

## Debt Overload: Prevent rather than Cure

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*Executive Summary*  
June 2009

The middle class's purchasing power has increased very little since 1980; for the less fortunate, it has stagnated or even regressed. Only a small, richer portion of the population has truly benefited from economic growth. In addition, consumer credit has been greatly expanded and liberalized over the same period. Financial institutions show a lot of imagination and determination in advertising their many financial products, and their offers are addressed to the largest possible pool of customers, irrespective of the capacity of those various clienteles to bear and manage the credit. So in 2008, we find ourselves in a situation where households have almost no savings and where their debt load has reached an historic high.

This high debt load would also result from lack of financial knowledge; many stakeholders emphasize the importance of developing a strategy to improve the financial knowledge of Canadians.

The purpose of our research was to study household motivations for consulting personal finance help organizations, determine at what level of indebtedness they were calling for help, and find out what services such households hope to receive. By gaining a better understanding of those aspects, we wanted to develop communication strategies for targeting and reaching a clientele of households experiencing financial difficulties and guide them toward suitable budget assistance services before their debt problem becomes insoluble.

To obtain the information required by our investigation, we conducted a survey of households that received guidance through personalized budget consultations or participated in budgeting workshops or classes offered by specialized organizations. The study took place over a period of four months, from November 2008 to February 2009; 39 households who participated in budget consultations and 29 who registered for a workshop or a course filled out the questionnaire. Communication strategy analysis, based on survey data and information from participating ACEFs, was entrusted to a specialist in the field.

Among our findings:

Households whose debt is problematic have twice as many sources of variable credit as average consumers; this easy access to credit, combined with a drop in income, often leads to substitution indebtedness, with credit replacing lost income.

Half the respondents notice the effects of debt only when the situation is degrading and they are suffering the painful consequences. A very large part of our respondents contacted the ACEFs once they realized the gravity of their debt situation and despaired of bearing the consequences. Poor knowledge of specialized help organizations and their services is also, of course, a major hindrance to the decision of asking them for help. Among households acknowledging difficulties, 79% had no knowledge of the existence of ACEFs before experiencing a debt problem.

*La force d'un réseau*

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Referencing toward ACEFs is done mainly through a network of community and public partner networks, where ACEFs make their services known and distribute their promotional materials.

Other than general information about budgeting and credit use, which is expected whatever the debt situation, over-indebted households hope first to obtain from ACEFs direct assistance, such as providing advice about how to negotiate with creditors, or taking charge of their file.

Taboos remain with regard to debt overload: 53% of over-indebted households were late to act, because of embarrassment, fear of a negative verdict on their finances, or pressure from a loved one.

Our report concludes that consumers must be better informed: about credit, its costs, uses and effects; available budget tools and their use; the need to budget well and thus avoid credit as much as possible; the resources made available to them to help them budget and to coach them as soon as they feel their financial situation is out of control; etc.

Our study offers recommendations for developing solutions. Here are a few of those recommendations:

- Adoption and strict application of legislative provisions to limit debt overload, notably by making credit issuers accountable;
- Development and establishment of a national strategy for personal finance education and of an awareness-raising campaign to break the taboos regarding debt problems and encourage individuals and households who need help to seek it.

The budget consultation community organizations (ACEFs) are invited, notably, to develop tools for reinforcing their image and emphasizing their mission's relevance.

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English version available on our website.

The present document summarizes a research report published by the Union des consommateurs in 2009 as part of a research project funded by Industry Canada's Office of Consumer Affairs. This report is available in French on our website.