DEBT: CANADA'S BORROWING BINGE

In deep: The high risks of Canada's growing addiction to debt

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The Globe and Mail

Published Friday, May. 08 2015, 5:51 PM EDT

Last updated Friday, May. 08 2015, 8:03 PM EDT

This is part of a Globe series that explores our growing dependence on credit — from the average household to massive institutions — and the looming risks for a nation addicted to cheap money. Join the conversation on Twitter with the hashtag #DebtBinge

Lee Robbins and his wife purchased a $438,900 home – and were left with $430,000 in debt. (Darryl Dyck for The Globe and Mail)

Growing up in subsidized rental housing in Victoria, Lee Robbins always dreamed he would own a house by the age of 30.

He reached that goal two years ago when he and wife Cara bought their dream home: a 1960s three-bedroom, two-storey house within biking distance of his workplace.

Like many people in their 20s and 30s buying real estate in costly cities, they had to stretch financially. Closing costs and other fees cut into a modest profit from the sale of their condo, so Mr. Robbins took $12,000 from his line of credit to put together the minimum 5-per-cent down payment, leaving the couple with a $438,900 home – and $430,000 in debt.

In many respects, the Robbinses are the typical young Canadian family. Now 32, Mr. Robbins is a supervisor at Shaw Communications Inc. Ms. Robbins, 33, is a graphic designer. Together, they earn roughly $110,000 a year, although that's been reduced while Ms. Robbins is on maternity leave. They have two sons, aged 3 and 3 months.

"When we got into the house we realized there's obviously no fat in the budget," Mr. Robbins says, so the couple paid down their credit cards and got rid of their second car.

The mortgage costs alone are manageable, but the extra $500 a month the couple has dedicated toward paying off Mr. Robbins's line of credit within the next 2-1/2 years has put a considerable dent in their cash flow.

"I'm not a fan of debt. I like to save to buy what you need," Mr. Robbins says. "But it's not realistic to think somebody is going to save $400,000 to get a house. You're going to get outstripped by the market. There's some debt that is just a fact of life today."

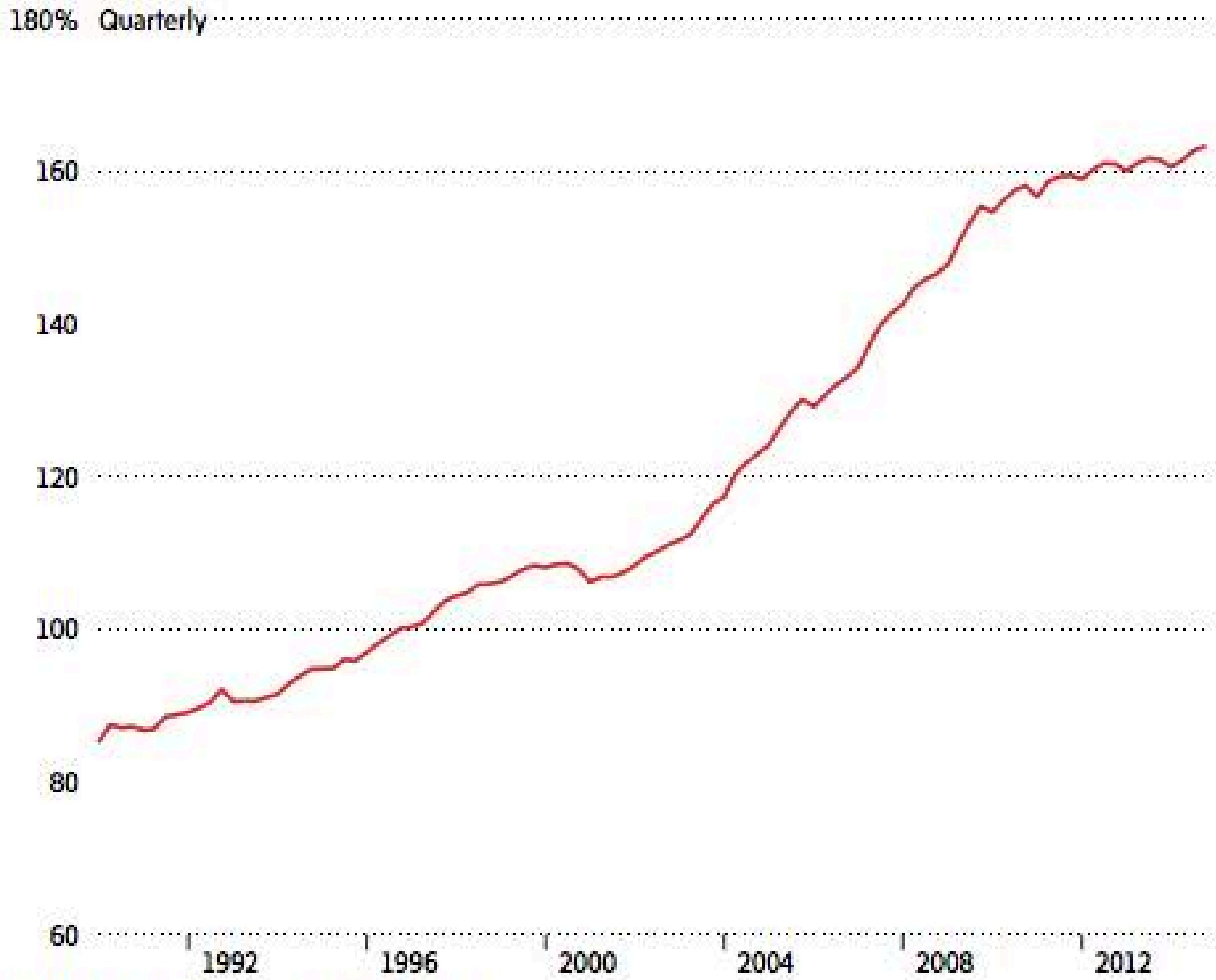
It's become a fact of life for most Canadians as the costs of buying a home, getting an education and affording a car have risen faster than the incomes that pay for them. For some, debt has become a lifeline, filling the void left by a job loss, or an unexpected life change. For others, credit is a way to live well beyond their means.

