CANADIAN BANKERS ASSOCIATION

Focus: Household Borrowing in Canada

Focus Sheet

FAST FACTS

- 74 per cent of all household debt in Canada is made up of residential mortgage debt which helps increase net worth, while 16 per cent comes from lines of credit and only four per cent is credit card debt[1]
- Canadians have significant equity in their home, averaging about 73 per cent of the home's value[2]
- National mortgage-in-arrears numbers remain very low, at less than a quarter of one per cent[3]

The Bottom Line

Banks are closely monitoring household debt levels to ensure that Canadian households can successfully manage their debts. Canadian banks remain prudent lenders that manage risk carefully, only lending to clients who demonstrate the ability to repay their loans. At the same time the vast majority of Canadians are responsible borrowers who use credit wisely to strengthen their financial futures.

Canadians make wise borrowing decisions

Overall, the vast majority of Canadians are responsible borrowers who use credit wisely to strengthen their financial futures. It is important to put consumer borrowing into perspective: the majority of Canadian household debt, 74 per cent, is made up of mortgage debt[4] – borrowed money used to purchase a home, a high-quality asset which can increase an individual's net worth over time. Indeed, this has contributed to 97 per cent increase in aggregate net worth of Canadian households over the last decade.[5]

During the pandemic alone, the net worth of Canadian households saw an increase of 17 per cent compared to the levels at the end of 2019.[6]

The statistics show that Canadians are managing their mortgages responsibly. A 2020 study by Mortgage Professionals Canada found that 15 per cent of mortgage holders have increased their mortgage payments and 17 per cent have made an additional lump sum payment in the last year.[7] In fact, 33 per cent of mortgage holders (about 2 million) have taken at least one action to shorten their amortization periods, including making lump sum payments, increasing their regular payments or increasing the frequency of payments.[8]

These stats are supported by a 2019 CMHC survey of mortgage consumers, which found that 32% of buyers are paying more than their minimum mortgage payments and 61% of buyers have set aside a financial “buffer” for possible higher expenses in the future.[9]

Canadians also have significant equity in their homes. Canadian homeowners have an average home equity of 73 per cent of their home’s value.[10]

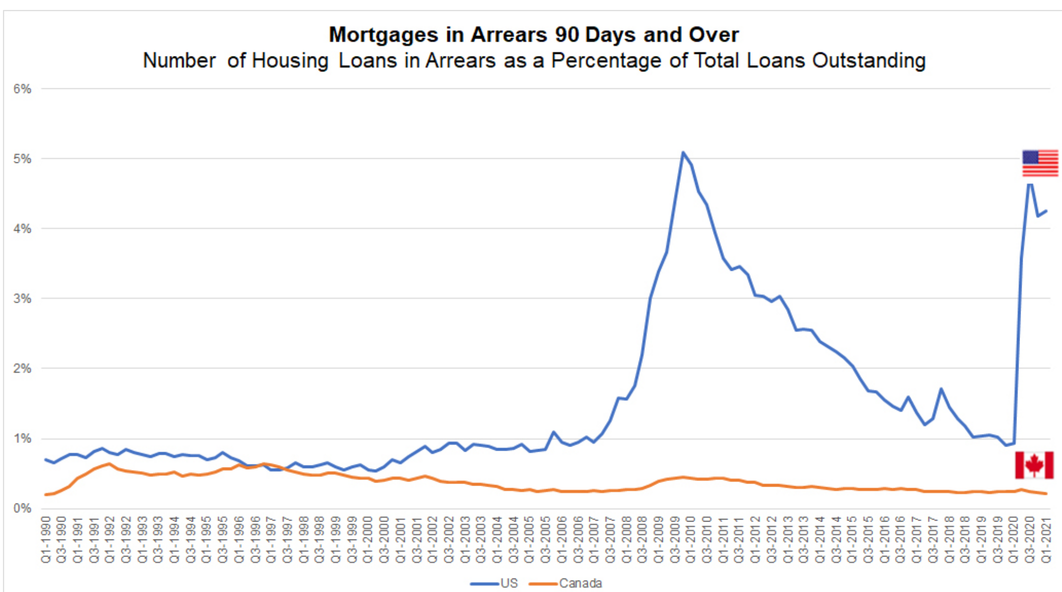
Lending and borrowing decisions take place in the context of a strong supervisory and regulatory system in Canada. The federal government has made regulatory changes to help households manage debt, including such measures as reducing the maximum mortgage amortizations and introducing more stringent qualifying criteria.

