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## [Pay up or get out](#)

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What surprises Marcus Leech the most is how fast it all fell to pieces. Six months ago he was working as a computer security expert at Nortel Networks in Ottawa, earning about \$127,000 a year. He knew the telecom giant was on shaky ground. But with three decades of experience, Leech was sure he could land another good job if need be. So when his wife, who had stayed home to raise and educate their three children, went to school to become a pharmacist last August, Leech thought nothing of tapping his line of credit for the \$9,000 tuition. Nor did he fret much when he took out a mortgage of around \$280,000 for a new home in Smiths Falls, Ont., or when he borrowed thousands to replace the family's two aging vehicles. In all, the family piled on more than \$400,000 in debt in the last few years. "When I was young if you got heavily into debt it was a very serious issue, but now it's just seen as normal," he says. "If you're an average middle-income family with two or three kids and only a single income, debt is the only way to keep the family going."



Then, last November, the hammer fell. Nortel told Leech, 46, that his last day would be Jan. 11. At first he took solace in the fact that after 20 years at the company he was due a generous payout of around \$100,000. But three days after clearing out his desk, Nortel filed for bankruptcy protection, killing any prospect of a severance cheque. All Leech got was \$11,000 in vacation pay, which is all the family has had to live on since. With his hopes for quickly finding a new job shattered, the family has radically scaled back. But the bills continue to roll in, forcing Leech to sometimes resort to credit cards to make ends meet, sinking the family even deeper into debt. With their finances spiralling down, he knows everything is at stake, including the roof over their heads. "I have no idea how we're going to eventually crawl our way out of this situation," he says.

For most of the last century, debt was a dirty word in Canada. People spent years saving up to buy a house in order to keep their mortgages to a minimum, and families that did find themselves in hock

scrimped and saved to fight their way out. But starting in the 1990s our attitude to debt changed. As interest rates fell and soaring house prices made everyone feel richer, our nation of savers became a nation of borrowers. Debt emerged as the great enabler, the ticket to the trappings of a better life, to flat screen TVs and shiny new SUVs. Now the upward march of real estate has reversed course, taking the household net worth of Canadians with it. At the same time, a surge in pink slips has made it impossible for thousands of Canadians to keep up with the IOUs racked up when times were good. It's payback time, and it's a bill many Canadians can't afford. "Our grandparents said save for a rainy day," says Laurie Campbell, executive director of Credit Canada in Toronto and an expert on household debt. "Turns out it's not a stupid idea after all."

We're now at the point where regular Canadians are carrying even more debt than Americans. It's true we used to save much more—as recently as 1990 we socked away 13 per cent of our disposable incomes—but the average debt carried by Canadian households has jumped 71 per cent since then to \$90,700, growing six times faster than the average household income. As of last year, we only saved three per cent of the money coming in the door, and according to the consulting firm Deloitte, the average Canadian family now owes more than 1.3 times its disposable income. That puts us in a slightly worse position than the typical American family, which owes just over 1.2 per cent of its disposable income.

When house prices were rising, none of that seemed to matter. After all, our net worth was rising every year too, so it looked like no matter how much we borrowed, we were still getting wealthier. But the sudden downturn in house prices has exposed much of that wealth as a mirage. According to the Teranet-National Bank House Price Index, house prices have already dropped by four per cent since last August on a national level, and in many cities out west, the slide has been much worse. Foreclosures are surging in Calgary, where lenders launched 375 proceedings in January, a 71 per cent jump over the same period last year, according to Foreclosures Canada Information Systems. Similarly, there were more foreclosures filed in B.C. Supreme Court in January alone than in the first five months of last year combined.

It's only been months since our economy began to really implode, but the fallout is already showing up in bankruptcy courts. The Office of the Superintendent of Bankruptcy Canada recently reported that bankruptcy filings in December had shot up by nearly 50 per cent over the same period in 2007. Ellen Stevens, a self-employed book editor from Toronto (who asked that her real name not be used), is one of those being forced to declare bankruptcy, and she blames easy credit for the seriousness of her plight. After a personal trauma sidelined her career a few years ago, Stevens says she began to use her credit cards to pay for food and rent. As the recession took hold, she was unable to land enough editing contracts to make ends meet, and she amassed \$50,000 in debt. Yet, even though she wasn't earning a steady paycheck, banks and credit card companies fell over themselves to ramp up her credit limits. One credit card company upped her limit to \$28,000, even though the most she'd ever earned was \$52,000 a year. "You never speak with a person at the bank, you're just a number, so the debt seems almost unreal," she says. "Without that easy credit I'd have been forced to take stock long ago."

Of course, everything has changed now. Credit is no longer easy, and the wealth of Canadians is no longer rising. The question now is, what will that mean for the millions whose reach exceeded their grasp? The answer, many feel, is a correction that, while painful, is also inevitable and could leave us in a more secure position when it's over. Already our savings rate is recovering at a truly astonishing pace. In the fourth quarter of 2008, it was back up to 4.7 per cent, a big leap from 1.9 per cent in fourth quarter 2007. Our mortgages are already shrinking, too. Last week CIBC World Markets said the average mortgage has fallen in size by between five and 10 per cent, partly reflecting lower house prices. Even non-mortgage consumer credit growth has slowed to nine per cent from 11 per cent earlier in the year. "The current pace of credit expansion is roughly half of what it was six months ago," senior economist

Benjamin Tal recently calculated.

Still, there's a paradox at the heart of the current efforts to jump-start the economy, says Clarence Lochhead, executive director at the Vanier Institute. The government and our central bank say the solution to our current mess is to slash interest rates in the hope consumers will start borrowing and spending again. Yet that's exactly what got us into trouble in the first place. He worries the massive stimulus programs under way could drive consumers deeper into indebtedness, just as they're showing a glimmer of fiscal responsibility. "When people put off buying a new item, that translates into a lack of consumer confidence, but on the other hand it can be a very rational budgetary decision," he says. The numbers, though, seem to suggest that Lochhead needn't worry. Back in December, the Bank of Canada warned that even without increased spending, the number of "vulnerable households" with a debt-to-income ratio above 40 per cent could double by the end of the year. Borrowing in order to spend more than we make has never been sustainable over long periods of time, and when it gets out of control, a recession like the one we have now always seems to come along to make sure we pay up.

But while the slowdown may be necessary to balance our accounts, that's not to suggest it will be pleasant. For thousands of Canadians like Leech, paying down debts that once seemed quite manageable will become a crushing and onerous process. As Leech says, even when he was partly living on borrowed money, he didn't feel like he was living the high life. They didn't go on lavish vacations. They drove inexpensive cars. His daughter's friends would giggle at the family's 24-inch "vintage" TV from the early 1990s. Now, his job is gone and his house is no longer rising in value, leaving him only with a \$400,000 debt—and the hope that things will get better. He hopes that his EI cheques begin to arrive soon, and he hopes that his wife will be able to land a steady job as a pharmacist. "If she can make \$50,000 a year and I can stay on EI for a couple more months, we should be able to scrape by and keep the house," he says. "If not, things could get pretty bad."

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