The Clock is Ticking on Canadian Household Debt

Crowe Soberman Insolvency Team

Rising household debt is leaving Canadians more vulnerable to interest rates and economic volatility, according to a January 2016 report from the Parliamentary Budget Office ("**PBO**"), *Household Indebtedness and Financial Vulnerability*. Based on PBO projections, household debt-to-income ratio will move in an upward trend over the next five years as interest rates rise toward "normal" levels.

In the third quarter of 2015, total household debt reached 171 per cent of disposable income, meaning that for every $100 of a household's disposable income, it paid out $171 in debt obligations. This is the highest level in 25 years, and among G7 countries, Canada has become the most indebted country. This rise in household indebtedness is linked to the currently low interest rates and higher housing prices

What happens if Canada experiences a sudden economic shock, such as a recession with significant unemployment? The falling loonie affected many Canadian winter holiday travel plans. Canadians have also paid close attention to the plummeting price of oil, which is wreaking havoc on the economies of the western provinces. There is speculation of a potential bubble burst in the Toronto and Vancouver housing markets.

If a personal misfortune, such as job loss or illness, is coupled with any of the economic outcomes above, it could force many Canadians with precarious debt loads into insolvency.

Households with the highest levels of debt in the PBO report were those headed by people between the ages of 31 to 35. This is due to borrowing based on the natural cycle of consumption and aging, which has traditionally been: buy a first house, increase income as one ages, and then pay off mortgages and debts. However, many are now changing the cycle: buy a first house, build some equity from paying down the mortgage for a few years, and then refinance due to an increase in property value. Even worse, some are using a home as collateral to take on more consumer credit, which often have higher interest rates. This troubling pattern is what keeps the economists up at night.

So, what can Canadian householders do to ensure that they do not fall into the "vulnerable" category?

It is most important that Canadian households maintain the ability to meet their monthly debt obligations. If a family is devoting too much of their budget to credit cards, bills, and mortgage

payments, they are more susceptible to interest rate fluctuations. Even a slight rise in rates could mean the inability to service their debt.

There are steps that can be taken to manage debt that has become insurmountable (read more in our article, *Proposals not just for marriage*). If you are experiencing unmanageable debt that seems beyond your control, contact one of our personal debt solutions professionals who can provide you with a confidential consultation at no cost.

This article has been prepared for the general information of our clients. Specific professional advice should be obtained prior to the implementation of any suggestion contained in this article.

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