Welcome!

- Thank you for joining the webinar on **Consumer debt and household vulnerability among low income households in Canada** hosted by Prosper Canada.
- The presentation will begin shortly. (Audio will begin when the presentation starts)

Technology Details:
For technical assistance, please call GoToWebinar support line **1-855-352-9002**.

- Participants should connect using VOIP. Please check that the volume is turned up on your computer.
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Webinar logistics

- **Audience members have all been put on "mute"** for this webinar
- Presenters will be joining via **audio only** to conserve bandwidth
- Please **share any questions you have using the "Question box"** (located in the control panel at the right side of your screen).
- You'll find a **handout** you can download and refer to during the presentation (located in the control panel at the right side of your screen)
- **We will share webinar slides with all participants and post a recording** of the session within a few days.

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Land acknowledgement

Prosper Canada – Who we are

Founded in 1986, Prosper Canada is a national charity dedicated to expanding economic opportunity for Canadians living in poverty through program and policy innovation.

As **Canada's leading champion of financial empowerment**, we work with governments, businesses and groups to develop and promote financial policies, programs and resources that transform lives and foster the prosperity of all Canadians.

We help service systems and organizations in all sectors to build proven financial empowerment approaches into their businesses in ways that:

- Are **sustainable**
- Help them **achieve their goals**
- Tangibly **increase the financial well-being of the low-income people** they serve.




Today's presentation (1:00-2:00 ET)

1. **Welcome and introduction**
2. **Research introduction**
3. **Consumer debt trends in Canada**
   – What does debt look like for low- and moderate-income households?
   – How do different types of debt work?
   – What's behind the debt?
4. **What help is available to Canadian borrowers?**
5. **Q&A**

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1. Introductions: Our panel

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Audience polls: We'd love to hear from you

- What type of support does your organization/agency offer?
- What type of role are you in?

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Researching Consumer Debt

- **Debt is a hot topic** - mortgages in particular get lots of attention from financial institutions, government, and the media

- However, there is much **less research on all the other kinds of debt** – lines of credit, credit cards, student loans, auto loans, and high-cost credit.
  - Together, these types of debt are labelled "**consumer debt**"

- **Even less research** has focused on low- and moderate-income households
  - At these income levels mortgages are less common, so it's important to understand how the various kinds of consumer debt affect low- and moderate-income households

Researching Consumer Debt

- The Research & Evaluation team at Prosper Canada set out to better understand **consumer debt levels among low- and moderate-income households**.
  - We analyzed **Statistics Canada's 2016 Survey of Financial Security (SFS)** which collects data on the assets, debts, employment, income and education levels of Canadian households
  - We also conducted a comprehensive literature review of Canadian studies of **consumer debt**, with an eye towards how low- and moderate-income households use and carry debt and the supports available to them
  - Our final report: Roadblock to Recovery: Consumer debt of low and moderate income Canadian households in the time of COVID-19 is now available

Quick Definitions

Low- and moderate-income households

- Households in the lowest and second income levels as defined in the SFS.

Consumer debt

- All forms of non-mortgage debt, including lines of credit, credit cards, high-cost credit, student loans, auto loans, unpaid utilities, etc.[1]

Indebted households

- Households that carry a debt balance of at least one type of credit in the SFS.

What does debt look like in Canada?

- Poll: What percentage of low-income households carry any type of debt?
  - A. 72%
  - B. 63%
  - C. 49%
  - D. 35%

What does debt look like in Canada?

Almost half (49%) of low-income households carry debt.[2]

- Many, but not all, low- and moderate-income households carry debt. This means that while many more households may use credit products, they do not all carry debt balances.

