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Delinquency rates for credit cards and car loans are on the rise — a sign mortgage defaults could be next, report warns

Mortgage debt rose by six per cent to a record $2.08 trillion in 2022, at a time when Canadians are struggling to keep up with other loan payments.

Josh Rubin and Jeremy Nuttall || May 25, 2023

Delinquency rates for credit cards and car loans rose last year, a warning sign that Canadians could start defaulting on their mortgage payments, a new report warns.

The Canada Mortgage and Housing Corporation report released Thursday found that mortgage debt rose by six per cent to a record $2.08 trillion in 2022.

Although that was a slower rise than the previous year, it's still another new high at a time when Canadians are showing increasing signs of struggling to pay their debts, said the CMHC's Tania Bourassa-Ochoa in a news release.

People will default on other debt before they default on their mortgages, Bourassa-Ochoa explained. Mortgages could be next.

"Although mortgages in arrears remain low, they are a lagged indicator," said Bourassa-Ochoa. "In challenging financial situations, consumers will typically be delinquent on credit cards, lines of credit or auto loans before mortgages. Increasing delinquencies for these credit products indicate a larger number of consumers are having difficulties with their debt payments."

The report found that delinquencies on auto loans rose to pre-pandemic levels, of roughly two per cent, while roughly 1.5 per cent of credit cards were delinquent.

It also said more Canadians are choosing longer amortization periods to reduce payments, but take longer paying off their mortgages.

Earlier this week the CMHC released a separate report revealing Canada has the highest household-debt to GDP ratio in the G7 at 107 per cent.

Philip Cross, a senior fellow at the Macdonald-Laurier Institute in Ottawa and former chief economist at Statistics Canada, said Canadians loaded up on debt during the pandemic due to low interest rates and are now vulnerable to interest rate spikes.

But when that debt and the accompanying interest rate spikes could manifest in mortgage defaults is unknown, Cross said.

"The wild card in all this is all those savings Canadians built up during the pandemic," he said. "But nobody is really sure how much it is."

Adding to the staying power is there have not been major job losses in Canada.

The Bank of Canada estimates Canadians have between $100 billion and $300 billion in savings, he said, pointing out those figures are "quite a range."

Cross pointed out who actually has the savings is unknown, but may be concentrated in wealthy families less affected by interest rates.

"The one thing you can be sure of though is the financial stress is increasing all the time and, at some point, some households are going to break," he said.

David Macdonald at the Canadian Centre for Policy Alternatives said Canadians have been trying to manage higher interest rates on their mortgages through amatorization or locking in to protect against any further rate hikes.

He said if unemployment increases the number of people in mortgage arrears will go up, but with home prices currently levelled out, or even rising, it is unlikely to spur bankruptcies.

“As long as you can sell your house, even if you can’t make the monthly payments, you’re not necessarily going to end up in bankruptcy,” Macdonald said.

He said the rate of bankruptcies and distressed sales seen in the U.S. in 2008, that drove down home prices, have not been seen in Canada.

For now, he said, the higher interest rates will likely continue stressing household budgets more than anything.