Click/Hear Quick Take

The Depths of Debt

2024

Daily Bread Food Bank

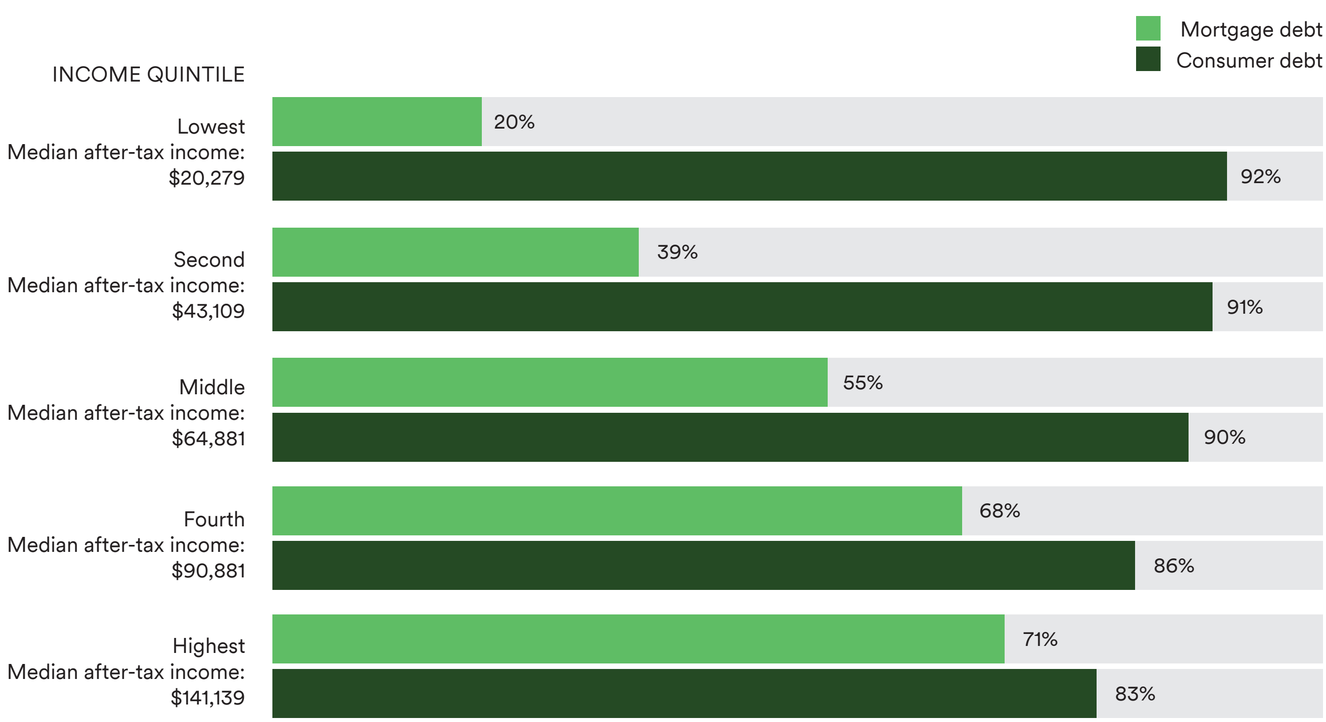
Background

Canada currently holds the highest household debt among G7 nations, amounting to a staggering $2.34 trillion, more than the country's entire Gross Domestic Product.[1,2,3,4] The household debt service ratio, which looks at debt payments as a proportion of incomes, reached 15.22% in the third quarter of 2023, the highest level since 1990.[5]

Household debt in Canada consists of two main components: mortgage debt on residential and non-residential properties, and consumer debt. Consumer debt includes credit card balances, personal and home equity loans, lines of credit, and unpaid bills etc.[6] While most research in Canada focuses on mortgage debt because this reflects three-quarters of national household debt,[7] there is a critical knowledge gap regarding the impact of consumer debt on food insecurity. This is particularly concerning, given that among the lowest income Canadians with existing debt, 92% are carrying consumer debt (Figure 1).[8] This is due to the fact that home ownership rates are lower among this population, with only 3% of food bank clients in Toronto owning a home.[9] This reduces the ability for low-income households to generate equity and wealth over the long term, having intergenerational consequences.