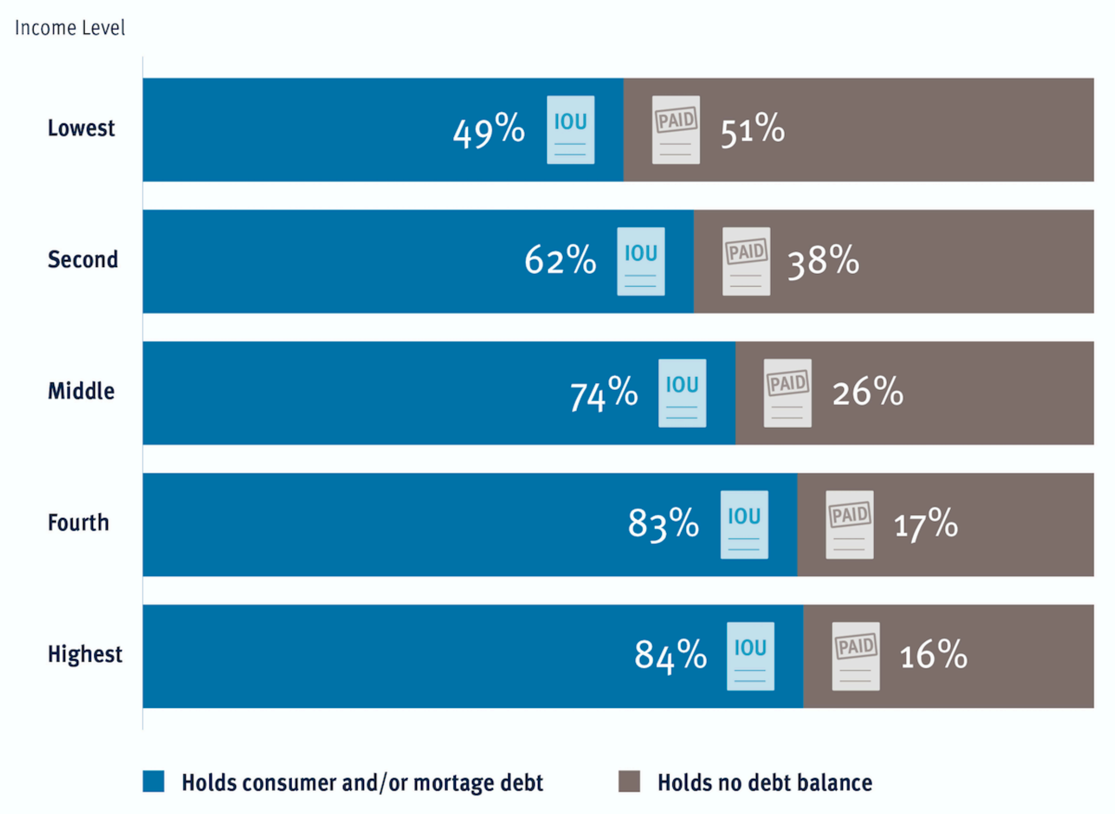
The percentage of indebted households increases as income rises.[2]

- On average, the higher your income the higher your debt. We expect to see this, as mortgages carry the highest debt amounts and become more accessible as your income rises.

What does debt look like in Canada?

Almost half of low-income households carry debt.

The proportion of indebted households increases as income rises.



Source: Statistics Canada, "Table 11-10-0057-01 Survey of Financial Security (SFS), Assets and Debts by after-Tax Income Quintile, Canada, Provinces and Selected Census Metropolitan Areas (CMAs) (x 1,000,000)."

How much does debt cost?

- On average, what percent of their income do low-income households spend on debt repayment?
- Poll:
  - A. 12%
  - B. 31%
  - C. 24%
  - D. 63%

How much does debt cost?

Even though fewer low-income households are indebted, those that are spend on average 31% of their income repaying debt[3]

- High debt repayment costs make meeting basic needs even harder for indebted households.