For many, debt has simply become a necessity.

Individually, Canadians may not believe they have a problem. But collectively, the country's insatiable appetite for household debt has caused headaches for policy makers, made Canada look risky to global investors and raised concerns over the country's financial stability.

On average, Canadians had credit-market debts worth a record 163.3 per cent of their after-tax incomes in the fourth quarter of last year, up from about 110 per cent in 2002. Meanwhile, income growth has failed to keep pace and the household savings rate has dwindled to just 3.6 per cent, a near-five-year low. In 1982, the savings rate was 19.9 per cent.

Credit-market debt to disposable income ratio



THE GLOBE AND MAIL » SOURCE: STATSCAN

Now, several additional factors are fanning risk: Low oil prices are denting investment and hiring in energy-exposed provinces such as Alberta and Newfoundland. The country's labour market is starting to reflect the impact of crude's plunge, with natural resources job losses in three of the past four months, while the retail sector is also trimming headcount.

At the same time, lower borrowing costs have fuelled home sales, driving prices higher.

The mortgage market has ballooned. Residential mortgage debt in Canada has more than tripled – to a record $1.3-trillion from $423-billion in 2000. And the pace of borrowing only accelerated after a surprise interest rate cut in January, a Royal Bank of Canada report showed this month.

Meanwhile, the share of mortgage lending by the less-regulated "shadow banking" sector, while still small, has doubled since 2012, CIBC research shows.

On the ground, signs of a squeeze are mounting. Bankruptcy trustees say they're fielding more calls in Western Canada. In Alberta, the province with the highest debt-to-income ratios in the country, consumer insolvencies are already rising (and so are employment insurance claims). Credit counselling firms are seeing more seniors in trouble – an age group that has traditionally been debt free.

There are also signs that Canada's housing boom is reaching a tipping point. Outside of Toronto and Vancouver, the market has largely gone cold, with prices flat in many cities and falling in places such as Calgary, Regina, Quebec City, Moncton and St. John's.

A chorus of voices – many of them from outside the country, such as the International Monetary Fund, Moody's, the Organization for Economic Co-operation and Development and McKinsey – have cautioned Canada over high household debt loads. The Bank of Canada warns that debt-to-income levels will climb even higher, though it is betting on a recovery in the second half of the year.

The central bank estimates that home prices are about 20 per cent overvalued, roughly the point where the bank's own research says housing market corrections tend to occur. While Governor Stephen Poloz has said he is not worried about a crash, even a slow and steady decline in home prices could have a devastating effect on the economy, which has relied heavily on consumer spending for growth since the global financial crisis.

Not everyone struggles with debt. In fact, nearly a third of Canadians are debt free. But a small, highly important, share of households are drowning in debt and could pose a major risk to the economy.

"You really have to look at the extremes, as opposed to just talking about averages. There's a group of one to two million people out there that really scare me," says Moshe Milevsky, finance professor at the Schulich School of Business at York University.

"If you have enough people that run into financial difficulties, eventually it aggregates and you have cities that are in trouble and you have neighbourhoods that are in trouble and eventually that affects consumption. At some point people that have misfortune stop spending and if enough of them do it, then it's a risk to the economy."

There are several scenarios that could play out should Canada remain on its current path, experts say. In the most optimistic outlook, oil prices recover, house prices don't crash, and people whittle away at their debt as the economy resumes growth. But even in this case, it is unlikely consumers would be able to sustain their pace of spending, a key driver of growth for years.

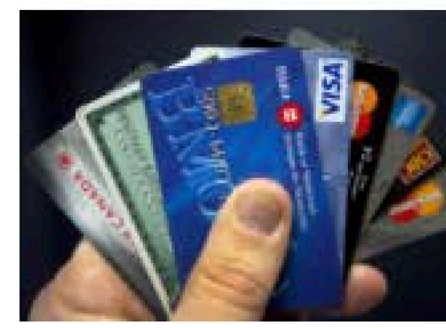
Then there's the messy scenario. In this instance, an economic shock hits households that have no cushion left in terms of savings. Job losses ensue. People may want to draw on assets, but those assets, mainly homes, aren't liquid. The cash crunch would threaten financial stability and could worsen an economic slowdown, raising the spectre of foreclosures, bankruptcies, slumping house prices and a hit to banks that could put pressure on governments to support them. As the U.S. financial crisis proved, it would take many painful years to recover from such a credit-binge-induced hangover.

Of course, there's another side of the household ledger. While debt has been growing steadily, asset values have been rising even faster. As a result, net worth is higher, leading some to argue that concerns over household debt are overstated.

A similar argument was made to justify high debt loads in the United States – until the recession hit and thousands of people wound up under water, losing their jobs and their homes. While there are key differences between the U.S. then and Canada now – particularly in the size of subprime markets – it was mortgage debt that spurred the rapid increase in debt levels in the U.S. as house prices rose.

Then the bubble burst.

Infographic: Canada's households now owe a record $1.8-trillion



A chart-by-chart breakdown of the factors contributing to Canada's rising household debt levels.

Assets are vulnerable to booms and busts – and few continue rising forever. Debt, on the other hand, sticks around even when asset prices decline. And many assets – primarily homes and pensions – are not liquid, nor do indebted people necessarily want to liquidate them.

With so much wealth tied up in real estate, it could be difficult to cash out when times get tough. "This could exacerbate the impact of an economic shock," said Bob Dugan, chief economist of the Canadian Mortgage and Housing Corp. this week.

While economists are divided on the degree to which household debt is a danger, most say it bears close watching. "The risks are higher than a year ago," said Moody's Analytics senior economist Mark Hopkins.

New housing construction in Calgary is shown in June, 2014.

