Metro in debt: Newton area worst in the region for debt-to-asset ratio

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Despite repeated warnings, household debt continues to rise in Canada, particularly in B.C. where home prices and a high cost of living have fuelled a borrowing surge.

Debt stress is hitting some neighbourhoods harder than others, new data provided to Postmedia News by the Social Planning and Research Council of B.C. shows.

The study by the non-profit group of where the most indebted people live in Metro Vancouver, using areas defined by the first three digits of postal codes, determined that V3W in the Newton neighbourhood of Surrey was the most indebted area when factoring in what residents owe compared to their assets.

More study is needed to determine whether there is an effect on the health and well-being of a neighbourhood or community when many of its residents have a lot of debt, the researchers say.

While mortgage debt is rising more quickly,

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consumer debt affects more than just homeowners and can hit lower-income borrowers particularly hard.

Shannon Johnstone-Lunot, who lives in the V3W postal code area in a co-operative townhouse with her husband and adult son, dug herself into a big hole over the years when she was a single parent working part-time without any support payments from an earlier marriage.

"I got a little caught up in credit cards and tried to make a good life for (my son)," she said in her tidy, tastefully decorated townhouse. "I got a few cards and slowly started to max them all out. I was completely out of control. I'm not one of the Joneses and I was trying to keep up."

She stopped making even the minimum payments and soon the creditors started calling and calling.

"I was naive to think they would eventually go away because they won't," she said. "I thought they're going to have pity on a single mom. They didn't."

"It was $10,000," she said. "That was a big, scary figure. I never thought I would ever pay it off."

After hearing an ad on the radio, she decided to get help and was able to have the interest payments waived and the debt spread out over five years at $192 a month through a voluntary repayment program that won't enter into her permanent credit history.

"It's been hard, I'm not going to lie," said Johnstone-Lunot, 47. "But I didn't want this anymore. I wanted to be responsible. I'm proud and happy that I took that road. I'm not ashamed of it. I feel a little empowered that I took responsibility (for the debt)."

She and her family are learning to live within their means and with a year left on her payments before becoming debt-free, she has no plans to again live

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off credit cards.

"We don't even want one anymore," she said. "We bought our car with cash."

Paying with cash these days seems quaint, if not impossible, and Johnstone-Lunot is not the norm.

Debt is at an all-time high across Canada — Canadians on average owe $1.65 of combined consumer and mortgage debt for every $1 they earn — and the "alarming" debt is spread over Metro Vancouver.

SPARC B.C. researchers pinpointed the most heavily indebted areas based on combined mortgage and consumer debt, on debt-to-income ratios and on debt-to-asset ratios. And they found two-thirds of heavily indebted areas experienced a growth in debt between 2007 and 2012 that outstripped the rate of income growth.

Sparc B.C. analysis highlights spread of debt in Metro Vancouver

The highest numbers based on combined mortgage and consumer debt — up to $657,017 a household — were found on the North Shore and Vancouver's west side, where Metro's priciest homes are found.

The lowest levels of that debt — starting at a low of $210,823 — were owed by people in the Tri-Cities, Surrey and the Langleys, according to the study.

> A hike in interest rates could hit the more indebted neighbourhoods hard, as the debt-to-asset ratios there are well above national and global debt levels that are worrying experts

But total debt only told part of the story.

When the authors factored in assets, they found the ratio of debt to assets was highest in the Tri-Cities, Surrey and the Langleys, the highest average ratio hitting 38 per cent in V3W. In those areas, it means people owe 38 cents for every dollar of assets. On the North Shore and west side, the ratio was as low as eight per cent.

The higher the value of the homes, the more the debt is offset by the homes' equity, and the safer the borrowers will be if they run into financial difficulty.

A hike in interest rates could hit the more indebted neighbourhoods hard, as the debt-to-asset ratios there are well above national and global debt levels that are worrying experts.

"Households in Canada have become more indebted than (in) any other G7 country over recent history," according to the household indebtedness and financial vulnerability report prepared by the Office of the Parliamentary Budget Officer.