Research has demonstrated that when household debts increase, so too does their risk of food insecurity.[10] This report seeks to understand to what extent Toronto food bank clients have consumer debt and how it impacts their lives.

Figure 1: Type of debts among indebted Canadian households[11]



Methodology

Through the Click/Hear program, Daily Bread Food Bank maintains a client panel to stay connected with over 500 people who use food banks and to engage in discussions about the daily challenges they face. The Click/Hear panel is built from food bank clients who have expressed their desire to participate in Daily Bread's research and advocacy activities. Regular short surveys are sent out by email, and in-person data collection is used to supplement online responses. In this latest survey on household debt, 115 respondents participated.

The Burden of Debt

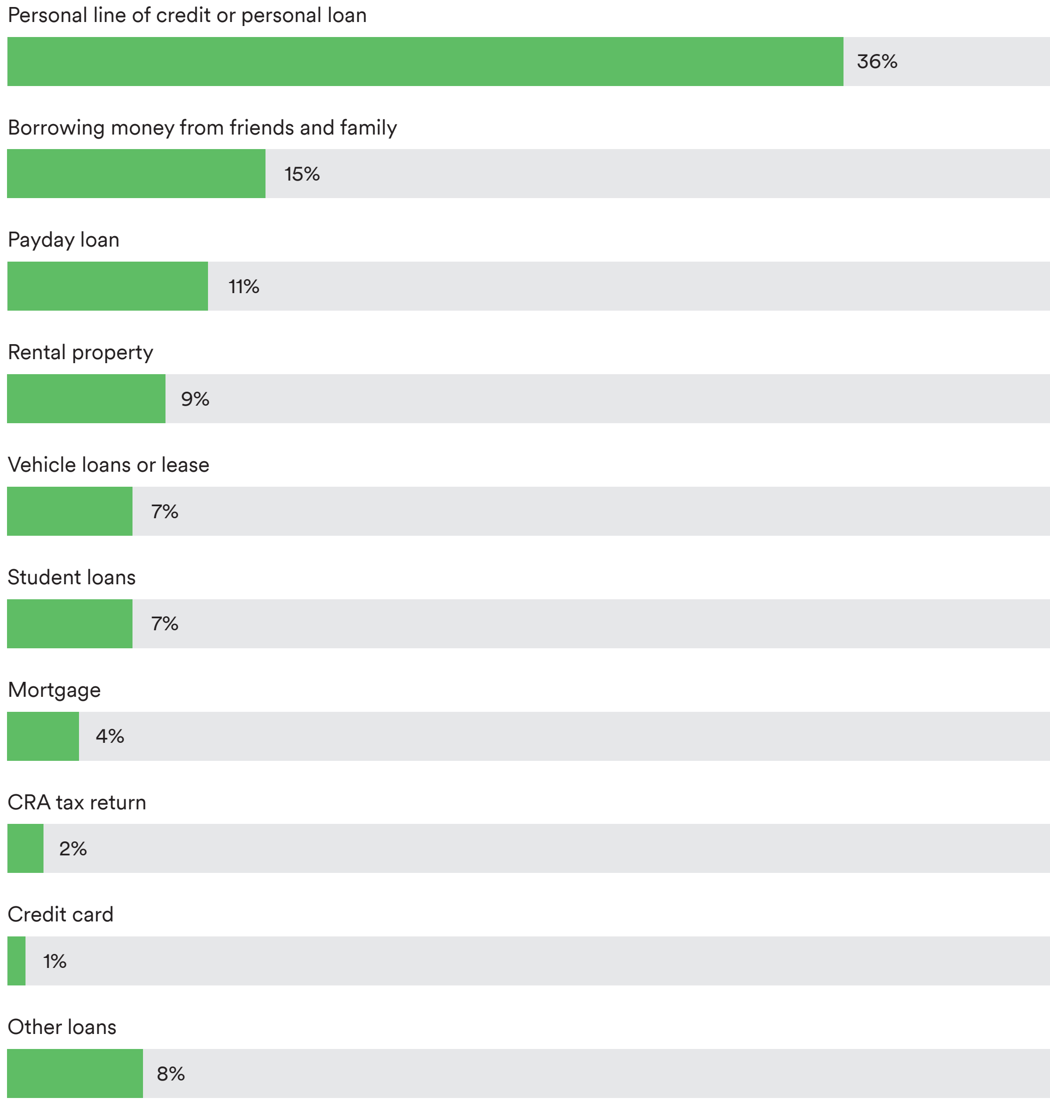
Among survey respondents, only 4% reported mortgage debt but over half of all respondents (57%) had a current or past consumer debt. This is higher than the Canadian average, whereby 49% of the lowest income earners reported any type of household debt.[12]