The role of housing

In the fall of 2010, Mark Carney – then-governor of the Bank of Canada – raised new red flags about rising consumer debt.

The debt-to-disposable-income ratio was above 150 per cent and rising, driven by a booming housing market fuelled by record-low interest rates.

"Low rates today do not necessarily mean low rates tomorrow," Mr. Carney warned in a December, 2010, speech. "Risk reversals when they happen can be fierce: the greater the complacency, the more brutal the reckoning."

While the interest-rate reckoning never came, concern at the highest levels of government prompted efforts to cool the single largest driver of household debt: a red-hot real estate market.

In 2011 and again in 2012, finance minister Jim Flaherty clamped down on mortgage rules, eventually reducing the maximum amortization period to 25 years from 35 years.

Despite the warnings and regulatory changes, home prices have continued a historic climb – nearly doubling in the past decade. Mortgage debts have risen with them, doubling since 1999.

For many young buyers, escalating home prices have meant going deeply into debt to gain a foothold in the market.

Victoria's Mr. Robbins says the trade-off is worth it; high housing debt allowed him to buy a house close to work, leaving more time with his family while offering the freedom that comes with owning a home.

"I don't really need to worry about a landlord raising my rent," he says. "I don't need to worry about what I can and can't do to the place. I can have pets and parties here and kids."

Not everyone agrees with his choice. Mr. Robbins says a fair number of friends are renters who adamantly oppose going into debt to buy into Victoria's costly housing market.

"I definitely have that debate pretty consistently," he says. "There's no financial sense, there's just peace of mind."

The willingness of young buyers to go deep into debt for a home is one of the biggest reasons home prices have continued to rise.

In an April survey on first-time buyers by Genworth MI Canada, the private mortgage insurer, nearly half reported taking on additional housing debt beyond their mortgages, mainly for renovations, repairs and furniture. More than a quarter had received financial help from their parents to afford a down payment, a number that rose to 40 per cent in costly Vancouver.

An extended period of low mortgage rates and rising home prices have only encouraged many buyers to dig themselves even deeper in debt for a house. "It's always amazing to me the number of people who have \$2- to \$3-million dollar mortgages and they're stretched on them," says Ross McCredie, head of real estate agency Sotheby's International Realty Canada. "People come in and say, 'I really want to buy this house; I think it's a great long-term investment.' Well long-term could be five years from now and interest rates could be up 2 to 3 per cent."

Rising prices and demand from young buyers for large mortgages have helped shift the composition of household debt away from credit cards and loans, toward mortgages and home-equity lines of credit.

At \$1.3-trillion, residential credit now makes up more than 70 per cent of total lending to consumers, the highest level since August, 1999, according to Royal Bank of Canada.

Meanwhile, mortgage lending by the "shadow banking" sector has also grown, Canadian Imperial Bank of Commerce chief economist Benjamin Tal found. Lenders to "non-prime" borrowers represented 8 per cent of new mortgages in Ontario alone in the fourth quarter of last year.

Early indications suggest people ramped up the pace of mortgage debt after the Bank of Canada's Jan. 21 interest-rate cut. As of March, mortgage debt had grown by 5.3 per cent compared with a year earlier, RBC said, matching February's rate as the fastest pace in two years.

Are you drowning in debt? See how you compare to other Canadians

To find out how record debt levels are impacting household finances, we created a diagnostic tool that looks at nine aspects of your financial and personal life. Answer the questions and you'll find out how big an issue your debts are, and how your situation compares to other Globe readers.

Global investors are taking notice. Having survived the 2008 financial crisis relatively unscathed, Canadian consumers are now seen by many outside the country as being dangerously overleveraged. Short positions against the major banks hit their highest point since the financial crisis this year, says Prabhdeep Sagoo, an associate director at Nasdaq.

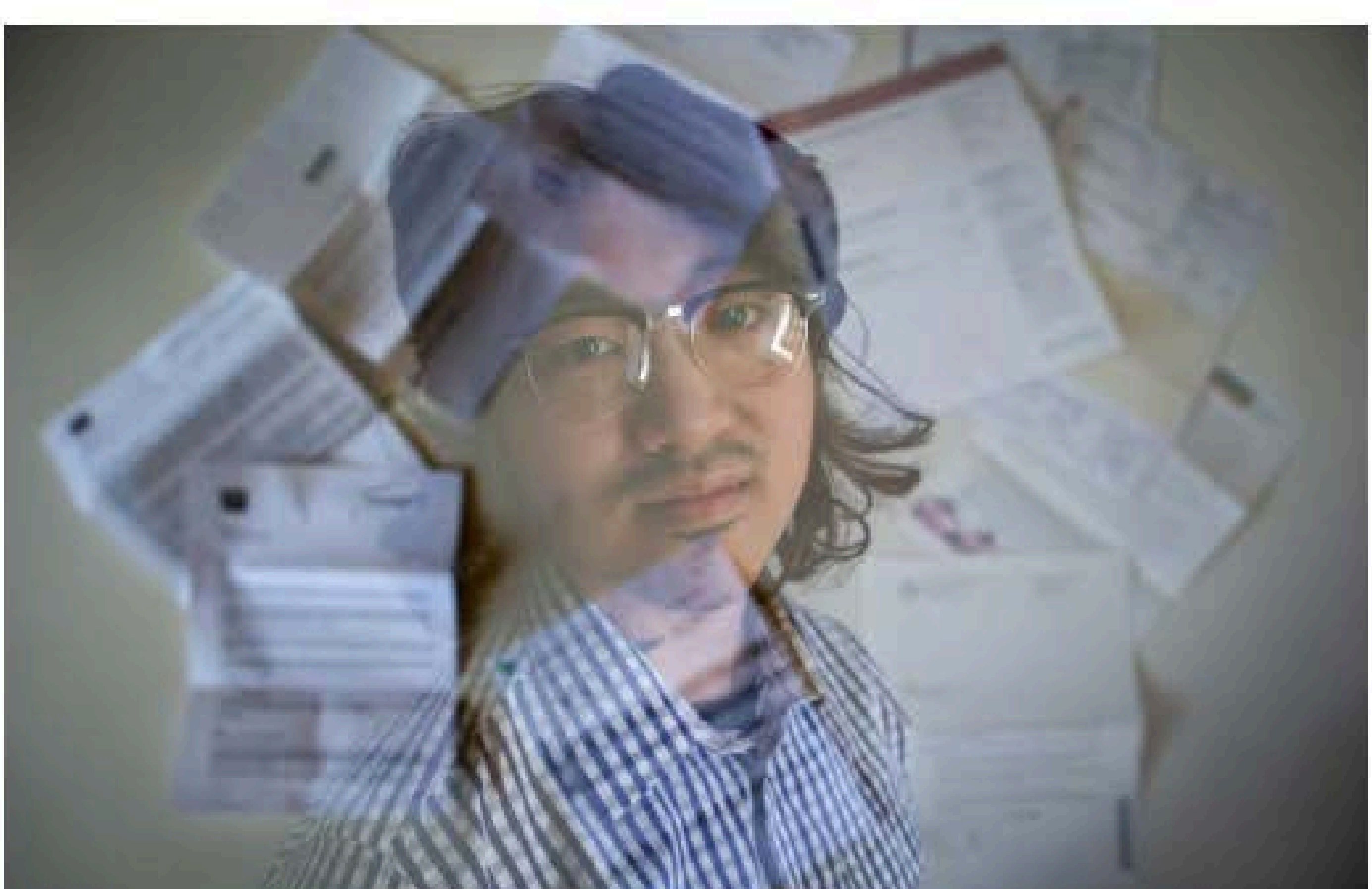
"There are a lot of investors in the U.S. that successfully bet against the U.S. housing market crash and they made a lot of money out of it and they were hopeful of creating that same trade with Canada," he says.