According to the Bank of Canada, someone is financially vulnerable when 40% or more of one's income goes towards debt repayment[4]

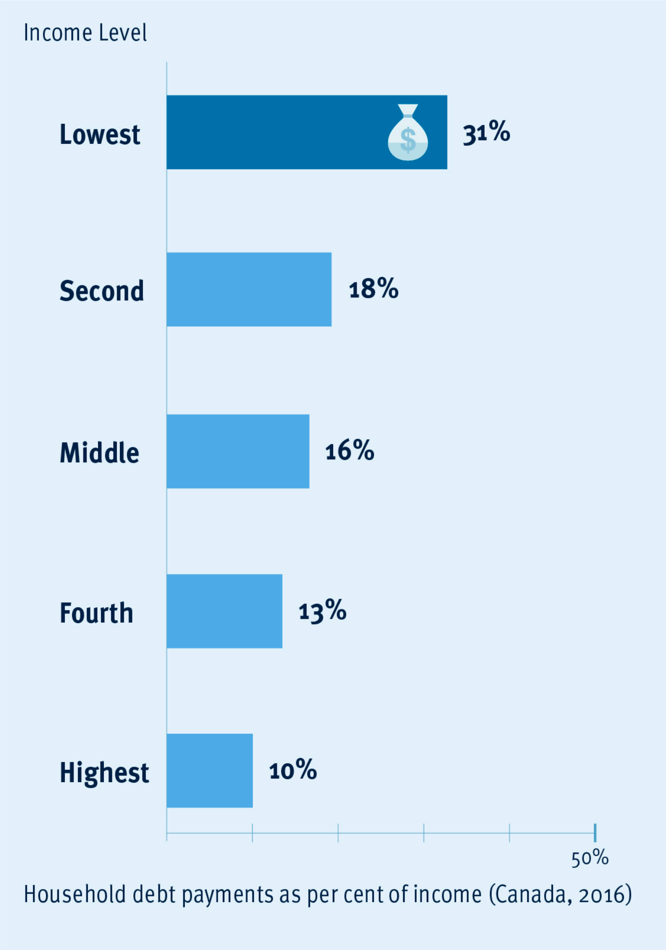
- COVID-19 is likely to increase the risk of low-income households becoming insolvent if they cannot cover their debt costs.[5-7]

How much does debt cost?

Low-income households spend an average 31 per cent of their income on debt repayment.[3]

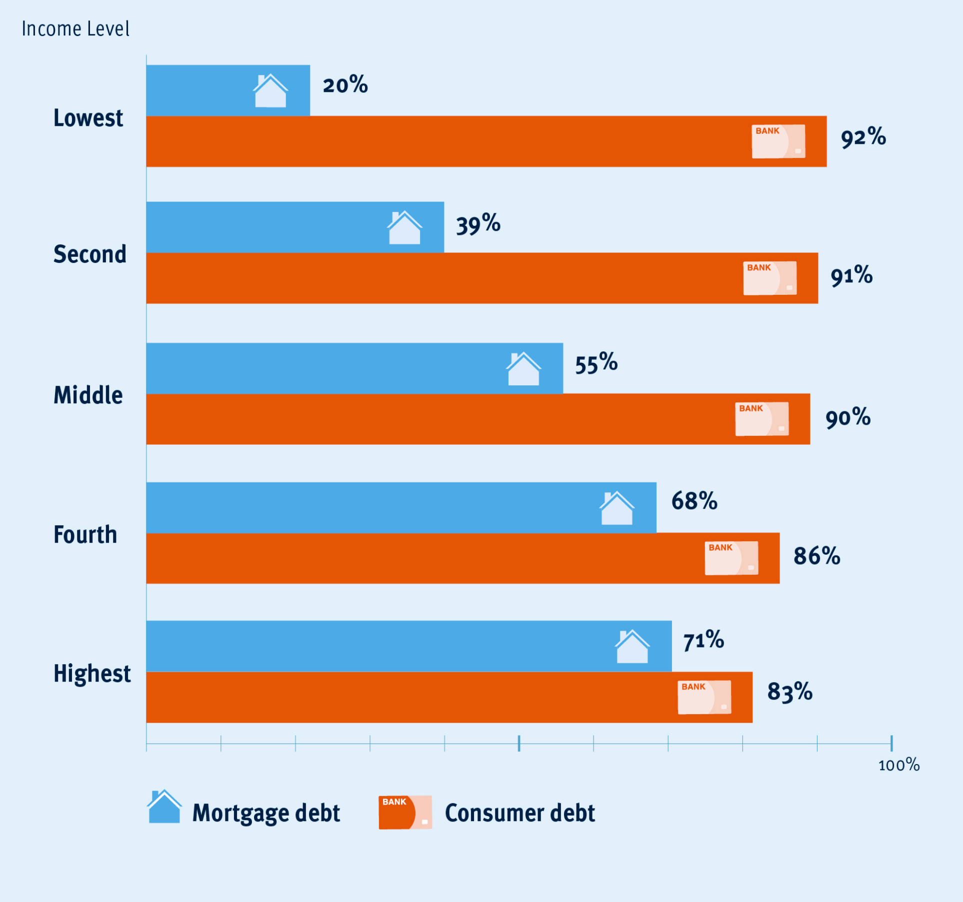
Some low-income households risk becoming even more financially vulnerable if their debt repayment costs continue to rise.