The median consumer debt reported by survey respondents was $8,750. As of January 2023, the minimum monthly payments for a personal loan of this size on a 5-year term would be $191 per month. This represents 17% of the monthly budget of the median food bank client in Toronto who has a monthly income of $1,131.[13] As a result of rising interest rates, the same personal loan of $8,750 would accrue $2,722 in interest over five years, compared to $1,894 in 2019.[14,15]

While 84% of highest income households in Canada had debt compared to 49% among lowest income Canadians, they spent a lower proportion of their income on debt repayment.[16] The highest income households spent an average of 11% of their monthly income on debt repayment, compared to 31% among the lowest income households in Canada.[17] This would be exceptionally challenging for food bank clients who are left with a median of only $6.67 per person, per day after paying rent and utilities to afford all other necessities,[18] leaving little for debt repayment.

The most common types of debt among survey respondents were personal line of credit/personal loan, borrowing money from friends and family, and payday loans. While we applaud the federal, provincial and municipal government for all taking steps in the past five years to further regulate predatory payday lenders, it is concerning that one in ten food bank clients are still relying on these high interest loans. Without equity through which to secure a loan, low-income households often have to rely on higher interest products that risk perpetuating a cycle of debt.

Figure 2: Types of household debts among survey respondents



It is not surprising to see that 15% of respondents borrowed funds from family and friends, as this aligns to Statistics Canada's finding that 19% of people in Canada in the lowest income quintile often had to use this strategy to make ends meet.[19]

95% at a Crossroads: Navigating Tough Financial Choices

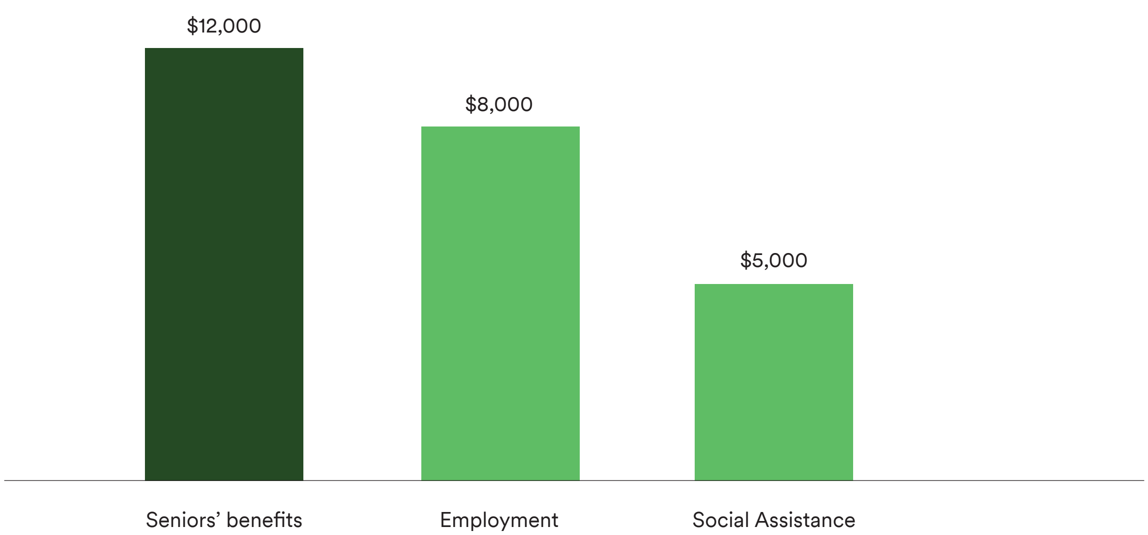
Consumer debt has forced many survey respondents to make challenging decisions, with a staggering 95% reporting that their debt led them to turn to a food bank. In Toronto, food banks have witnessed a remarkable 154% increase in new clients over the past year, and it is likely that household debt has contributed to these growing numbers.

