

Consumer Bankruptcy

Summary:

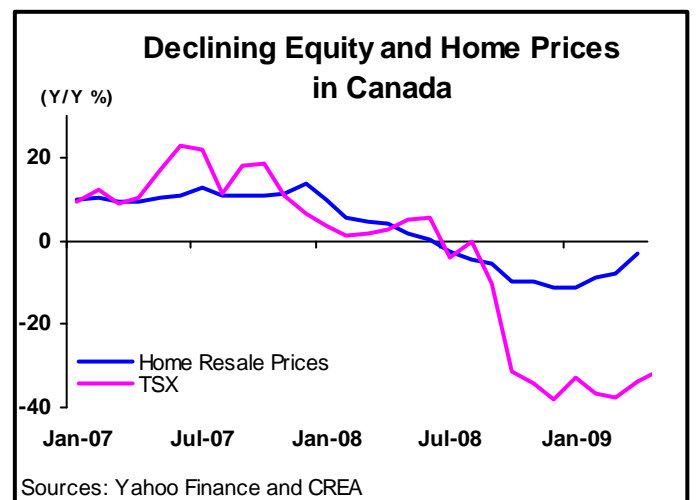
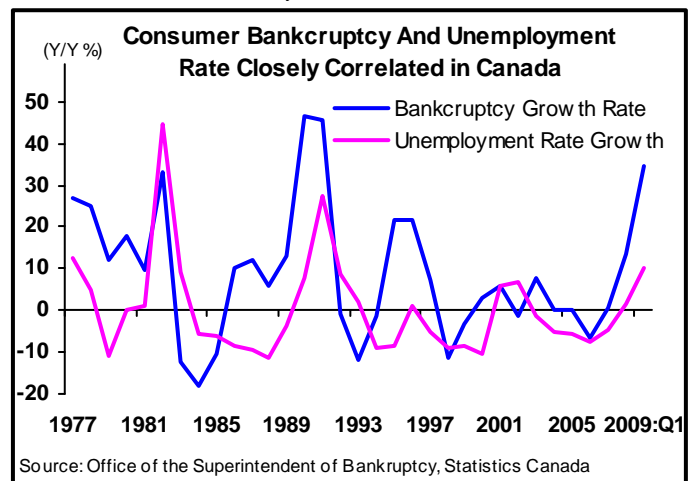
Deteriorating economic conditions, combined with rising unemployment and declining asset values, have caused a significant increase in consumer bankruptcies in Canada. Although the increase has been faster in Alberta, this was largely due to the historically low bankruptcy levels that the province has experienced over the past few years.

Deteriorating economic conditions raise the risk of bankruptcy...

As the global economy experiences its worst financial crisis since the Great Depression, consumer bankruptcy filings in Canada are rising. Since 2008, more than 118,000 Canadians have filed for bankruptcy, and the growth rate has been accelerating in recent months.

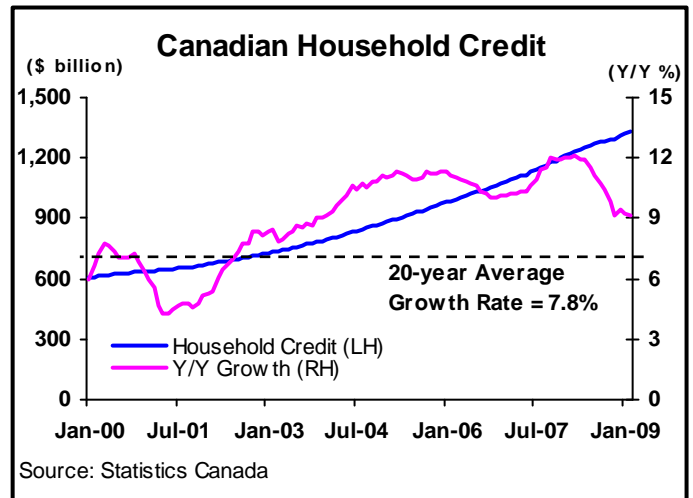
What is consumer bankruptcy? The Office of the Superintendent of Bankruptcy Canada defines consumer bankruptcy as a legal process that can provide relief to honest but financially distressed individuals. Under bankruptcy, a trustee sells all of the unsecured properties belonging to a person who declares bankruptcy and distributes the money to creditors; any remaining unsecured debt obligations will be eliminated. For secured loans such as mortgages and auto loans, the loss to the creditor is less severe since he/she still has a claim against the property. In general, declaring personal bankruptcy is a last resort for an individual since it will have a significant negative impact on a person's credit history, and ultimately limit the future availability of credit and increase the price of credit.

