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## Want this life? It'll cost ya

Too often, we keep trying to live rich too fast  
No surprise then, that youth bankruptcies are on the rise

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Two decades ago only 1 per cent of Laurie Campbell's clients were under 35. Now, more than a quarter of them are.

Campbell, a program manager for the Credit Counselling Service of Toronto — a non-profit organization — works with people in serious debt.

And these days more of her young clients view bankruptcy as the only option.

In 2004, 27.3 per cent of her agency's clients — about 14,000 people — were between 18 and 35. "The availability of credit to young people is more lucrative," she says. "So the problems young people get into now are more severe."

Alan Farber, who runs A. Farber & Partners Inc., an independent insolvency and restructuring firm, has also seen a steady rise in the number of young people declaring bankruptcy over the past 10 years.

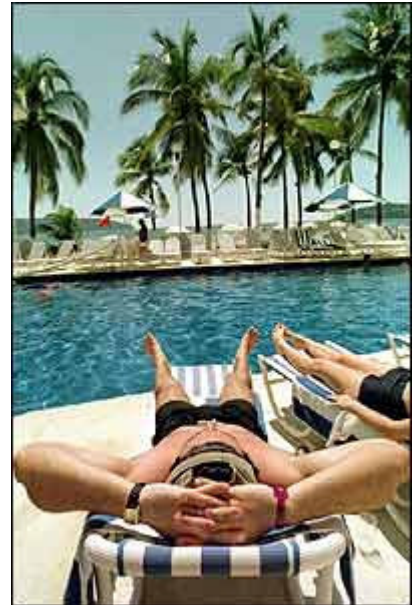
"You have approximately 100,000 people a year in Canada filing a bankruptcy or proposal. Over 10 years that's about a million people. That's a chunky group of people."

A study published in the *Osgoode Hall Law Journal* by law professor Iain Ramsay in 1999 included a demographic breakdown by age of who filed for bankruptcy in Toronto over a one-year period: 23.5 per cent were 18 to 29; and another 23.5 per cent were 30 to 39. The two were by far the largest groups.

But contrary to what many people think, Farber says student loans aren't nearly as much of a factor in youth bankruptcy as credit card debt.

"Young people go to a baseball game and a credit card company is giving away a T-shirt to fill out an application," Farber says. "They will start with a \$500 credit limit and, like in the case of both of my kids who are under 25, will soon have it raised to around \$10,000 if they make their payments. That can get anyone in a lot of trouble."

The numbers back him up. A report compiled by an agency of Industry Canada, showed that in 2004,



GREGORY BULL / AP FILE

Yes, a trip to Acapulco sounds like a great idea. But if it's going to put you in hock for the next 30 years, does it make sense?

just 10.3 per cent of bankruptcy filers listed student loans as their most significant debt. However, 87.4 per cent listed credit cards.

That's what got 33-year-old Joey Tavares into trouble. "Eight years ago I found myself in a pretty rough spot," says the University of Toronto student.

"I was working at a coffee shop for minimum wage with bills, bills, bills, credit cards, phone bills (and an unpaid rent lease that was outstanding). It was overwhelming. I had about \$5,700 in outstanding debt that had accumulated. Three credit cards including one from Sears at 28 per cent.

"The interest payments were almost half the amount of the overall principal. The credit is made very available to you despite your income. It seemed like there was no way out."

So he stopped paying many of his bills — until six years ago. "I considered bankruptcy, but found a credit counselling option that was better for me. With a bankruptcy, I found out it's seven years before it's wiped off your record."

Instead, with his credit counsellor's help, he was able to negotiate that his credit would only be affected for two years. The credit agency also helped consolidate Tavares's debt. He is now in the third year of an undergrad degree and is preparing for grad school.

"One of the reasons I didn't want to declare bankruptcy is because I wanted to pay off my debt. Morally, I thought that was better than receiving a get out of jail free card, if you will."

Despite his previous poor record, and because he took the initiative to resolve it, he was even allowed to take out a \$7,000 OSAP loan in each of the three years he's been in school.

One of the main reasons student loans are not listed as a cause of bankruptcy as often is legislation that was passed in 1998. The law prevents recent grads from claiming student loan debt as part of a bankruptcy for 10 years after they leave school.

That stopped recent grads from declaring bankruptcy upon graduation, walking away from debt they never had any intention of repaying.

A 1999 study by Carleton University public policy professor Saul Schwartz showed that although a small number of students abused the bankruptcy laws prior to 1998, the vast majority who filed for bankruptcy did so as a last resort.

A bill to reduce the student loan bankruptcy period recently passed its first reading in the Senate. If it becomes law, students would be allowed to wipe out their student loan debt by declaring bankruptcy no sooner than seven years after school.

"Prior to that legislation, many recent grads were declaring bankruptcy," Campbell says of the 1998 law. "We are still certainly seeing a growing group of young people going bankrupt."

"It's not just student loan debt. We're seeing more young people with gambling problems, alcohol, depression, other health problems, divorce. These things are happening to young people as much as they happen to older people. The gambling problem among young people has certainly been growing. Young people are just as susceptible to thinking the next big win is around the corner."

Bankruptcy has also become a more acceptable alternative.

"There's no doubt there's a general increase in the number of young people who are willing to declare bankruptcy," Farber says. "The stigma associated with bankruptcy has reduced. For the person who has gotten into the situation honestly, bankruptcy is a real solution."

Farber makes it clear that, by law, as a licensed trustee, he is obligated to exhaust every other option with a client before pursuing bankruptcy. He explains that as long as an individual's financial situation was not the result of an intentional fraud or planned debt it's considered an honest circumstance.

"I know of one guy who ran up \$67,000 in American Express card debt 30 days before he knew he was going to declare bankruptcy. That's not honest. Bankruptcy is a legal process provided to the individual to get out of debt, to move forward with life and re-establish financial stability."

Campbell says in the end young people need to be aware of the financial risks in an increasingly credit-driven consumer culture.

"We can try to blame creditors or casinos or banks, but the bottom line is they're not going to go away soon. So buyer beware."

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