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When credit is cheap and plentiful, debt can spiral out of control

Free counselling sessions can help debtors get their spending under control

By Tracy Sherlock, Vancouver Sun January 14, 2012

Blair Mantin, senior vice-president at Sands & Associates Photograph by: Les Bazso, PNG, Vancouver Sun

Meet Joe Debtor. Typically, he's 41 years old and married, with a monthly income of $2,400 after taxes. He has built up $60,000 in unsecured debt and he often has a $200,000 mortgage on top of that.

Joe's counterpart is Jane Stu-dent. Typically, she's 35 years old and single, with $50,000 in unsecured debt, one-third of which is unpaid student loans.

Blair Mantin comes across these profiles a lot in the course of his work as senior vice-president at Sands & Associates, which is a proposal administrator, trustee and bankruptcy firm. Sands has helped about 10,000 people in B.C. in the past three years, Mantin said.

Although credit is cheap and plentiful at the moment, several experts have expressed concern about the growing level of household debt in Canada. Last month, the Canada Mort-gage and Housing Corp. called the trillion dollars Canadians owe on their mortgages, when added to other household debt, a "serious issue."

If interest rates were to go up, some people could face crippling monthly payments on loans such as lines of credit where the interest rate is variable. The ratio of consumer debt to disposable income is at a record high, and although the pace of borrowing is slowing, total debt is still increasing.

People love their credit: with low interest rates, credit is cheap; with soaring housing prices, home equity credit is plentiful. With easy access to lines of credit and credit cards, it's tough for the average person to live within their means. The average British Columbian has $36,588 in non-mortgage debt, the highest in the country. But we're a province of contradictions: B.C. also has more people who are debt-free, and more homeowners with no mortgages than the rest of the country.

Those contradictions are not all that surprising to Tsur Somerville, director at the University of B.C. Centre for Urban Economics and Real Estate at the Sauder School of Business.

"We're in a situation in B.C. where we spend more of our disposable income on housing, particularly mortgage payments, than do people in the rest of Canada, but at the same time we also want to have the same widescreen TVs and everything else," Somerville said in an interview. "That forces us into the situation where we end up borrowing, and fundamentally we count on house price appreciation to bail us out of it."

If you believe house prices will stay high or move even higher, then borrowing against your home to fund consumption is not necessarily the wrong thing to do, Somerville said.

"Economic models tend to work on the idea that you want to smooth consumption over your life. You don't want to eat nuts and berries and not have caviar until you are 88," Somerville said. "If you believe in 40 years you're going to have this piece of wealth that you're not going to be able to spend then, you might want to spend some of it now, and the way you'd do it is by taking on debt."

He said people are much more likely to spend the money when their house goes up in value than when their stocks appreciate.

"I believe that indicates that they believe more strongly that the value will continue to be there," Somerville said. "When your stock portfolio goes up 300 per cent, you're like, 'Hahaha that's all going to go away.' If your house goes up 300 per cent, you think, 'I'm so wise and smart and that's never going to go down.'"

But if interest rates go up, people with variable rate mortgages and lines of credit could be in for a shock.

"When interest rates go up, people are going to be screwed to the wall, but that is a function of when interest rates will go up, and how much they will go up by," Somerville said.

And what about the 47 per cent of British Columbian homeowners who are mortgage free?

"If you think that you might buy a house you're going to live in for the rest of your life by the time you're 35, and you live in it until you're 60, and you don't move out until you're 80, then on average, 40 to 45 per cent of the people will be mortgage-free," he said.

B.C.'s number of homeowners without mortgages is higher than the rest of Canada, but that could be explained by older people moving to B.C., or by people from outside the province owning mortgage-free vacation homes here, Somerville said.

B.C. Real Estate Association chief economist Cameron Muir agrees.

"It may be a result of demo-graphics, where retirees move to B.C.'s warmer climate and are typically mortgage free. Also, high net worth immigrants are also unlikely to carry mort-gages," Muir said in an email.

But not all seniors are wealthy. While Joe Debtor and Jane Stu-dent are two of the most common debtors in B.C., Mantin said the fastest-growing segment of people seeking help with their debts are older people, most typically men, age 62 and married with a fixed income and about $40,000 in credit card debt that has often been hidden from his family.

"I saw a lady last week, she was 77 years old, and her daughter brought her in. There was definitely a bit of shame and the daughter had no idea. She had about $25,000 debts and $1,600 a month in pension income," Mantin said in an interview.

Often it's circumstances and not intention that gets people into financial trouble.

"The vast majority of people that I see, it's not that they didn't know how to manage their money, it's just that some-thing happened - a job loss or medical issues," Mantin said.

If your financial troubles are just beginning or are not yet overwhelming you, start with credit counselling.

"We encourage people to call at the first sign of financial difficulty instead of waiting until they are experiencing a lot of stress or are having collection action instigated against them," said Scott Hannah, president and CEO of the Credit Counsel-ling Society.

Mantin cautions that a debtor should never be asked to pay up front for financial advice. "It should never cost you money to figure out your financial options," Mantin said. "Any trustee in Canada will offer you a free consultation right from the start. If you go to a debt consultant and are asked for money up front, I would run the other way."

STEPS FOR DEBTORS

For those feeling overwhelmed there are steps to consider based on the level of debt and how long it has been a problem:

Credit counselling: If your financial troubles are in the early stages, you should start with credit counselling. The Credit Counselling Society is a non-profit organization, funded by grants and financial institutions, that helps people manage their debts. Their advice is usually free and includes creating a spending plan. Their website is www. nomoredebts.org.

Consumer proposal: A consumer proposal is an offer made to creditors to pay a number of cents on each dollar owed. A good starting point is 30 per cent of your debts, and 90 per cent of the time, consumer proposals are accepted. At least half of a person's creditors must approve a consumer proposal. Only a bankruptcy trustee can initiate a consumer proposal, and the trustee is paid out of the amount paid by the consumer.

Bankruptcy: This is the last resort. To declare bankruptcy, a person must be insolvent, which means that even if they sold all of their assets, they could not cover their debts. Bankruptcy usually costs about $1,800 in trustee fees plus 50 per cent of your income over a low-income cutoff for 21 months. Sands & Associates' website is www. sands-trustee.com.

tsherlock@vancouversun.com

Blog: vancouversun.com/yourmoney

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