Rising unemployment, declining asset values and increasing personal indebtedness are the three major drivers of consumer bankruptcy. Historical data indicate that the growth rate in consumer bankruptcy filings is closely related to the change in the unemployment rate. Since November 2008, Canada has shed over 362,500 jobs, lifting the unemployment rate to 8.4%. Even though the pace of job loss has slowed over the past two months, the unemployment rate is expected to climb further over the next two years. Private sector forecasters are now projecting the unemployment rate to rise from 6.1% in 2008 to 8.6% in 2009 and 9.3% in 2010. This will put more pressures on individuals in distressed financial positions, particularly those without a job.

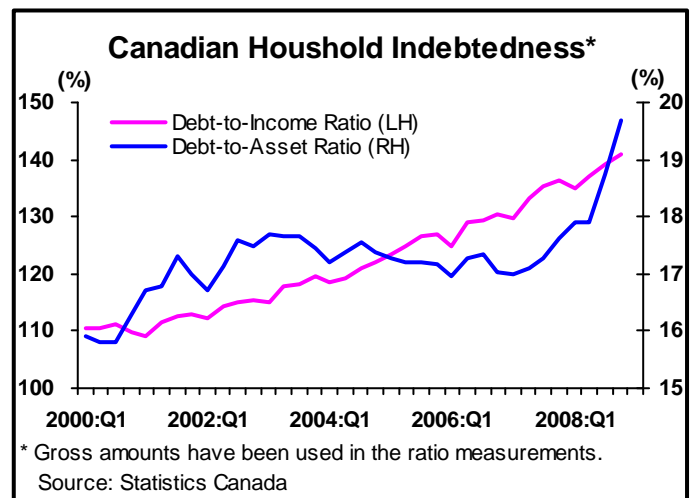


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Mounting job losses have coincided with slides in equity markets and housing prices, further depressing consumers' balance sheets. The TSX composite index lost 36% of its value in 2008. Although the index has bounced back significantly from its March low, the TSX is still 31% lower than its May 2008 level. Meanwhile, the Canadian housing market remains in a correction mode, even though it has been showing signs of stabilization in recent months. New home prices fell by 3.0% in April 2009 from a year ago, while average resale prices dropped 7.7% during the first four months of 2009 compared to the same period last year. Declining housing prices means that consumers will have less assets to leverage and ultimately will increase the probability of going bankrupt.

