Household Borrowing in Canada

CANADIAN BANKERS ASSOCIATION

Fast facts

» 71 per cent of all household debt in Canada is made up of residential mortgage debt which helps increase net worth, while 18 per cent comes from lines of credit and only five 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]

» 60 per cent of Canadians pay off their credit card balance in full each month, avoiding credit card debt and interest payments altogether[3]

» National mortgage-in-arrears numbers remain very low, at less than half of one per cent[4]

The bottom line

Banks are closely monitoring household debt levels and economic growth to ensure that Canadian households can manage their debts well. Banks in Canada 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.

There has been much public discussion recently about household borrowing and debt levels in Canada, and broad agreement that this is a matter that merits close attention. To help contribute to the discussion, the Canadian Bankers Association is providing the following information and facts.

Canadians make wise borrowing decisions

Overall the vast majority of Canadians are responsible borrowers who use credit wisely to strengthen their financial futures. And it is important to put consumer borrowing into perspective: the majority of Canadian household debt, 71 per cent, is made up of mortgage debt[5] – borrowed money used to purchase a home, a high quality asset which can increase an individual's net worth over time.

The statistics show that Canadians are managing their mortgages responsibly. A 2015 study by Mortgage Professionals Canada found that 17 per cent of mortgage holders have increased their mortgage payments and 18 per cent have made an additional lump sum payment in the last year.[6] In fact, over one-third of mortgage holders 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.[7]

Canadians also have significant equity in their homes. Canadian homeowners have an average home equity of 73 per cent of their home's value.[8]

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 improved qualifying criteria.

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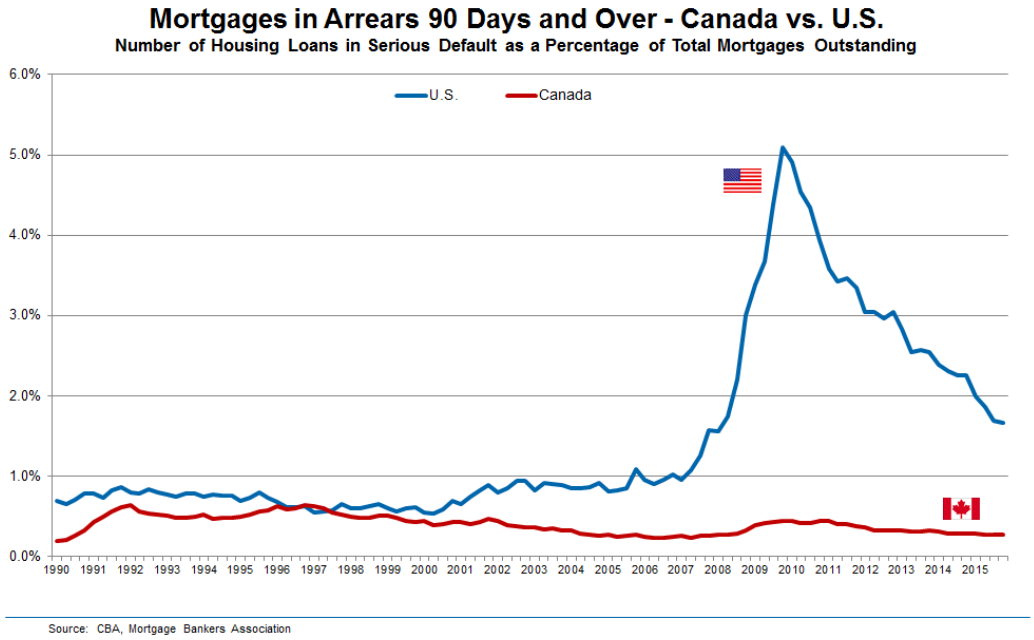
Responsible credit card use

Credit cards are a convenient payment tool, used responsibly by the majority of Canadians. Sixty per cent of Canadians pay their credit card balance in full each month, avoiding credit card debt and interest payments altogether.[9] And credit card delinquency rates remain low, at only 0.81 per cent of total outstanding balances as of October 2015.[10] According to the Bank of Canada, credit card debt only makes up five per cent of total household debt in Canada and credit card debt has increased slowly over the past year[11]. 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 half of one per cent of homeowners have gone three consecutive months or longer without making a payment, significantly than in the United States.[12]



Mortgage debt has been growing and this growth has been driven by a variety of supply and demand forces in the housing market. House prices have almost doubled in the past decade, requiring home buyers to borrow more to finance their homes.

Today's historically low interest rates will inevitable rise. Banks take this into account and ensure potential borrowers are able to make future payments under higher interest rate conditions. For example, for variable rate mortgages, banks normally assess borrowers using interest rates that are one to two per cent higher than the rate for which they qualify (e.g. the interest rate on a five-year fixed rate which is higher than a variable rate) so that the borrower could continue to make mortgage payments if interest rates go up.

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 vehicles to GICs to 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 and help and advice in achieving specific savings goals.

[1] Bank of Canada, *Banking and Financial Statistics*, February 2016
[2] Statistics Canada National Balance Sheet Accounts Fourth Quarter 2015
[3] Abacus Data for the Canadian Bankers Association (CBA), December 2014
[4] CBA statistics, *Residential Mortgages in Arrears*
[5] Bank of Canada, *Banking and Financial Statistics*, February 2016
[6] Mortgage Professionals Canada Annual State of the Residential Mortgage Market in Canada, December 2015
[7] ibid
[8] Statistics Canada National Balance Sheet Accounts Fourth Quarter 2015
[9] Abacus Data for the Canadian Bankers Association (CBA), December 2014
[10] CBA, *Credit card Delinquency and Loss Statistics*
[11] Bank of Canada, *Banking and Financial Statistics*, November 2014
[12] CBA statistics, *Residential Mortgages in Arrears*

» The Canadian Bankers Association works on behalf of domestic banks, foreign bank subsidiaries and foreign bank branches operating in Canada and their 280,000 employees. The CBA advocates for effective public policies that contribute to a sound, successful banking system that benefits Canadians and Canada's economy. The Association also promotes financial literacy to help Canadians make informed financial decisions.