Nearly 80% of survey respondents reported they sometimes or always had to choose between repaying loans and meeting essential needs in the past three months. The impact of inflation, both overall and on food prices, has affected individuals across all income levels, particularly those in the lowest quintile. In 2023, Statistics Canada reported that 63% of Canadians in the lowest income quintile expressed concerns about meeting everyday expenses.[20] This leaves individuals with limited options, leading them to seek alternative means for survival.

> **"I was short of cash so I took out cash money loans. Also there were times I couldn't pay my bills cause something else like food came up."**

Survey respondents whose primary income source was from seniors' benefits had the highest median consumer debt at $12,000 (Figure 3). This aligns with a Sunlife Financial Canada survey that found a similar average consumer debt ($11,204) among seniors aged 55-80.[21] Interestingly, despite having the lowest average monthly income levels, social assistance recipients reported the lowest consumer debt among survey respondents at $5,000. However, as a proportion of their monthly income, this debt level is still concerning.

Figure 3: Median amount of consumer debt among survey respondents by their primary income source



Down the Rabbit Hole

Consumer debt can lead food bank clients into a vicious cycle of accumulating debt. A significant proportion of the survey respondents (53%) said that they have either not repaid their debts at all in the last 6 months or have only done so irregularly. This situation is intensified by the ongoing rise in interest rates for over a year,[22,23] impacting the total amount to be repaid. According to TransUnion, the inability to repay loans within 90 days of the due date in Ontario has increased by 15.12% compared to last year.[24]

> **"I went to a loan company and pay day loan company and fell in too deep."**

Food bank clients face significant hardship when attempting to pay off their debts. Half of the survey respondents (50%) borrowed money to repay another loan. Nearly 9 out of 10 (88%) survey respondents said that their current household debts have either increased or remained the same.

