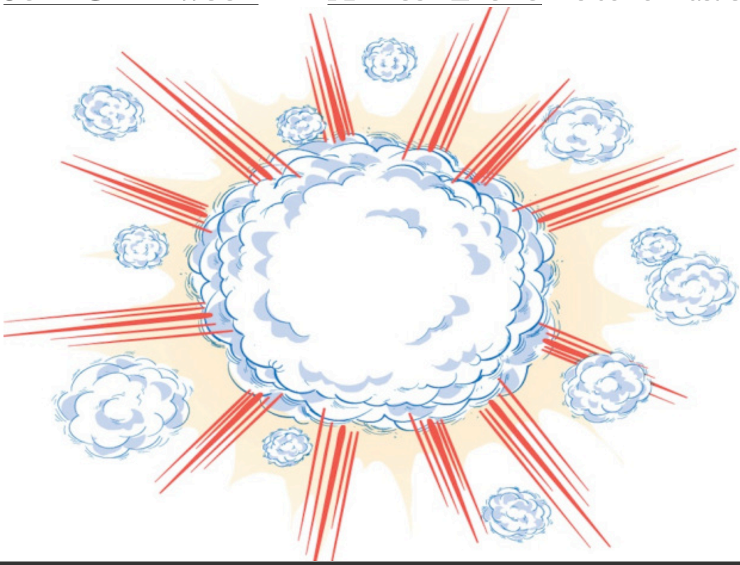
FINANCIAL POST

Suddenly bankrupt: People with great credit scores are hurtling into crisis

JOHN GREENWOOD AND MELISSA LEONG | 13/05/25 | Last Updated: 13/05/27 10:00 AM ET



Mike Faille/National PostAs many as 70% of bankruptcy filings are made by people with strong credit scores, according to TranUnion.

Britt Santowski never carried credit card debt. She was never late on her mortgage payments. She bought second-hand clothing, furniture and toys for her daughter. She had saved $25,000 as a down payment for her condo, $29,000 for RRSPs and $12,000 in an RESP.

In 2007, she took a financial course through a trusted friend and following its teachings, made a $190,000 investment, funding it through her home equity line of credit. She was, as she now calls it, digging her financial grave.

The investments tanked — the Alberta Securities Commission would later say that investors were misled and the investments were a sham — and around the same time, her husband lost his job. On April 19, 2011, Ms. Santowski who lives outside of Victoria, B.C., declared bankruptcy. She continued to pay her loans up until that day, withdrawing all of her savings.

“You think you’re doing the best you can and sometimes it turns out that it is not the best for you, no matter how smart you are. I am quite smart; but I screwed up and I screwed up horribly," the 48-year-old journalist and cartoonist said. "Denial becomes huge and [you're] hanging on to that thin thread of hope that it might work out after all. You shuffle your money around to get through the moment."

> "My impression of somebody who was bankrupt was somebody who didn't have a house, who couldn't get a job"

Not that long ago, you could track the evolution of a prime borrower to a subprime borrower, a gradual process of getting further and further behind until finally a line was crossed. But what's happening now is that borrowers are "skipping a step" and going straight to subprime, said Blair Mantin, a bankruptcy trustee in Vancouver.

In the industry the phenomenon is known as surprise bankruptcy and the numbers have been on the rise for at least a decade, according to credit industry officials.

As many as 70% of bankruptcy filings are made by people with strong credit scores, according to TranUnion. In other words, individual credit scores mostly provided no warning for creditors. (Two companies, TransUnion and Equifax, both subsidiaries of U.S. parents, compile and keep track of most of the credit scores in Canada

Arnold Lim for Postmedia NewsBritt Santowski declared bankruptcy in 2011 and has rebuilt her life.

Mr. Mantin recently noticed that a surprising number of bankrupts that came into his office had perfect credit scores. They were paying all their debts, staying current on their credit cards and doing all the things they needed to do to keep their lenders happy — until they stopped, and that's when Mr. Mantin got called in.

"It was definitely a surprise and it's a recent phenomenon," said Mr. Mantin, senior vice-president of E. Sands & Associates Inc.

Credit scores are supposed to be a key tool for lenders of all stripes including banks and credit card companies. It's not the only tool — employment history and the size of the paycheque are also part of the mix — but it's key for banks and other lenders in determining whether they will extend credit and at what rate to individual consumers. They're also used by insurance companies, landlords and even government departments.

"Traditionally, someone who goes into bankruptcy, they missed a payment, then two payments, then three payments and then they go bankrupt," said Tom Higgins, vice president of analytics at TransUnion. "Now, what we are seeing is people who make all the minimum payments [on their credit cards] and then all of a sudden they go bankrupt. It's harder to predict when someone is going to go bankrupt than in the past just by looking at their credit information."

Part of the reason is that consumers have a wider array of credit options — credit cards, leasing companies, private lenders — than ever before, and they're able to spread out their debts and shuffle them, making a payment here then transferring the loan to a new credit supplier to avoid late penalties.

Another factor is low interest rates which enable borrowers to carry more debt than they could historically at very low cost.

Borrowers are able "to consistently open up more and more credit over the years," said Mr. Mantin. "That allows them, if you just take a little from each card, you can satisfy [your creditors]. You can sustain something like for that for years.

"Many people are hopelessly insolvent but they're not delinquent. From a credit report they are making their payments on time but they've got no reasonable prospect of ever paying this debt off."

According to Mr. Mantin, most of those who get in trouble are not frivolous spenders but people who suffer a job loss, a divorce or other life-changing event.

“My impression of somebody who was bankrupt was somebody who didn’t have a house, who couldn’t get a job,” Ms. Santowski said.

“As a culture, credit has become incredibly easy. We are now, as a society, one that lives paycheque to paycheque. If you look at bankruptcy, on one hand, there are the gamblers, on the other hand there are the surprise people who end up in debt quickly because of an illness, because of losing a job. We’re talking about an increase in one or two percent [in the interest rate], that will put people out of being able to cope month to month.”

> “One of the fastest growing bankruptcy groups is seniors who were indebted when they retired and who continued to borrow”

One of the fastest growing bankruptcy groups is seniors who were indebted when they retired and who continued to borrow, Mr. Mantin said. Declining interest income from savings is a major factor.

This comes as Canadians are struggling under record debt, especially mortgages, with household debt to income recently soaring to a record high of 165%, according to Statistics Canada. Meanwhile, a decade long run-up in house prices is showing signs of coming to an end.

So far, most people seem to be able to handle the load. In the final quarter of last year, 28,660 Canadians filed for bankruptcy, down more than 8% from the same period of 2011. Despite rising debt and a weak economy, fewer people were unable to meet their obligations.

Ms. Santowski was released from bankruptcy in 2012 and is rebuilding her life. Her advice for anyone who is in dire straights is to seek support. “Just move forward. I could get lost in regret but that doesn’t serve anything. Get your friends to help you put one foot in front of the other and move forward.”