In an apples-to-apples comparison, Canada's debt-to-income ratio remains below that of the U.S. peak. Still, recent history south of the border shows it's worth paying attention to who is getting in over their heads, and why.

"What the financial crisis showed us is that when you have rising real estate prices and rising household debt, it can be a deadly mix. You have to manage each carefully," said Susan Lund, Washington-based McKinsey partner, in a February interview. (McKinsey's study this year showed Canada had the second-biggest jump in household debt-to-income ratios of any country other than Greece between 2007 and the second quarter of 2014).

It is crucial to monitor household debt levels closely, she said – in particular, which segments by income or demographic group seem to be slipping under water. And policy makers need to tighten lending standards and reduce mortgage size limits when markets are overheated.

"Be mindful that the value of a house doesn't necessarily always go up. Swings in house prices can create large swings in net worth and people's ability to pay that mortgage," says Scott Fulford, assistant professor of economics at Boston College who studies household finances. "Housing is an investment like any other. If prices are increasing at a rate that seems unsustainable, be careful."



Kevin Stone is among those Canadians considered 'highly indebted.' (Darryl Dyck for The Globe and Mail)

1,000% debt-to-income ratio

Vancouver's Kevin Stone is precisely the type of guy who is putting policy makers in a cold sweat. The 27-year-old earns about $50,000 a year working as a graphic designer, but has roughly $520,000 in debt.

Of the $3,000 to $4,000 he earns in monthly employment income, Mr. Stone spends $1,500 on interest costs on his debts alone.

Not that Mr. Stone minds being so deeply in debt. Quite the opposite: he relishes it.

Not long after he graduated from school in 2008, Mr. Stone quickly realized he would not be able to live a comfortable life in Canada's most expensive city on his modest working income alone. He began researching investing and discovered one thing that millionaire investors, huge corporations and even governments all seemed to have in common.

"They basically all do the same thing, they borrow money and then they invest," he says.

Taking a page out of the playbook of billionaires such as Warren Buffett and companies such as Starbucks, Mr. Stone began loading up on debt to invest in real estate, the stock market – and even farmland.

"The more I learned about money, the more I realized how a lot of finance revolves around debt," he says. "The world of debt affects everyone. It's so big because it's all around us."

But not everyone is swimming in debt.

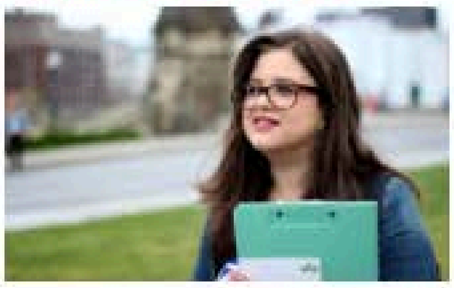
Turns out, a small group of people carry much of the nation's debt. About 12 per cent of households are considered "highly indebted," with a total debt-to-gross income ratio teetering above 250 per cent, according to the Bank of Canada. This percentage has been steady over the past few years, but it is almost double its level from 2000.

These 12 per cent of households – most of whom are in British Columbia, Ontario and Alberta – carry about 43 per cent of overall household debt. They also tend to be homeowners (it's no coincidence they live in provinces with the highest property values), have lower income levels and are usually younger.

Prof. Milevsky, at Schulich, estimates one to two million Canadians are deeply in debt, spending as much as half their income on debt payments alone.

They are not necessarily the poorest families. In many cases, they are well-off, although not the highest-income earners. Often, they have stretched themselves for a mortgage, which would be manageable except that they also haven't cut back on other luxuries, such as vacations or restaurant dinners, to pay down their debt load. As a result, they end up sacrificing their savings and often believe they can fill in that gap with the rising value of their homes.

'It's dream crushing': Law student on being $150,000 in debt



Obtaining the education of her dreams, a legal degree from the dreams, a legal degree from the University of Ottawa, has left 27-year-old Amy Kishek $150,000 in debt. Now she feels her debt could prevent her from becoming the kind of lawyer she wants to be.