Responsible credit card use

Credit cards are a convenient payment tool, used responsibly by the majority of Canadians. A Bank of Canada survey found that 70% per cent of Canadians pay their balance off in full every month.[11] According to the Bank of Canada, credit card debt only makes up four per cent of total household debt in Canada and credit card debt has remained stable over the past year.[12] Credit card default rates are lower than U.S. levels.

Banks are prudent mortgage lenders

Banks take their role as mortgage lenders very seriously, adhering to prudent standards and ensuring consumers only take on manageable levels of debt. This is clearly evident when looking at national mortgages-in-arrears numbers for Canada's nine largest banks, which show that less than a quarter of one per cent of homeowners have gone three consecutive months or longer without making a payment, significantly less than in the United States.[13]



Mortgage debt has been growing and this growth has been driven by a variety of forces in the housing market, notably a lack of supply, strong immigration and employment markets, and low interest rates. House prices have almost doubled in the past decade, requiring home buyers to borrow more to finance their homes.

Banks take the prospect of rising interest rates into account and ensure potential borrowers are able to make future payments under higher interest rate conditions. Banks require that the borrower qualify using the greater of the borrower's mortgage contract rate plus 2 per cent, or 5.25 per cent. These "stress tests" ensure that borrowers can continue to comfortably make mortgage payments even if interest rates rise.

Banks provide advice on debt management

Banks are closely monitoring their customers' borrowing to ensure that debt levels are manageable. Every family has unique borrowing needs and the amount of debt they feel comfortable carrying can also vary. Banks can provide the financial advice that is right for each individual customer.

Banks do not want to see their customers in financial difficulty. Canadians who think their debt is becoming unmanageable are encouraged to speak with their bank as early as possible so they can get the help they need. Banks are often able to help their clients work through financial problems by offering advice, debt counselling and flexible loan arrangements.

Helping Canadians save

Banks also offer Canadians many different tools to help them save and invest their money for short-term or long-term needs. From Tax-Free Savings Accounts (TFSAs) and Registered Retirement Savings Plans

(RRSPs) to Guaranteed Investment Certificate (GICs), Exchange Traded Funds (ETFs) and high-interest savings accounts, banks have their own unique programs to help their customers save and manage their money. Many banks also offer services such as savings programs that transfer money from chequing to savings accounts automatically, savings calculators, online portfolio managers as well as help and advice in achieving specific savings goals.

1 Bank of Canada, *Banking and Financial Statistics*, May 2021. Data is for Chartered Banks only.
2 Annual State of the Residential Mortgage Market in Canada, Mortgage Professionals Canada, December 2020 (Published March 2021).
3 CBA statistics, *Residential Mortgages in Arrears*
4 Bank of Canada, *Banking and Financial Statistics*, May 2021. Data is for Chartered Banks only.
5 Statistics Canada. Table 36-10-0580-01 National Balance Sheet Accounts
6 Ibid
7 Annual State of the Residential Mortgage Market in Canada, Mortgage Professionals Canada, December 2020 (Published March 2021).
8 Ibid
9 Canada Mortgage and Housing Corporation, *2019 CMHC Mortgage Consumer Survey*
10 Annual State of the Residential Mortgage Market in Canada, Mortgage Professionals Canada, December 2020 (Published March 2021).
11 Bank of Canada https://www.bankofcanada.ca/wp-content/uploads/2018/12/sdp2018-17.pdf
12 Bank of Canada, *Banking and Financial Statistics*, May 2021
13 CBA statistics, *Residential Mortgages in Arrears*

The Canadian Bankers Association is the voice of more than 60 domestic and foreign banks that help drive Canada's economic growth and prosperity. The CBA advocates for public policies that contribute to a sound, thriving banking system to ensure Canadians can succeed in their financial goals.

Canadian Bankers Association **www.cba.ca**

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