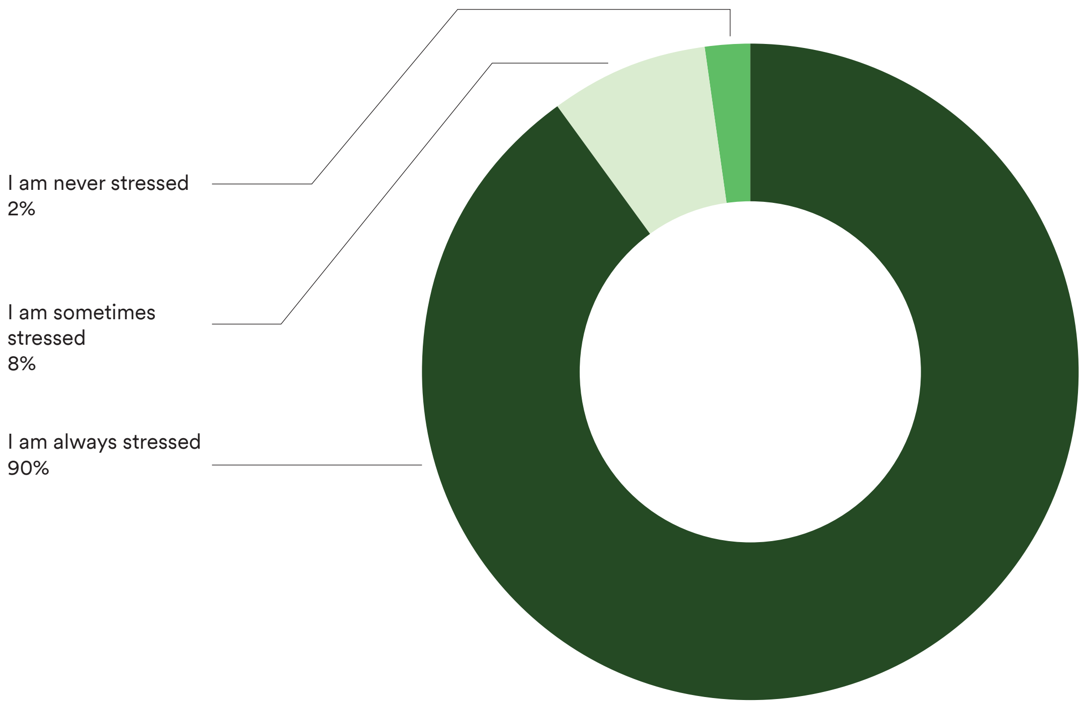
> **"Even though how hard I worked and spend hours away from family, I cannot pay my debt... my debt keep[s] inflating nowadays due to inflation."**

Plunging into the depths of debt subjects food bank clients to a significant amount of mental stress. Researchers have demonstrated how an individual with debt can spiral deeper into indebtedness leading to considerable psychological issues.[25] Nearly every respondent acknowledged experiencing stress sometimes or always about repaying their debts (Figure 4).

> **"Worst experience ever [is] getting a loan to repay a loan. It's very devastating."**

Research has linked unpaid consumer debt and poor health.[26] Although in this study we did not explore how consumer debt might affect health, studies elsewhere have reported a wide range of detrimental impacts associated with consumer debt. These include conditions such as high blood pressure, stress, anxiety, and depression[27,28] including maternal wellbeing, parental dynamics, child adjustment issues, and declined socioemotional well-being of children.[29,30]

Figure 4: Frequency of stress about repaying their debts in the past year among survey respondents



Recommendations

To address the burden of consumer debt among low-income households, we recommend:

- The provincial and federal government increase income support programs, such as social assistance, seniors' benefits, and child benefits, and rapidly implement the new Canada Disability Benefit to support low-income households in affording their basic necessities.
- The federal government work with financial institutions to develop and expand safe, affordable, small-dollar credit alternatives to prevent low-income households from having to rely on high interest loans, such as payday lenders.[31]
- All levels of government expand access to free financial education and debt counselling programs in community settings which low-income households access, such as food banks, libraries, housing providers, and community health centres.[32]
- The federal government develop a national monitoring and reporting system to understand the debt burden by demographic groups to be able to identify trends and target programs appropriately.[33]

Reasons that Led Survey Respondents to Take on Debt

"A vehicle loan and funds to feed my dependents who are away from Canada."

"Failed to pay student loans and credit cards."

"Pension not enough. Debt and high [interest] percentage from bank."

"Rent increase and rise in medications."

"I haven't found a job in more than 6 months."

"Can't afford to eat healthy or at all near the end of the month, never mind clothes, toiletries, the list goes on and on."

"[Left] job for medical issue. Government aid [was] not enough. $1100 [per month] was not enough."

"The emergency medical bill payment for a dependent."

"To purchase household monthly groceries."

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Daily Bread
Food Bank

191 New Toronto Street
Toronto, ON M8V 2E7
416-203-0050

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