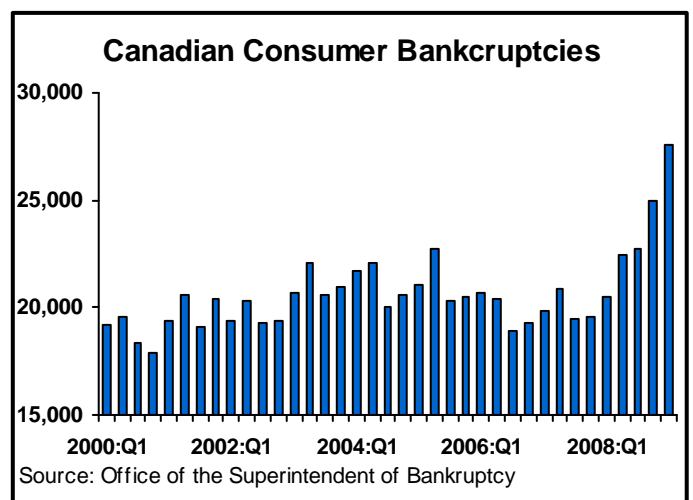


Falling asset values combined with increasing consumer borrowing have contributed to the rise in consumer indebtedness in Canada. Even though the financial crisis has tightened credit conditions around the globe, household credit continues to grow in Canada, up 9.1% from a year ago and exceeding \$1.3 trillion in March 2009. A recent survey by the Certified General Accountants Association of Canada indicates that 42% of respondents reported that their debt levels have increased over the past three years, compared to 35% in 2007. The debt-to-income ratio in Canada rose to 141% in the fourth quarter of 2008, its highest level on record. The debt-to-asset ratio also rose to its highest level of 20% during the same period. The household debt service ratio, which measures the proportion of the disposable income that must be devoted to servicing debt obligations, still stood close to the seven-year-high of 8%. As Canadians are becoming more leveraged, the risk of bankruptcy is increasing, especially for those who are more vulnerable during the economic downturn such as low income individuals.



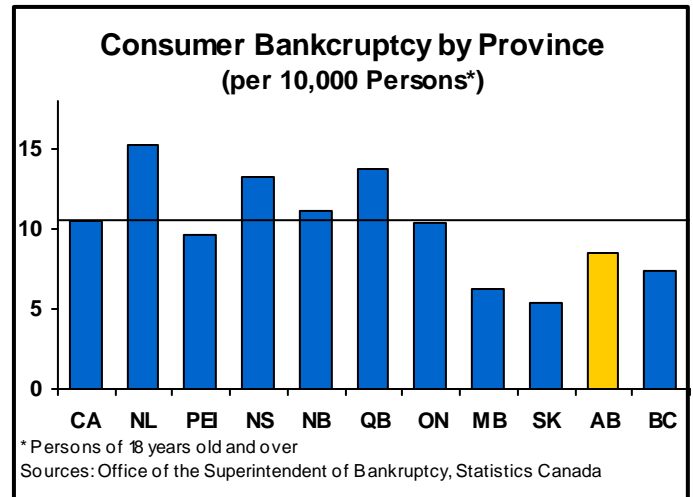
Consumer bankruptcies are rising in Canada...

In the first quarter of 2009, total consumer bankruptcies reached 27,542 in Canada, a 34% increase from the same period a year earlier. In particular, total consumer bankruptcies jumped 57% on a year-over-year basis in March 2009, its sharpest increase since 1991. Alberta and British Columbia have seen the largest increases among provinces in the first quarter, up 79% and 59%, respectively, from a year ago. Prince Edward Island was the only province that did not experience any increase in consumer bankruptcy, with the total remaining flat at 106.



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Of the 27,542 consumer bankruptcies, about 70% came from Ontario and Quebec. This was expected given that these two provinces account for over 62% of the Canadian population aged 18 years and older, and also have been hit relatively harder during this economic downturn. Adjusting for the size of the population, about 10.4 Canadians out of every 10,000 individuals went bankrupt in the first quarter of 2009. Among the provinces, Newfoundland and Labrador ranked the highest with 15.3 per 10,000 persons, while Saskatchewan and Manitoba had the lowest bankruptcy rates at 5.3 and 6.3 per 10,000. Despite the rapid increase in recent months, Alberta's consumer bankruptcy rate of 8.4 per 10,000 persons was still lower than the national average.