"I hate to use the cliché keeping up with the Joneses, but it's people that don't quite earn as much as their neighbour, but want to look like they do," Prof. Milevsky says. "That's what's worrisome. You're in a neighbourhood where everyone around you seems to be doing good, so you step it up a little bit more. It's tough to have pity on people who are going to have to lapse their golf membership fee at some point, but they're going to have an issue because they're not saving enough and they believe that real estate will get them out of trouble."

While he's diversified his investments beyond the housing market, Mr. Stone would easily qualify as one of the country's "highly indebted" people. His debt-to-income ratio is closer to 1,000 per cent.

So far banks have been willing to extend him more credit despite his debt load. Lenders are primarily concerned with whether Mr. Stone can afford the monthly interest payments – which he can because of low interest rates.

"That's what the banks look at, which is kind of strange," he says. "I would expect them to look at the overall debt amount in terms of dollars, but I guess time is money so if you have longer to pay it back that's better for the bank as well."

Mr. Stone acknowledges some people might think he's playing a risky game. But he says he monitors his investments carefully. If he plays his cards right, he hopes to earn enough from investing to become financially independent by age 35.

Debt gets a bad rap, he insists. The real problem with debt is that too many people simply don't understand how to use it properly.

"There's this inherent risk that people associate debt with, but there is another risk of not using debt," he says. "If somebody never ever got into debt, then that person probably wouldn't be able to afford to get a higher education, buy a home, even get a car. It would just really limit their potential in life to do anything."

But many people are living on a razor's edge. More than half of Canadians would find it tough to meet their financial obligations if their pay was delayed by just a week, a poll last year by the Chartered Professional Accountants of Canada found. And more than half don't save on a regular basis.

Older Canadians are increasingly heading into retirement with debt, market research firm Ipsos Reid has found. The portion of people over the age of 65 owing money rose to 52 per cent last year from 47 per cent in 2009.

In some cases debts are compounded by job losses heading into retirement. Canadians were among the most likely in the world to say they had semi-retired because of a lack of job prospects, behind only Australia, according to a global study in April by HSBC Bank.

In British Columbia, bankruptcy trustee Blair Mantin says call volumes have climbed by a third in the past three months compared with last year.

He is seeing more seniors in trouble, more young families who have bought houses they can't afford to carry and – lately – more skilled trades people who were directly or indirectly employed in the oil patch. Work for them has dried up and they're running out of money.

The trigger is typically "a catastrophic event, a life event – so a job loss, a medical issue, a relationship breakdown ... typically something forced their hand," says Vancouver-based Mr. Mantin who is vice-president at Sands & Associates.

"Usually it's a short-term income interruption or one of those life changes – and no one's saving in the emergency fund any more."

A credit card being used at a store in Calgary on May 5, 2015. (Todd Korol for The Globe and Mail)

Fault lines emerge

For Jennifer Gignac, who lives in northern Ontario, it was a job loss that ratcheted up the financial pressure. She has a bachelor of science in geology from Acadia University in Nova Scotia and, by 2006, began work as a geologist for exploration companies in the hunt for gold, nickel, copper and zinc.

She was laid off in 2013 and depressed market conditions in the region have made it hard to find work in her field. She's a homeowner and single mother of two children, ages 3 and 5. At one point, her debt grew to $60,000 due to the loss of income on top of renovations and repairs.

"A lot of young people entering the work force don't think to save for rainy days and they feel invincible," said Ms. Gignac, 32, who lives in Atikokan, Ont., and is now starting her own consulting and environmental business.

Luck can turn – a car accident, a cancer diagnosis, a job loss – "and then suddenly it's difficult to make ends meet."

Across Canada, most households aren't prepared for a turn in fortunes. Half of non-retired households don't have a special reserve fund for unexpected financial emergencies, according to a March CPA report. Though asset prices have been rising, gains in net worth have been far slower for those in lower-income groups.

"The perception is they're in control. But when you peel that onion, there's vulnerability out there," said Chartered Professional Accountants president and CEO Kevin Dancey, adding that interest rates can't go much lower while carrying costs and consumer prices are set to go higher.

The ingredients for heavy debt loads and skimpy savings are all in place: The Bank of Canada's key lending rate has remained below 2 per cent since 2008, the longest stretch of low rates in its 80-year history. House prices have never been higher. Access to credit has never been easier. Wage and income growth have not kept pace with spending.

Overnight lending rate

THE GLOBE AND MAIL » SOURCE: STATSCAN

Fault lines are starting to show, especially in spots where households are overly leveraged and the economy is showing cracks. Alberta's natural resources sector has shed 20,900 jobs since September alone, and jobless rates in both Alberta and Newfoundland are expected to tick higher. Economic growth has slowed this year. Wage growth has been sluggish for years. But consumer spending has roared ahead, year after year.

Since 1999, Ipsos Reid has been running its Canadian Financial Monitor, a survey of 12,000 households a year that collects monthly information on the banking habits and financial health of Canadians. Its series shows a dramatic trend. Average household debt in Canada swelled to $100,000 last year, a 54-per-cent increase from 2002 when it was $65,000. Over the same 12-year period, household income grew by just 34 per cent, to $71,000 from $53,000.

All types of debt have mushroomed in the past decade, not just mortgages. Total debt in lines of credit grew to $144.9-billion, more than quadruple 1999 levels, according to a Statistics Canada 2012 survey of financial security. The median line-of-credit debt soared to $15,000 in 2012 from $6,600 13 years ago. Auto loans have grown, and the median amount Canadians are carrying on their credit cards has also climbed.

Increasingly young Canadians are entering the work force already deeply in debt. Postsecondary graduates face more than $15-billion in federal student loans, according to the Canadian Federation of Students. By including provincial student loans, private loans and money from family, that figure rises to as much as $23-billion.

Across Canada, total household credit now stands at a record $1.8-trillion as of March, according to RBC, with every type of debt – from personal lines of credit to credit cards – up from a year earlier. The pace of borrowing has ramped up after slowing in 2013.