Source: Financial Accountability Office of Ontario, "Assessing Ontario Household's Debt Burden and Financial Vulnerability."



What kinds of debt do low- and moderate-income houses hold?

Among indebted households with low- to moderate-incomes, **over 90% carry consumer debt**, but most do not hold a mortgage.



Source: Analysis by Prosper Canada using the 2016 Survey of Financial Security

What kinds of consumer debt do low- and moderate-income houses hold?

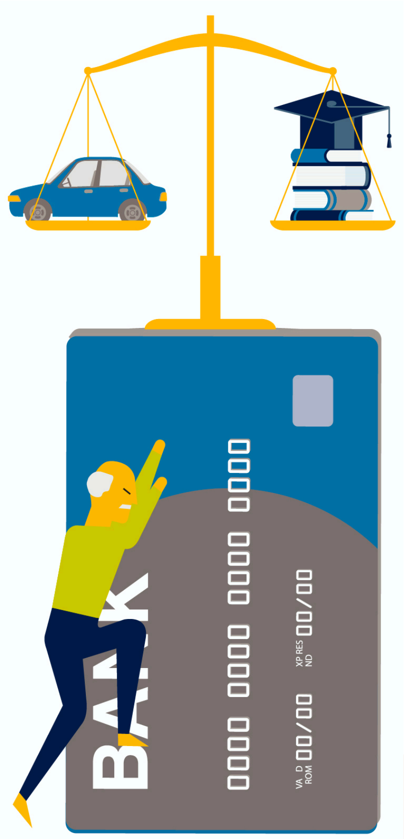
- Poll: What kind of consumer debt is the most common among low- and moderate-income households?
  - A. Student loans
  - B. Credit card debt and installment loans
  - C. Lines of credit
  - D. Auto loans

What kinds of consumer debt do low- and moderate-income houses hold?

- **Credit card debt and installment loans are the most common kind of consumer debt across all income levels.[2]**
  - 59% of indebted households on low-incomes and 56% of indebted households on moderate-incomes carry some amount of credit card debt and installment loans.[2]

What kinds of consumer debt do low- and moderate-income houses hold?

- **Student loans and auto loans are also common kinds of consumer debt at these income levels.**
  - 24% of indebted low-income households carry student loans, higher than any other income level.[2]
  - 36% of indebted moderate-income households carry an auto loan, making it the second most common kind of consumer debt at the income level.[2]



How do different kinds of consumer debt work?

- We identified three kinds of consumer debt that have particular impacts on low- and moderate-income households:

- Installment loans

- Student loans

- Auto loans

How do different kinds of consumer debt work?

