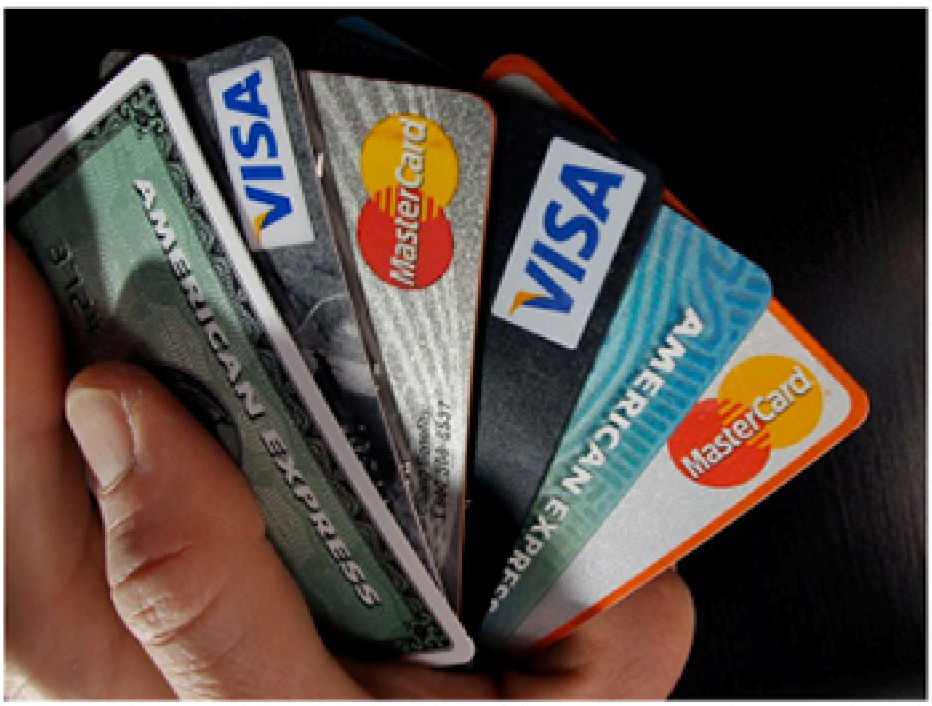
Higher interest rates pushing more Canadians to seek debt relief as business booms for insolvency trustees

Record debt burdens, rising borrowing costs and, in some cases, bigger payday loans are driving many Canadians to insolvency



Interviews with insolvency trustees indicate rate hikes are beginning to take a toll, and suggest insolvencies may keep rising. *Ellie Arsenault/AP/The Canadian Press files*

Bloomberg News
Chris Fournier

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bankruptcy in Canada say they've never been busier.

Record debt burdens, rising borrowing costs and, in some cases, bigger payday loans are driving many Canadians to seek relief, according to several licensed insolvency trustees who spoke to Bloomberg. They say November was their busiest on record, and December — typically a slow time of year in the insolvency trade — hasn't let up.

"I'm essentially trying to add capacity every day to get people seen," Blair Mantin, a Vancouver-based licensed insolvency trustee at Sands & Associates, said by phone. "Usually things slow down around Christmas, but we haven't seen the demand slow down this year."

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The interviews, while anecdotal, add to recent indications rate hikes are beginning to take a toll, and suggest insolvencies may keep rising. The latest official data from the Office of the Superintendent of Bankruptcies showed the rate of consumer insolvencies rose 9.4 per cent in October on an annual basis, the most since 2016.

Insolvency data can be volatile, but it appears Canadian consumers are at an inflection point. "The tide has turned, and the water's starting to rise," Ted Michalos, a licensed insolvency trustee at Hoyes, Michalos & Associates Inc., said in a phone interview. "Now it's just a question of how quickly does it rise."

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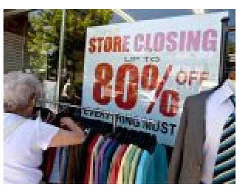

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The effects of higher borrowing costs are beginning to be felt broadly. Vehicle sales, among the sectors most sensitive to rising rates, fell the most since 2009, while growth in residential mortgages decelerated to the slowest pace since 1982, worrying signs for an economy so reliant on consumption.

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> - Ted Michalos, licensed insolvency trustee

In addition, liabilities are eating up a bigger share of disposable income. Canada's debt service ratio climbed to 14.51 on an adjusted basis in the third quarter, the highest since 2008, the federal statistics agency reported last week.

Hoyes, Michalos — which usually accounts for 10 per cent to 15 per cent of insolvency filings in Ontario — just had its busiest November since opening in 1999. The insolvency trustee and debt relief agency received 1,000 new inquiries, compared with 650 in November 2017, and initiated 384 new filings, surpassing the previous high of 350 in November 2009. Through the first 10 days of December, Michalos said the firm's numbers are up 57 per cent from a year earlier.

PAYDAY LOANS

Lower gasoline prices aren't fully offsetting higher mortgage costs, and "there is very little room in many Canadians' budgets to absorb these increased costs," he said, adding he's also seeing more clients with so-called installment loans, basically large, high-interest payday loans that can be paid off over a longer period.

Mantin, whose Vancouver-based firm recorded it's biggest year-over-year increase in filings in November since he joined eight years ago, also cited an increase in large payday loans among his clients. He said previously it would have been typical to see payday loans of $500 (US$373) or $1,000. Now he sometimes sees “installment loans” of $15,000.

Higher rates are hitting at a time when consumers are already struggling to cope with the recent housing boom. Mantin says the majority of clients in the firm’s downtown Vancouver office pay 50 per cent or more of their income in rent, “and you can only do that for so long,” he said. Other clients are young families who overextended themselves at the peak of the boom, often tapping home equity to make renovations, and now can’t sell.

Grant Bazian, president at MNP Ltd., said November was the agency’s busiest ever, with year-over-year growth in filings of about 12 per cent. For December, “it looks like the trend is holding up,” putting MNP on pace for a record fourth quarter, he said.

“The biggest driver of the increased filings appears to be rising interest rates,” Bazian said by phone from Vancouver. “People just get in over their heads.”

The Bank of Canada has raised rates five times since mid-2017, and Governor Stephen Poloz has said he’s watching the economy closely to gauge the effects. Investors are increasingly sure the bank will proceed more slowly, with implied odds showing one more increase over the next 12 months. In October, the expectation was for three more.

David Lewis, an Edmonton-based board member at the Canadian Association of Insolvency and Restructuring Professionals, which represents about 1,000 insolvency professionals, said higher borrowing costs are already having an impact.

“Most of our membership believe that it’s not a blip, that we will see an uptick in numbers just because of the interest rates rising,” he said in a phone interview. “People are finding they can’t deal with the debt month to month, that they could have dealt with six or eight months ago because they're paying extra interest on it all."

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