What's been missing from the debate about household debt is a true understanding of exactly how much debt is enough, Prof. Milevsky says. Not all debt is bad and there is a downside to having too little debt, since it can be difficult to grow wealth through savings alone. But often Canadians base their borrowing decisions on how much someone will lend them, whether or not it's appropriate for them.

"Just because a bank is willing to lend you money, doesn't mean you should take it," he says. "There should be a greater, broader discussion on optimal debt levels. How much debt do you really need?"

Naomi Boyle declared bankruptcy in 2012 and is still climbing her way out. (Darryl Dyck for The Globe and Mail)

Alberta's exposure

Naomi Boyle is frank about how her money troubles stem from overspending. But she also wishes access to credit hadn't been so easy.

Her debts were incurred while she was living and working in Edmonton, though she now lives in Victoria. At one point she was maxed out to $220,000 in credit card, mortgage and line of credit debt. She spent too much on clothes, in particular. She unexpectedly lost her job, and everything spiralled.

She declared bankruptcy in 2012 and is still climbing her way out. She spent years in shame because of her debt problems, and hopes others will seek help sooner than she did if they need counselling.

"There are always casualties in the economy when it goes up or down. When we're prosperous, we think there's no bottom. And then when there is the bottom, you think – how am I going to get out because I'm drowning," Ms. Boyle, 62, says.

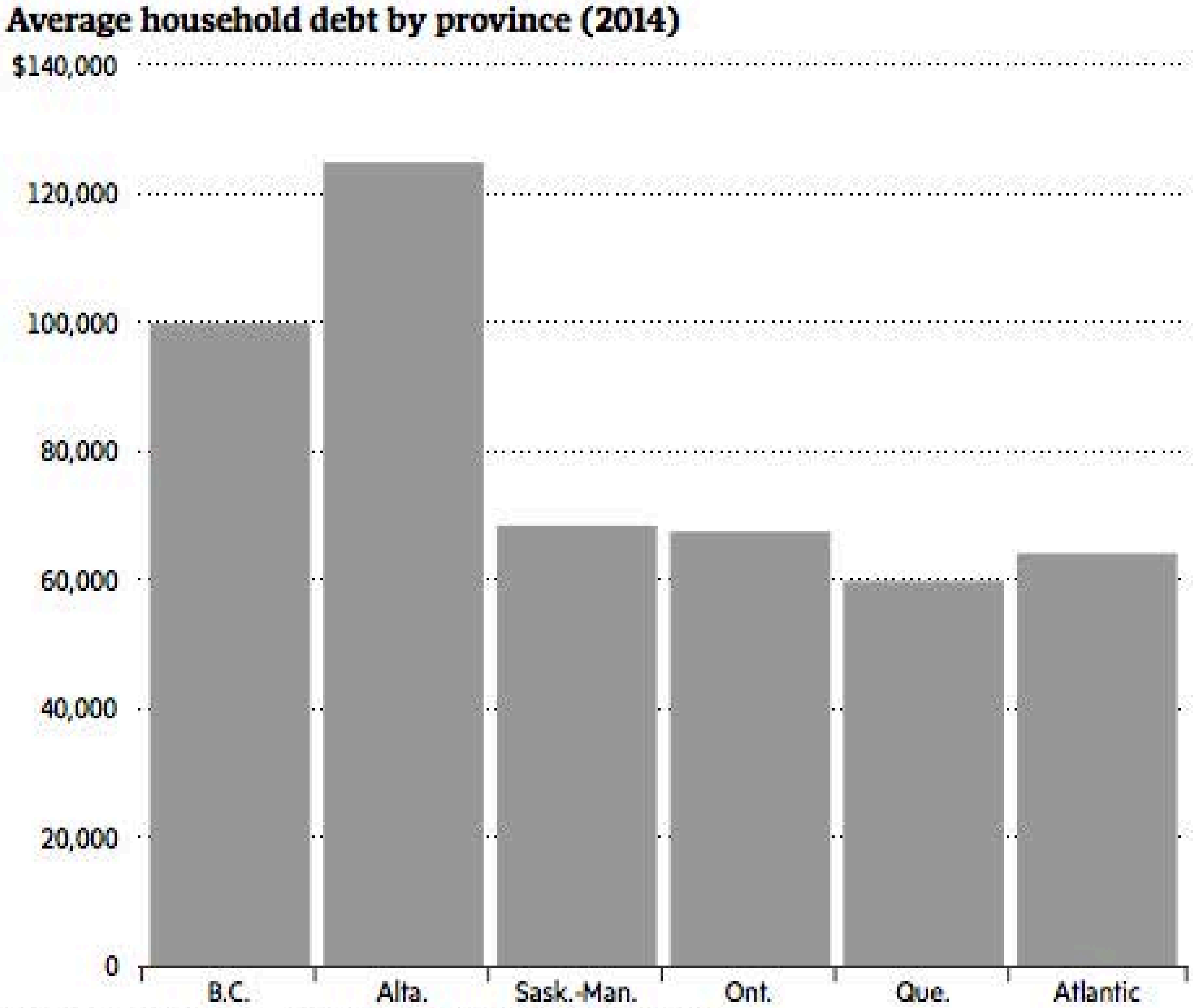
The irony isn't lost on Ms. Boyle that all her debt accumulation happened when she was living in the province with the hottest labour market and strongest growth in Canada.

Alberta occupies a unique spot in Canada's debt story. All that job, wage and economic growth and consumer confidence have sent debt loads soaring.

Households in the province are "most definitely" the most leveraged in Canada, says Ipsos Reid vice president Michael Hsu. "The combination of a younger population and the third-most expensive real-estate market in Canada means the need to get a big mortgage if one is planning to own a home in that province."

The debt-to-income ratio in Alberta was about 177 per cent last year compared with 141 per cent nationally, the Ipsos Reid data show. And debt loads have risen much faster: by 28 per cent in the past five years in Alberta compared with 10 per cent nationally.