SPARC B.C. said the debt discussion should include a conversation about how debt collectively affects the most indebted areas.

“Public policy-makers and decision makers must begin to pay more attention to how debt is affecting households and neighbourhoods and the everyday lives of Canadians,” say the authors of Metro Vancouver’s Debtscape report by SPARC B.C.

“There has been very little focus on household economics and how that determines community health,” said associate director Scott Graham. “Now we can ask these really important questions: What are the differences in the community amenities, like social services, number of schools, health care facilities and (composition of) owners versus renters.”

“It may or may not be changing the composition of neighbourhoods for better or worse,” he said.

The study investigated, for instance, whether payday loan shops, which charge high interest for short-term loans, were targeting areas already heavily in debt. But what it found was those shops tend to locate instead where there are the highest concentration of low-income earners, he said.

Despite high levels of debt across Metro Vancouver, statistics show 99 per cent of Canadians meet their payments, and mortgage debt isn’t necessarily bad debt.

As real estate prices rose over the years, so did debt tied to home ownership. The amount of mortgage debt in Metro Vancouver between 2012 and 2014 rose 24 per cent, to $110 billion from $89 billion, according to the SPARC B.C. report.

Non-mortgage consumer debt, which is around $44 billion for Metro Vancouver, was down one per cent, it found.

Despite the increase in mortgage debt and a levelling off of unsecured debt, economists and financial experts warn that high debt of any kind would make individuals vulnerable to foreclosure or bankruptcy if interest rates rise.

“An increase of a half or one per cent could make it difficult for people to make their payments,” said Graham.

The number of people seeking help through the Credit Counselling Society of B.C. has risen 14 per cent year-to-date to Oct. 25 over the same period last year and the society has hired more staff to deal with the increase, said counsellor Megan Faschoway.

Her offices don’t track debtors by neighbourhoods and she said it’s not always evident who the largest debtors are because they may live in the biggest houses with the nicest cars.

“It’s not like they have a big red D (for debt) on the door, so it’s hard to say how it affects neighbourhoods or communities.”

But Faschoway recently moved to the Surrey office from Coal Harbour and she notices a change in clientele.

“I can definitely see the difference,” she said. “In the downtown office, we’d get every single kind of person you could imagine, including someone with no fixed address who’s couch-surfing to someone who used to make $1.2 million a year in oil futures and now was looking for a position as an executive assistant.

Bankruptcy rates are dropping everywhere, but without showing that consumer proposals are growing like crazy, an incorrect picture is drawn

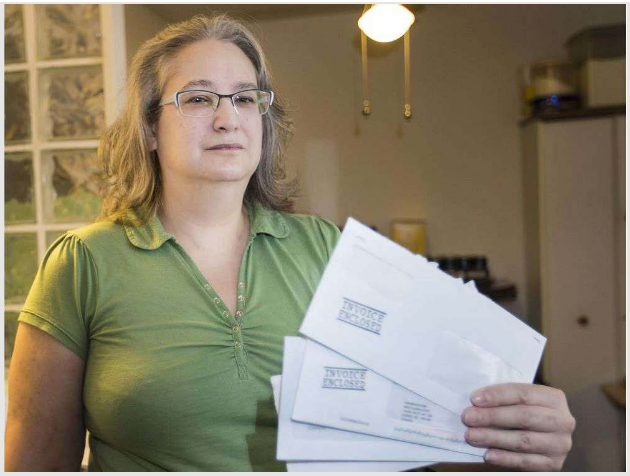
“In Surrey, it’s low-income, underemployed people and a lot of families who used to be able to afford the mortgage, but then mat leave happens and they tend to rely on credit cards to get by. And there are a lot of people from Alberta, they’re coming out this way, and they can’t get a job right away.”

“Surrey is our biggest and busiest office,” said insolvency trustee Blair Mantin of Sands and Associates.

The clients include recent immigrants, young families and former dual-income families who have lost one of the incomes; but Mantin’s offices also see people who get deep into debt by dealing with payday loan shops that charge the equivalent of almost 500 per cent a year in interest.