For 2008, individuals filing for consumer bankruptcy had an average debt-to-asset ratio of 195%, much higher than the national average of 20%. On average, those who applied for bankruptcy had liabilities in excess of assets (i.e. deficiency) of \$39,809, a 9% increase from the 2007 average of \$36,646 (Table 1). Among the provinces, individuals from British Columbia were the deepest in debt, with an average deficiency of almost \$52,000, while Nova Scotia had the lowest deficiency level at \$24,000. The average deficiency rose the fastest in Alberta and Saskatchewan, up 25% and 20%, respectively. Prince Edward Island was the only province that experienced a decline (-14%) in the average deficiency level.

Table 1: Financial Situation of Individuals Filing for Bankruptcy, by Province

Province	Balance Sheet, as of 2008		Average Deficiency		
	Average Assets	Average Liabilities	2008	2007	% Change
Canada	42,020	81,829	39,809	36,646	9%
NL	30,652	59,776	29,124	25,609	14%
PEI	49,765	90,578	40,813	43,993	-7%
NS	49,282	73,560	24,278	23,079	5%
NB	47,419	90,742	43,323	36,995	17%
QB	27,113	62,886	35,773	33,152	8%
ON	52,569	95,421	42,852	40,643	5%
MB	35,670	67,786	32,116	31,277	3%
SK	41,893	69,642	27,749	23,082	20%
AB	55,709	99,384	43,675	34,927	25%
BC	34,934	86,795	51,861	46,960	10%

Source: Office of the Superintendent of Bankruptcy

Alberta consumer bankruptcies at a glance...

Alberta's consumer bankruptcy filings have also been accelerating in recent months. In March 2009, 951 Albertans filed for bankruptcy, up 100% from a year ago. This was the second highest year-over-year growth rate after it hit a record of 106% in December 2008. On a quarterly basis, 2,353 Albertans declared bankruptcy in the first quarter of 2009, up 28% from the fourth quarter of 2008 and up 79% from the same period a year earlier. This was the largest increase within the nation. However, this does not necessarily mean that the Alberta

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economy fared worse than the rest of the country. Instead, soaring housing prices and strong economic growth over the past few years have helped keep personal bankruptcy filing at historically low levels in the province and the current downturn just gets Alberta back to a level more in line with historical averages.

On a regional basis, Calgary and Edmonton accounted for two thirds of the total consumer bankruptcy filings in Alberta in the first quarter of 2009 (Table 2). However, after adjusting for the size of population, Lethbridge-Medicine Hat region was the hardest hit - on average, 12.2 individuals out of every 10,000 persons went bankrupt during the quarter. Red Deer ranked second with 11.9 per 10,000 persons. Bankruptcy filings increased across all regions. Red Deer increased the most, up 125% from a year ago. Oil-rich regions such as the Athabasca-Grande Prairie-Peach River region and the Wood Buffalo-Cold Lake region had the lowest annual growth rates.

In 2008, 6,066 Albertans filed for bankruptcy. Compared to 2007, the average declared assets jumped more than 133% from about \$24,000 to almost \$56,000, while the average liabilities also rose by 69% to nearly \$100,000. As a result, the average deficiency increased by 25% to about \$44,000 (Table 3). Even though the oil-rich regions had the lowest growth rates in the number of bankruptcy filings, they also had the highest deficiency levels. For instance, those who filed for bankruptcy in 2008 from the Wood Buffalo-Cold Lake area had average liabilities in excess of assets by more than \$50,000, one of the highest deficiency levels in the country. Calgary and Edmonton also had a higher deficiency levels than the provincial average. High mortgage debts as a result of higher house prices could be the reason for the higher deficiency levels in these regions.