Quick Definitions

- **Principal**: the initial loan or the amount still owed on a credit product
- **Interest rate**: the amount a lender charges for a loan, expressed as a percentage of the principal
- **Term length**: how long a borrower has to pay back a loan or debt
- **Repayment structure**: how a loan/debt can be repaid – whether in full, in installments, or at each pay period
- **Subprime loans**: loans with high interest rates and other charges or fees that make the cost of borrowing quite high

What do we know about installment loans?

- Installment loans are the **fastest growing form of consumer credit** in Canada[8]

- With **larger principals and longer term lengths**, installment loans have emerged as an alternative to payday loans.[8]
  - Principals range from $500 - $15,000 and term lengths can vary from six months to five years[9]

- Installment loans require borrowers to pay **a fixed amount in periodic installments** over the life of the loan[8]
  - Unlike payday loans (paid every pay period) or credit cards (which allow minimum payments)

What do we know about student loans

- The **average student loan among low-income households is $15,000**, and the average drops to $12,000 for moderate-income households.[2]

- **Student loans can take much longer to pay off** and can impact other major life decisions like delaying marriage, children, or savir to buy a vehicle or house.[10]

- Borrowers who **have partly-completed their college, trade, or university** education, including current students, are more likely t report being **behind** on one or more bill payments.[11]
  - This suggests that they may be struggling with debt from thei time spent in school while not experiencing the financial benefits that typically come from completed post-secondary education.

What do we know about auto loans?

- **Auto loans** are brokered by car dealers
  - They liaise with multiple lenders who assess a borrower's application and credit history that inform the loan's interest rate and term length.[12]

- Dealers increasingly offer **extended-term loans - 7 to 8 years** - as opposed to the more traditional 3 to 5-year loan[13]
  - Extended-term loans now make up 69% of all auto loans in Canada[13]

- **Borrowers with poor credit may only have access to costly subprime loans.**[13]
  - Subprime auto loans typically have interest rates between 15 to 28 per cent annually, plus additional fees.[13]

What are people using their credit for?

- While it is difficult to accurately capture how low- to moderate-income households use their credit, research in the Canadian context points to **two major ways** people living on low- to moderate-incomes use their credit:

- To pay for **necessary expenses** like housing, food, and expense shocks (e.g. car repairs)[9, 14]
- To **cover the costs of their rising debts**[15-16]

What's behind the debt?

- Open-ended Question: What are some of the factors that contribute to high consumer debt levels in Canada?

What's behind the debt?

- Factors contributing to rising debt levels fall into two categories: **borrower-side factors** and **lender-side factors.**
- The drivers of high debt levels that are the result of consumer behaviour are considered **borrower-side factors.**
- Drivers of high levels of consumer debt that are the result of the practices and products of the financial industry are called **lender-side** factors.

What's behind the debt?

Borrower-side factors

- Wage stagnation and rising cost of living[17-21]
- Personal and Household Savings Rates[17, 22]
- Credit History[8, 23-24]
- Financial Literacy

What's behind the debt?

Lender-side factors

- Financial Innovation[13, 25-26]
- Interest Rates[27-28]
- Financial Exclusion
- Sub-prime Lending[8-9, 13, 24]

What help is available to Canadian borrowers?

There are few sources of free, quality financial counselling available to Canadians struggling to avoid insolvency.

