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Apr 10, 2020

Economic crisis means a reprieve for Canada's most indebted

Chris Fournier, Bloomberg News



ON THE LINE TORONTO

Emergency Response Benefit

navirus disease (COVID-19)

the Canada Emergency Response Benefit

opped working because of COVID-19, the Canada Emergency Response Benefit (CERB) may provide you y income support. The CERB provides \$500 a week for up to 16 weeks.

eligible

ill be available to workers:

in Canada, who are at least 15 years old;

stopped working because of COVID-19 and have not voluntarily quit their job or are eligible for EI regular is benefits;

income of at least \$5,000 in 2019 or in the 12 months prior to the date of their application; and

or expect to be without employment or self-employment income for at least 14 consecutive days in the employment

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Breaking down the fine print of CERB

The coronavirus is causing a wave of unemployment unlike any in Canada's history. Oddly, that may mean consumer insolvencies go down, not up.

The Trudeau government and its provincial counterparts have crafted new income support plans and cajoled banks and landlords to defer payments. Bankruptcy experts say those policies -- and closed courthouses -- mean a short-term reprieve from

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insolvency filings in a country with the highest ratio of household debt to disposable income in the Group of Seven.

Consumer insolvencies may even have dropped in March and could fall further in April, despite a virtual shutdown of the economy and a spike in job losses.

PERSONAL FINANCES AND COVID-19

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"What's going to happen here is we're actually going to have a drop off for two or three months, where normally we'd be flying," said Scott Terrio, a manager of consumer insolvencies at Hoyes, Michalos & Associates Inc. "We're advising most people to sit tight."

Even before the pandemic, concern was mounting about how households would manage \$2.27 trillion of mortgage and consumer debt. Personal insolvencies had been marching steadily higher for the past year.

The only thing keeping defaults in check was a strong labour market. But with a nationwide lockdown, 1.5 million Canadians were officially unemployed as of March, and the number is sure to go higher.

There is time, however, for those with a lot of debt to figure it out. One unexpected consequence of the lockdowns is that people can't officially go broke. With courts closed, creditors won't be able to embark on legal action such as confiscating assets or garnishing wages.

Right now "every Canadian consumer is essentially creditor proof," Terrio said. "If you stop paying your Visa bill this month, next month, so what? You'll probably take a hit on your credit rating, but we're in survival mode here. People are worried about groceries and a roof over their head."

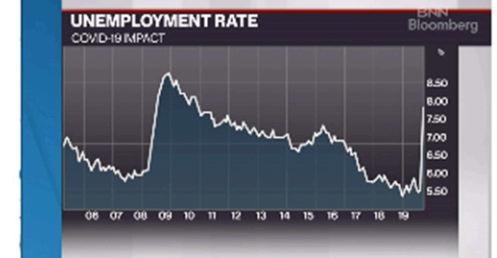


Court Delays

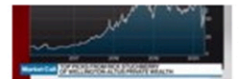
When courts do open, the backlogs will cause even more delays.

"We're going to have not only our backlog but all the other trustees and all the other applications that existed," Sandra Landry, an Edmonton-based insolvency trustee at MNP Ltd., said in a phone interview. "There's a lot of files that are sitting in limbo now."

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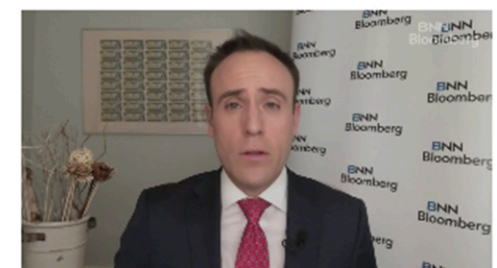


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Still, this is the calm before the storm. The insolvencies will eventually hit.

"We don't think we've ever seen the volume that's about to come once the economy gets going again," said Blair Martin, a licensed insolvency trustee at Sands & Associates in Vancouver. Right now he's mostly doing a lot of calming people down and "trying to staff up for when things start to move again," he says.

The previous one-month record for insolvencies was 15,465 in September 2009. Terrio says that number would have been surpassed even without the pandemic. While it's hard to predict how high the number will go, the previous record "may get blown away."

The key for households is not to panic, according to Terrio.

"If you've lost your job temporarily, you're not going to engage in a five-year consumer proposal, because you have no idea what you're in for," he says.

--With assistance from Erik Hertzberg.

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