Average household debt by province (2014)



THE GLOBE AND MAIL » SOURCE: BMO ANNUAL DEBT REPORT

The sharp rise in debt has given Alberta an outsized influence over Canada's housing market.

The prospect of earning high salaries in the province's oil industry has drawn large numbers of young people to the province, many of whom have become homeowners. Alberta represents roughly 12 per cent of Canada's population, but made up nearly a quarter (23 per cent) of all new mortgages insured by Canada Mortgage and Housing Corporation last year.

Albertans paid smaller down payments than buyers in other provinces, averaging 7 per cent equity for new CMHC-insured mortgages, compared with 9 per cent in Ontario and most of Atlantic Canada. Albertans also take on the largest mortgages. Last year, the average newly insured mortgage in Alberta was for $325,481, compared with $238,135 nationally.

Of Canada's six largest cities, residents in Calgary and Vancouver have the highest ratios of debt-to-disposable income and debt payments to income, according to Environics Analytics.

Over the course of this year, "I do expect the situation to still worsen – the labour market to shed more jobs over the next three or four months for sure, and as a result I'd expect to see more defaults and increased numbers of personal bankruptcies," said Todd Hirsch, chief economist at ATB Financial. That said, he doesn't see insolvencies spiking as high as they did in 2009, as oil prices begin to improve, the pace of layoffs eases and as challenges are confined chiefly to energy-related sectors.

But fortunes can change quickly. Randy Rigel went from pulling a paycheque of close to $6,000 every two weeks as an oil services worker to, on Jan. 15 of this year, no income at all.

"I was blindsided," says Mr. Rigel of Calgary, who was hauling heavy equipment for a pipeline company. He had never set aside an emergency fund because "it never looked like it was going to go south. And then it just hit at once."

That comes as little surprise to bankruptcy trustee Grant Bazian, president and CEO of MNP Ltd. "We have noticed more people calling, in Alberta, in northern B.C. and in southern Saskatchewan, because of the problem with the oil patch. But I don't think it's hit yet. I think it's just starting."

If oil prices stay low, he foresees more bankruptcy filings as layoffs or reduced overtime dent people's cash flow. Already, consumer bankruptcies in the province jumped 19 per cent in February from a month earlier.

And there's usually a lag between oil prices and consumer bankruptcies. As layoffs happen, people first tend to "live off savings, they're living off their credit, they're getting any home equity loans they can to try and survive it. A lot are moving back home, if they came from out East, they're going back to where the cost of living is less, especially in the Maritimes," says Mr. Bazian.

Alberta could offer insights, as a kind of leading indicator, on how household imbalances unwind, said Thomas Davidoff, assistant professor of economics at the University of British Columbia.

The province seems like "the canary in the coal mine," he says. "If we don't see a bunch of defaults and bankruptcies in Alberta, then that says Canada is pretty robust, Canadians are reluctant to go bad on their debts. Because you have unemployment combined with probably declining house prices, and that's a great way to get to people dishonouring their debts."

Phil Stewart-Burgoyne racked up $35,000 in debt between 2007 and 2009. (Justin Tang for The Globe and Mail)

Retiring – with debt

At 58, Phil Stewart-Burgoyne is entering what was traditionally considered retirement age with lingering debts.

He has worked continually since the age of 13. He wound up earning $62,000 a year as a forklift operator at McKesson Canada in Ottawa, until one day – May 3, 2007 – he couldn't work any longer. At first, he was diagnosed with depression but eventually he was told he has a degenerative muscular disease.

He has been on disability ever since. Between 2007 and 2009, he racked up $35,000 in debt, due in part to a gambling addiction. But he also blames easy access to credit cards at a time when he had little financial wherewithal. At one point, he was taking out cash advances from one credit card to pay off another and was at the brink of bankruptcy. Debt collectors were on his case.

He sought credit counselling in 2009 and is now living frugally and uses only prepaid credit cards.

"When you're young, you tend to live beyond your means because you don't care. But you've got to look at the consequences. All it takes is one serious thing" to go wrong, and life can spiral, he said.

