Bank of Canada Claims Spike in Risky Borrowing Threatens Financial System

Alex Hamilton May 23, 2019

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(Newswire.net -- May 23, 2019) -- The Bank of Canada released a Financial System Review Summary which outlines progress being made on two key vulnerabilities facing the economy. Mortgage stress tests and increases in interest rates have started slowing.

The quality of new mortgage lending is on the rise.

Mortgage rates are coming down, with the HSBC cutting fixed rates on 10-year mortgage loans to 3.24%. Butler Mortgage cut rates to 3.22%, which is, according to many sources, the lowest interest rates on mortgages on record.

Lower rates are a benefit to many Canadians who will renew home loans. Payment shock, a major concern a few months ago, has now vanished as rates are lower. Renewing rates are now just 0.2% higher for many borrowers.

The measure for house affordability has also showed improvement in the first-quarter of the year.

Toronto, which was one segment that was rebounding, has shown signs of the market worsening. Alternative financial solutions are being sought in many expensive cities, as borrowers work to keep afloat.

New measures have reduced speculative behavior in the market and has curbed borrowing.

Global uncertainty was noted in the report, as trade standoffs continue between the U.S. and China. Canada’s weak oil and gas sector has also been cited as a concern. The Central Bank is adamant that it is not predicting a recession. The economy is expected to grow by 1.2% this year and 2.1% in 2020.

The bank conducted a recent stress test on the country’s largest banks and found that while all the banks would suffer major losses, they will remain well-positioned to handle these losses due to large capital buffers. The stress test tested a 40% drop in housing prices and a 6% rise in the jobless rate.

Officials expect the economy to rebound in the coming months after a slowdown in the first few months of the year.

Borrowing has slowed, and stricter mortgage rules have also helped lower Canada’s risk of a recession.

Corporate debt remains a major concern, with the current debt-to-income ratio for corporations at 315% – much higher than historical averages. Companies are turning to U.S. bonds to secure cash at almost a double rate from 2008 to 2018. Companies that do not have the credit rate needed for a Canadian loan are also turning to the US market for loans. The amount of loans that Canadian companies hold in the US went from $80 billion four years ago to over $175 billion.

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