groups utilize the two types of debt differently with troubling indicators for BK filers. While DMP clients and CP filers both significantly reduce their revolving debt, BK filers do not. Five years after filing they have slightly less debt than the amount at the start. They do not seem to utilize installment loans to the same extent, indicating that they either prefer revolving debt or that this is the only debt for which they are approved. Either way, this is troubling. When looking at multiple data points for BK filers, including the rebound in credit score and utilization of revolving debt, there could be an indication that some lenders target BK filers for revolving credit. This may come in the form of high-risk lenders offering credit products at high cost and taking advantage of vulnerable consumers. The finding that revolving debt remains high for BK filers needs further consideration and investigation.

Limitations of the study include the absence of demographic profile data and the small sample size. Credit data from TransUnion Canada were de-identified to protect the privacy of DMP clients. The sample size is small due a number of factors, such as difficulty contacting DMP clients and concerns about sharing their credit data given the recent Equifax data breach. Others stated that the period was a distressing time during their life and they preferred not to be involved. While the sample size is a concern, it merely means that the sample is not nationally representative and that care needs to be taken not to extrapolate the research findings outside the sampling universe.

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Credit Counselling Canada has received funding from Innovation, Science and Economic Development Canada's Contribution Program for Non-profit Consumer and Voluntary Organizations. The views expressed in this report are not necessarily those of Innovation, Science and Economic Development Canada or of the Government of Canada.

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EXECUTIVE SUMMARY

Debt Relief Options in Canada – Long Term Outcome Comparison

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June 2019

OBJECTIVE

The primary research objective of this study is to compare the long term financial outcomes of Canadian who used a debt management program (DMP), bankruptcy (BK), or a consumer proposal (CP) to obtain relief from debt. Understanding how consumers fare after using these programs can better inform consumers about which to choose, help lenders understand which consumers are more likely to manage their credit after insolvency, provide credit counsellors and licensed insolvency trustees with better information to help their clients, and inform policy makers about how well each program is functioning for the consumers they serve.

METHOD OF ANALYSIS

Not-for-profit credit counselling agencies (members of Credit Counselling Canada) contacted successful debt management program clients for consent to have their credit data used as part of the study. The sample size was 336 clients. A matched sample was created to conduct the analysis and to compare those who completed a DMP to a similar Canadian who completed either a bankruptcy, a consumer proposal, or chose to do nothing (control group). The matches were done using Euclidian distances on eight key credit variables broadly characterized as credit utilization, debt burden, and financial distress. A generalized spline with a linear fixed effects model was used to conduct pairwise comparison between the four groups.

FINDINGS

Findings indicate that debt relief options for Canadians have mixed results. Many consumers who undertake a debt relief program are able to improve their standing financial standing over time, but many continue to have debt.

Generally, one year before starting a debt relief program, all three debt relief groups show signs of financial distress with:

- An increase in credit inquiries;
- A decline in the number of accounts opened;
- A spike in accounts 30, 60, or 90+ days past due; and
- A decrease in credit scores.

Five years after filing, the debt relief groups all have lower credit scores than the control group, but otherwise fare favorably. Compared with the control group, those who completed a debt relief program have:

- Less revolving and installment debt;
- Approximately $25,000 less (non-mortgage) total debt;
- Significantly lower monthly debt payments;
- Significantly fewer accounts with positive balances;
- Fewer accounts 30 days delinquent; and
- Delinquent accounts 60 or 90+ that are not notably different.

When comparing the three groups, some considerable differences are noted:

- DMP clients and CP filers significantly reduce their revolving debt. DMP clients have an average of $17,250 in revolving debt four quarters before starting the DMP and $4,900 in revolving debt five years later. CP filers have an average of $17,125 four quarters before filing to $5,900 five years after filing.
- Bankruptcy filers do not meaningfully reduce their revolving debt. Four quarters before filing, they have mean revolving debt of $17,675, and six years later, after having gone through bankruptcy, they have $14,740.
- Installment debt is sharply reduced for all three debt relief groups after filing and then begins an upward trend 6 – 8 quarters after filing. DMP clients have more installment debt and less revolving debt than BK filers 20 quarters post-filing.
- Mean total debt for all three debt relief groups never drops below about $15,000 indicating that they either do not get rid of all of their debts, take on new debt, or the credit report data is inaccurate.
- Five years after starting a debt relief program, DMP clients have the highest credit scores among the debt relief groups with 37 points higher than BK filers and 39 points higher than CP filers. All three groups remain well below the control group. DMP client scores are 73 points lower, CP filers are 113 points lower, and BK filers are 111 points lower.
- Credit scores for bankruptcy filers rebound faster than for those who filed a consumer proposal. BK filers have the lowest credit rating, but CP filers experience the worst hit to their credit score.

IMPLICATIONS

The results from this study should be of interest to consumers, licensed insolvency trustees, credit counsellors, educators, financial institutions and policy makers. The first takeaway is that the consumer experience with debt relief programs is mixed. Some findings are positive, such as the decrease in late payments and lower monthly payments. However, the findings that consumers do not seem to relieve themselves of debt over the long term are concerning. Not all debt relief programs are alike, and the outcomes vary by program.

Credit scores for all three groups drop as expected once they start their selected program. The drop for DMP clients is less, and credit scores remain higher for the duration of the measurement period. They are the highest five years later. This is a positive sign for DMP clients. Their credit scores, while still lower than the control group, are not impacted as much as their CP and BK counterparts which is positive given they repay 100% of their debt. The finding that credit scores for BK filers rebound faster than CP filers is likely a confluence of multiple factors, including the elimination of installment debt, quicker access to credit, and utilization of revolving credit. This finding should be of interest to policy makers and financial institutions.

The pattern of debt needs further investigation. First, none of the debt relief groups can reduce their debt to zero, as one might expect. The remaining balances might occur for a number of reasons. They may be able to access additional debt while still in their chosen program, some of their debts might not be included in their program, or the financial institutions are reporting the data inconsistently. Unless it is a reporting issue, it appears that debt relief programs are not relieving consumers of their debt. Second, the differing trends for revolving and installment debt show that debt relief