- For borrowers who continue to make regular payments but struggle with high debt loads, there are few free, neutral, quality counselling supports available to them.[29]

What help is available to Canadian borrowers?[20, 30-35]

Options for insolvent borrowers

Option	Recorded on credit report	Allows borrowers to keep their assets	Provides financial counselling support	Covers debt from high-cost credit lenders
Bankruptcy	✓	✗	✓	✓
Consumer Proposal	✓	✓	✓	✓

Options for those approaching insolvency

Option	Recorded on credit report	Allows borrowers to keep their assets	Provides financial counselling support	Covers debt from high-cost credit lenders
Consolidation Loan	✓	✓	✗	✗
Debt Management Plan (DMP)	✓	✓	✓	✓
Orderly Payment of Debts (OPD)*	✓	✓	✗	✓

*OPD is a provincial program currently only available in Alberta, Saskatchewan, Nova Scotia, and Prince Edward Island.[40]

The Impact of COVID-19

Since the onset of COVID-19 and the six months after:

- 30% of low-income households say their personal debt level has worsened.[36]

- 43% of low-income households say their savings have worsened.[36]

- 21% of low-income households report a negative impact on their ability to pay their bills on time.[36]

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Questions?

Thank you for joining us!

- **We will be sending you an email soon with:**
  - Slides from today's webinar
  - Link to webinar recording
  - Link to post webinar survey

- **We will also post the recorded webinar on our Learning Hub:**
- https://learninghub.prospercanada.org/webinars/

- Our final report: Roadblock to Recovery: Consumer debt of low and moderate income Canadian households in the time of COVID-19 is now available

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Feedback: In our post-webinar survey please let us know...

- How relevant were our research findings to the work you're doing?
  - Very relevant
  - Somewhat relevant
  - Not at all relevant
  - Unrelated

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Registration coming soon, subscribe to our mailing list for links

- **Wednesday, Dec 2nd** (1pm-2pm ET)
  - Preparing for virtual tax clinic delivery
  - Speakers: CVITP Outreach

- **Wednesday, Dec 9th** (1pm-2pm ET)
  - Project insights: Virtual self-assisted tax filing pilot
  - Intuit/Prosper Canada project
  - Speakers: Woodgreen Community Services, EBO Ottawa, Intuit/TurboTax

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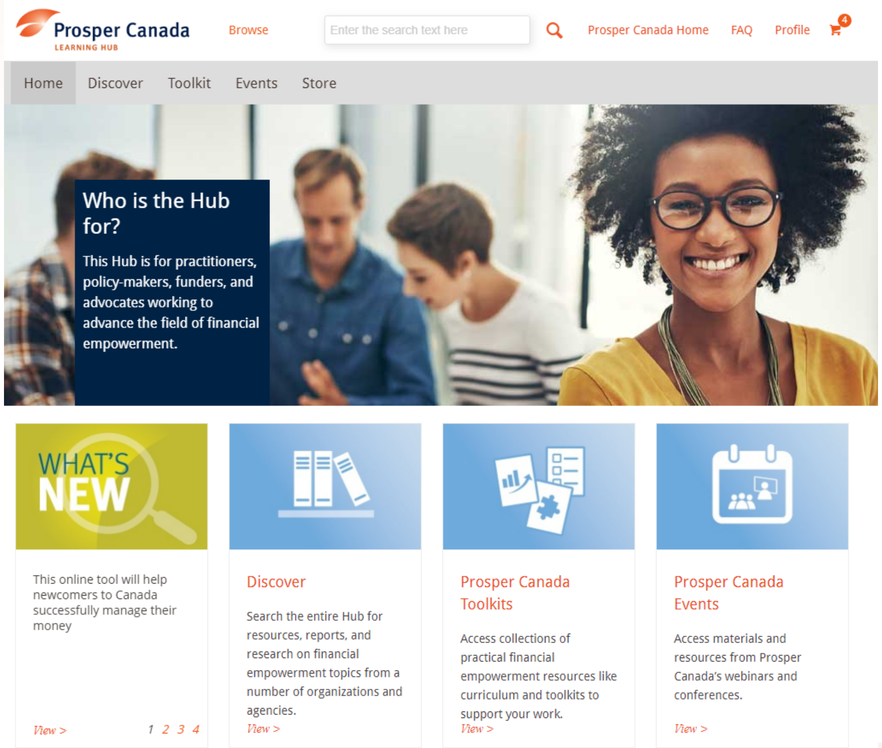

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