%
Widowed	0%	0%	1%	3%	17%
Single	67%	39%	24%	23%	13%
<b>Average family size (including debtor)</b>					
Single-person household	62%	41%	38%	52%	59%
Likelihood of having dependant(s)	32%	54%	54%	24%	6%
Likelihood of being a lone-parent	14%	23%	24%	10%	2%
Average monthly income	\$2,028	\$2,488	\$2,543	\$2,388	\$2,141
Total unsecured debt	\$29,079	\$46,948	\$58,537	\$62,815	\$64,379
Unsecured debt-to-income	120%	157%	192%	219%	251%
Likelihood they own a home	5%	16%	21%	21%	17%
Average mortgage value*	\$153,618	\$192,862	\$209,387	\$181,241	\$173,799
<b>Detailed information on the amount of average unsecured debt:</b>					
Personal loans	\$11,354	\$17,663	\$21,102	\$22,043	\$20,628
Credit cards	\$7,177	\$12,327	\$17,321	\$20,984	\$25,596
Taxes	\$3,151	\$7,524	\$9,873	\$12,122	\$12,895
Student loans	\$3,708	\$3,205	\$1,940	\$769	\$177
Other	\$3,690	\$6,228	\$8,301	\$6,897	\$5,083
<b>Filed bankruptcy</b>					
Filed bankruptcy	47%	41%	42%	42%	49%
Filed consumer proposal	53%	59%	58%	58%	51%

\*homeowners



**Data Table 2: Joe Debtor Profile—by Risk Group**

Comparison of Debtors by Risk Group					
	Male	Female	Home-owner	Family Debtor	Lone-parent
% of all debtors	53%	47%	17%	34%	17%
<b>Personal information:</b>					
Male			57%	50%	25%
Female			43%	50%	75%
Average age	44	43	46	43	40
Marital status					
Married/Common-law	43%	31%	61%	69%	6%
Divorced or Separated	24%	30%	25%	19%	58%
Widowed	1%	5%	3%	1%	2%
Single	32%	34%	11%	11%	34%
Average family size (including debtor)	2.1	2.1	2.7	3.0	2.6
Single-person household	51%	43%	25%	2%	7%
Likelihood of having dependant(s)	34%	45%	54%	73%	100%
Likelihood of being a lone-parent	8%	27%	15%	31%	100%
Average monthly income	\$2,481	\$2,261	\$2,802	\$2,539	\$2,911
Total unsecured debt	\$60,400	\$43,921	\$72,510	\$56,966	\$47,612
Unsecured debt-to-income	203%	162%	216%	187%	136%
Likelihood they own a home	18%	15%	100%	23%	15%
Average mortgage value*	\$196,160	\$185,096	\$191,464	\$199,205	\$174,253
<b>Detailed information on the amount of average unsecured debt:</b>					
Personal loans	\$21,175	\$16,311	\$29,833	\$20,808	\$16,165
Credit cards	\$17,353	\$14,851	\$24,917	\$17,597	\$12,713
Taxes	\$12,916	\$4,732	\$10,898	\$9,162	\$6,988
Student loans	\$1,429	\$2,876	\$907	\$2,222	\$3,164
Other	\$7,528	\$5,151	\$5,956	\$7,176	\$8,582
Filed bankruptcy					
	41%	46%	19%	38%	49%
Filed consumer proposal					
	59%	54%	81%	62%	51%

\*homeowners

**Data Table 3: Joe Debtor Profile—by Risk Group**

Comparison of Debtors by Risk Group					
	Payday Loan	Student Debtor	Jane Student	Joe Student	Self- Employed
% of all debtors	25%	15%	-	-	9%
<b>Personal information:</b>					
Male	50%	38%			66%
Female	50%	62%			34%
Average age	40	35	35	36	45
Marital status					
Married/Common-law	31%	31%	26%	39%	47%
Divorced or Separated	25%	19%	21%	15%	25%
Widowed	2%	1%	1%	1%	1%
Single	41%	50%	52%	46%	26%
Average family size (including debtor)	2.1	2.2	2.3	2.1	2.2
Single-person household	49%	47%	40%	57%	42%
Likelihood of having dependant(s)	43%	47%	55%	34%	41%
Likelihood of being a lone- parent	22%	23%	35%	4%	12%
Average monthly income	\$2,481	\$2,288	\$2,282	\$2,298	\$2,242
Total unsecured debt	\$34,255	\$46,734	\$44,621	\$50,191	\$98,382
Unsecured debt-to-income	115%	170%	163%	182%	366%
Likelihood they own a home	8%	8%	7%	9%	20%
Average mortgage value*	\$178,883	\$194,074	\$197,019	\$190,392	\$232,720
<b>Detailed information on the amount of average unsecured debt:</b>					
Personal loans	\$14,680	\$12,621	\$11,485	\$14,480	\$24,563
Credit cards	\$6,772	\$10,458	\$9,776	\$11,575	\$23,543
Taxes	\$3,594	\$4,722	\$3,990	\$5,919	\$34,605
Student loans	\$2,740	\$13,851	\$14,328	\$13,071	\$1,337
Other	\$6,469	\$5,082	\$5,042	\$5,146	\$14,335
Filed bankruptcy	41%	49%	45%	45%	48%
Filed consumer proposal	59%	51%	55%	55%	52%

\*homeowners

**Data Table 4: Joe Debtor Profile—by Income Group**

<b>Comparison of Debtors by Income Group</b>					
	\$0– \$1,000*	\$1,001– \$2,000	\$2,001– \$3,000	\$3,001– \$4,000	\$4,001+
% of all debtors	11%	29%	37%	16%	8%
<b>Personal information:</b>					
Male	51%	53%	54%	57%	63%
Female	49%	47%	46%	43%	37%
Average age	43	45	42	43	45
<b>Marital status</b>					
Married/Common-law	46%	35%	36%	40%	40%
Divorced or Separated	21%	22%	26%	35%	40%
Widowed	2%	4%	3%	2%	3%
Single	32%	39%	36%	23%	17%
<b>Average family size (including debtor)</b>					
	2.0	1.8	2.1	2.4	2.8
Single-person household	49%	58%	48%	34%	31%
<b>Likelihood of having dependant(s)</b>					
	31%	26%	41%	55%	61%
<b>Likelihood of being a lone-parent</b>					
	7%	9%	18%	29%	30%
Average monthly income	\$468	\$1,599	\$2,502	\$3,435	\$5,034
Total unsecured debt	\$68,958	\$44,209	\$43,024	\$56,103	\$100,004
Unsecured debt-to-income	1227%	230%	143%	136%	166%
Likelihood they own a home	10%	11%	16%	25%	29%
Average mortgage value**	\$188,007	\$173,267	\$171,189	\$198,794	\$258,773
<b>Detailed information on the amount of average unsecured debt:</b>					
Personal loans	\$22,640	\$14,733	\$15,967	\$21,855	\$36,737
Credit cards	\$19,856	\$16,152	\$13,628	\$16,392	\$22,841
Taxes	\$11,445	\$6,567	\$6,529	\$9,620	\$25,920
Student loans	\$2,688	\$1,914	\$2,056	\$1,826	\$2,922
Other	\$12,329	\$4,844	\$4,843	\$6,410	\$11,584
<b>Filed bankruptcy</b>					
	27%	42%	33%	27%	32%
<b>Filed consumer proposal</b>					
	73%	58%	67%	73%	68%

\*Statistics for debtors with personal income below \$1,000 include debtors who were unemployed at the time of filing and do not necessarily match their income profile when they became indebted.

\*\*homeowners

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