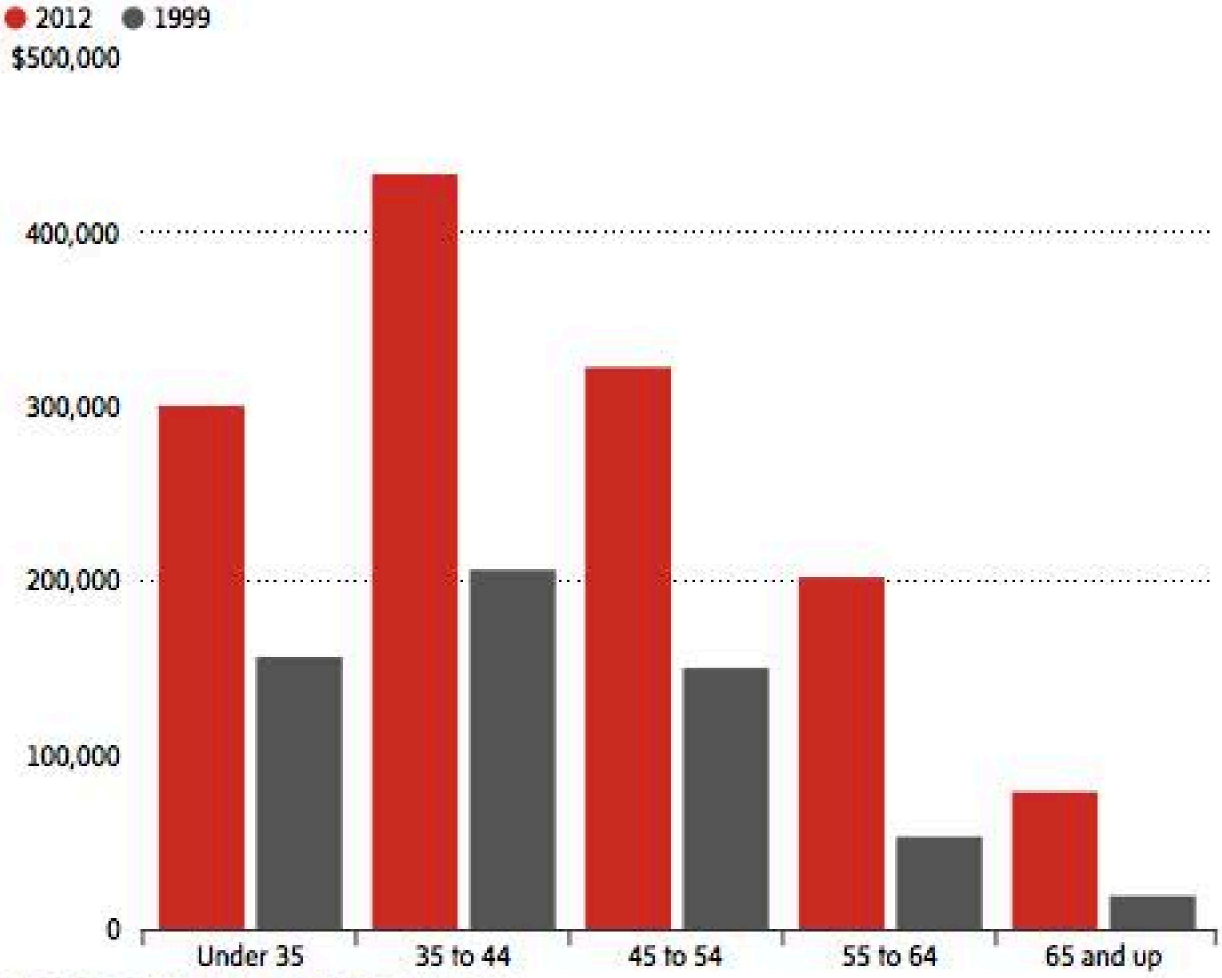
Increasingly, people at or in retirement age are also staggering under debt loads, a group that has traditionally been debt free. It's a shift Mr. Mantin, the bankruptcy trustee in Vancouver, is seeing as some are supporting adult kids, while others are living on very low fixed-income payments. Easy access to credit has compounded the problem, he says.

"It was rare to see someone in retirement a number of years ago. Now it's every week, week in and week out," he said.

Is this simply reflecting the demographics of an aging population? "It's outsized, compared to what it should be," Mr. Mantin said.

The growing trend of seniors heading into retirement with high debt loads could be sign of things to come for today's working-age Canadians who are only now starting to dig themselves into debt to afford student loans, cars and houses.

Total debt by age group



THE GLOBE AND MAIL » SOURCE: STATSCAN

The tipping point may be different for various provinces or age groups. For those in Calgary, it could be a job loss while people in Vancouver may be more vulnerable to falling house prices. And while chief risks may be concentrated in Alberta, there are trouble spots elsewhere – Newfoundland could well see more oil-related job losses while people in Prince Edward Island and Nova Scotia have high non-mortgage debt such as auto loans, leaving them vulnerable to rate hikes. Monthly bankruptcy stats, though volatile, showed increases in consumer insolvencies in every province in February.

There are some positive indicators: Canada's debt-service ratio, or interest on debt paid as a portion of disposable income, is near a record low. Banks have been more prudent lenders than in the U.S. People have been paying down their principal at a faster rate. Economic growth could spring to life later this year, lifting incomes with it. And, maybe, the era of low interest rates is here to stay.

Even so, some signals bear watching. That debt-service ratio can be seen as a leading indicator of households' ability to make their debt payments, said Diana Petramala, economist at TD Bank. In terms of risk to financial stability, "we think this is one of the most important ratios to keep an eye on."

In the U.S., that ratio rose ahead of the financial crisis. Run-ups in the ratio can point to higher credit-card and mortgage delinquencies with a nine- to 12-month lead time, she said. That measure is low in Canada now, but most of the acceleration in debt in Canada lately has come from areas like lines of credit, credit cards and auto loans. This shift to higher interest-bearing types of credit – combined with sluggish income growth – suggests the debt-service ratio will rise this year, and increase further next year as

The changing face of those who live loan-free

interest rates go up, she said.

"People often say, will Canada experience a U.S.-style housing crisis and a U.S.-style debt de-leveraging crisis? And I always used to say, no. I think it's going to experience a Canadian-style housing crisis," said Mr. Hopkins, of Moody's. Rather than millions of people suddenly under water, it's more likely that households will be constrained in spending, he said. "My concern is people feel really over stretched, and they say, so we bought an expensive house but now we're cash poor. And that's the best case scenario – that's if interest rates go up slowly."

Another possibility is a regional bump – that lower oil prices slam households in some cities, like Calgary, but the pain doesn't spill into the rest of Canada.

Then there is the more harsh scenario. A worsening labour market or economic shock could lead to a surge of households under water, said Prof. Davidoff. This situation could see asset prices – namely house prices – topple, and those one-in-eight households, in particular, get into trouble.

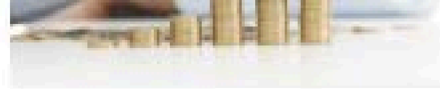
That scenario seems all too real to Ms. Boyle, 62, who incurred her debts in Edmonton before moving to Victoria.

Since declaring bankruptcy, she has only been sporadically employed and is currently looking for work as an office administrator.

For now, she's recalibrated her aspirations and learned to live within her means. She also takes solace in her grandchildren, ages 6 and 9. Her grandson is already learning about money management. He has three pots labelled "spend," "save" and "give." Each week, $1 from his parents goes into each.

"By the time he's 18, he's going to understand that you only buy what you can afford."

Follow Tavia Grant on Twitter: @taviagrant



Nearly a third of Canadians have no debt.