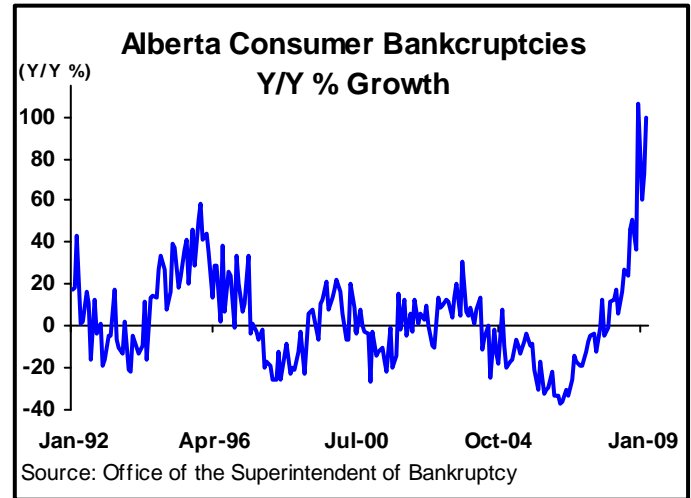
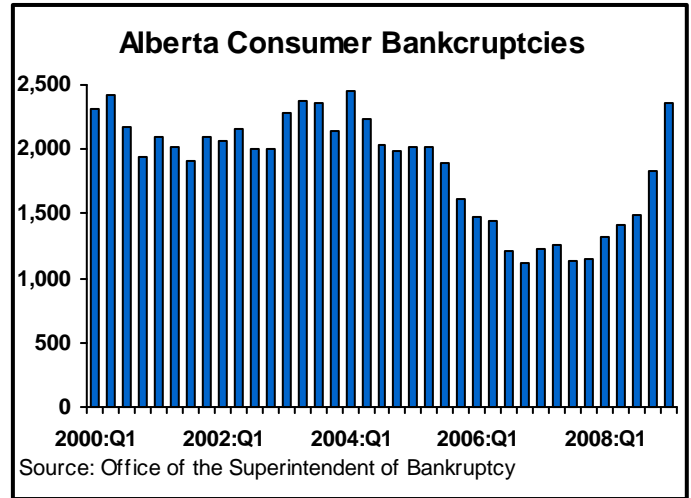


Table 2: Alberta Consumer Bankruptcy by Region

	Filings				% Change	
	Q1 2009	Per 10,000 Persons	Q4 2008	Q1 2008	Q/Q	Y/Y
Canada	27,542	10.4	24,956	20,466	10.4	34.6
Alberta Total	2,353	8.4	1,833	1,318	28.4	78.5
Wood Buffalo - Cold Lake	46	5.0	35	39	31.4	17.9
Camrose - Drumheller	99	6.5	76	58	30.3	70.7
Athabasca - Grande Prairie - Peace River	152	8.2	156	106	-2.6	43.4
Calgary	825	8.6	625	432	32	91
Banff - Jasper - Rocky Mountain House	58	8.6	44	29	31.8	100
Edmonton	758	8.6	604	454	25.5	67
Red Deer	169	11.9	118	75	43.2	125.3
Lethbridge - Medicine Hat	248	12.2	176	125	40.9	98.4

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Source: Office of the Superintendent of Bankruptcy

Table 3: Financial Situation of Individuals Filing for Bankruptcy, by Region

	Per 10,000 Persons	Average Assets	Average Liabilities	Deficiency	Average Resale Home Price (2008)
Canada	10.4	42,020	81,829	39,809	303,607
Alberta Total	8.4	55,709	99,384	43,675	352,857
Wood Buffalo - Cold Lake	5.0	31,666	81,775	50,109	548,246
Camrose - Drumheller	6.5	49,996	89,399	39,403	n/a
Athabasca - Grande Prairie - Peace River	8.2	75,807	123,188	47,381	265,963
Calgary	8.6	61,458	109,902	48,443	405,267
Banff - Jasper - Rocky Mountain House	8.6	56,983	91,567	34,584	n/a
Edmonton	8.6	50,231	96,577	46,346	332,852
Red Deer	11.9	53,323	89,944	36,620	278,040
Lethbridge - Medicine Hat	12.2	49,068	73,242	24,174	250,119

Sources: Office of the Superintendent of Bankruptcy and Canada Mortgage and Housing Corporation

Prepared by Economics and Statistics.

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