The number of consumer bankruptcies filed in B.C. in 2015, 5,683, was down 10 per cent from the year before. But consumer proposals to deal with debt were up for the same period 17 per cent, to 5,897, and outnumbered bankruptcies, according to the Office of the Superintendent of Bankruptcy in Canada.

“Bankruptcy rates are dropping everywhere, but without showing that consumer proposals are growing like crazy, an incorrect picture is drawn,” said Mantin.



October 27,2016, Debt series, Surrey B.C, Susan Davis, Photo: Francis Georgian, Reporter: Susan Lazaruk, Trax# 00045875B, [PNG Merlin Archive] Francis Georgian / PNG

Debtors like Susan Davis may be responsible for that trend, said Mantin.

She and her husband were former homeowners who found themselves saddled with $20,000 in debt after she lost her job in 2008 when the Alberta lumber mill she worked at burned down and her husband had to go on workers' compensation. They walked away from their home after they couldn't find a buyer and moved back to B.C.

After her EI ran out, she racked up credit card debt and creditors started calling.

"I had a lot of sleepless nights," said Davis, 52.

So she investigated the possibility of declaring bankruptcy but chose instead a "consumer proposal," another option bankruptcy trustees for a fee can offer to those in over their head in debt. Compared with bankruptcy, a consumer proposal offers borrowers a longer period to repay a portion of their debts, usually between 30 and 50 per cent, and allow them to keep their assets.

In Davis's case, the trustee negotiated with her creditors to repay 30 per cent of her debt over five years, the maximum amount of time to repay debts through a consumer proposal.

Declaring bankruptcy would have meant larger monthly payments (debtors must pay half of monthly “surplus income” over an amount set by the federal government to maintain a household, plus trustee fees) over a shorter period of time to discharge the debt and she would have had a bankruptcy on her credit history.

Davis has worked nights at a Vancouver coffee roaster since 2010 and is a year away from paying off her debt, at $150 a month.

“It made living a lot simpler,” said Davis, who is already starting to rebuild her rating. “I should have gone to see a trustee a lot sooner.”

Davis and her husband live in one of the most indebted postal code areas, V3R in north Surrey, but Davis said it’s not really evident that people there are stretched financially.

“On our street, you can see Lexuses and old rust buckets,” she said. “It’s a real mixture.”

She said Whalley does have a lot of second-hand shops and payday loan outlets as opposed to vibrant retail shops, but it doesn’t affect their household.

Johnstone-Lunot also said she wasn’t aware she was living in a heavily indebted area, but has noticed lots of payday loan shops in Surrey and “there aren’t any fancy shops around here.”

She said debt isn’t a topic that comes up with neighbours, but she and her husband, both salaried workers, live in co-op housing with others who therefore aren’t homeowners either and they’re content.

“We don’t make a lot of money and we can’t afford to fly to Hawaii every year,” she said. “But we have everything that we need right now.”

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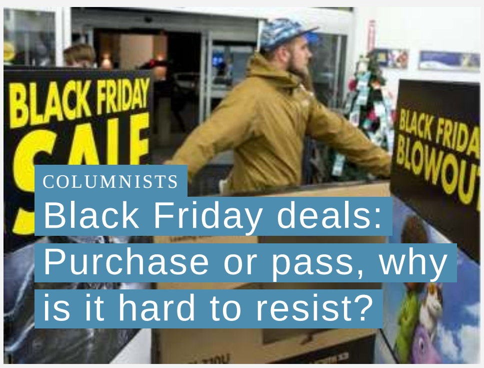

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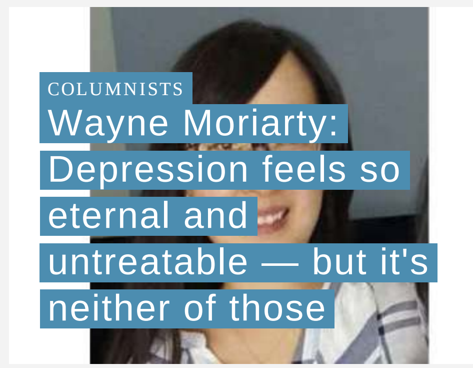

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