Study: Debt and financial distress among Canadian families

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In recent years, the debt-to-income ratio—which indicates how much debt is owed for each dollar of household income—rose considerably in Canada. However, the debt-to-income ratio may not be the best indicator of financial distress for Canadian families, according to a new study.

Another ratio, the debt-to-asset ratio, measures a family's resilience to financial shocks. Families with a higher debt-to-asset ratio are more likely to report having experienced a variety of financial problems, like skipping or delaying payments, or using payday loans.

These results come from a new study, "Debt and financial distress among Canadian families," based on data from the 2016 Survey of Financial Security and released today in *Insights on Canadian Society.*

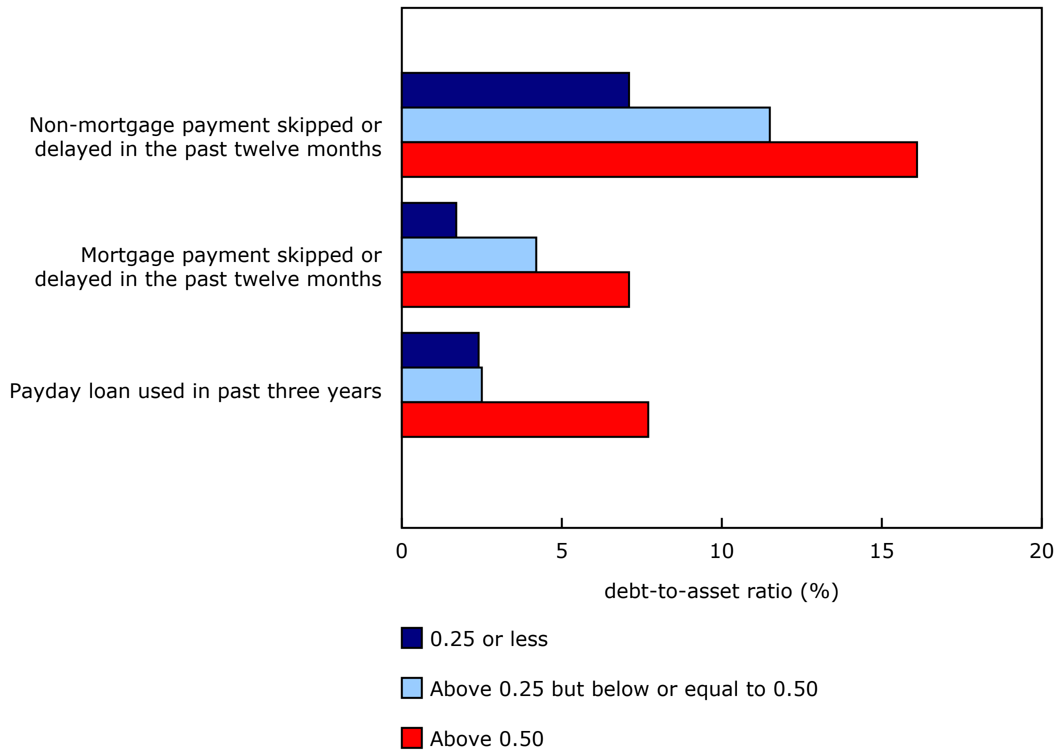
Families with a high debt-to-asset ratio are more likely to experience financial difficulties

Among Canadian families that reported having debt in 2016, 11% skipped or delayed a non-mortgage payment (such as payments on a credit card, payments for utility services, or car payments). Among those who had mortgage debt, 4% skipped or delayed a mortgage payment in the year preceding the survey, and 4% of families reported using a payday loan at least once in the past three years.

Families in higher categories of debt-to-asset ratios were more likely to report financial difficulties. For example, among families that had a debt-to-asset ratio above 0.50—meaning that the value of their debt amounted to more than 50% of their assets—16% skipped or delayed a non-mortgage payment in the year preceding the survey, compared with 7% of families that had a debt-to-asset ratio of 0.25 or below.

Similarly, among families with a debt-to-asset ratio above 0.50, 7% skipped or delayed a mortgage payment in the past year, compared with 2% among those in the lowest debt-to-asset category.

Chart 1
Financial distress indicators among families with debt, by category of debt-to-asset ratio, 2016



Note(s): The results on mortgage payments are based on families with a mortgage debt.
Source(s): Survey of Financial Security, 2016.

By contrast, the association between a higher debt-to-income ratio and financial distress indicators was less clear. This is because many financially vulnerable families do not have a lot of debt and assets, leading to relatively low debt-to-income ratios.

Other factors are associated with financial distress

After accounting for various characteristics, homeowners had a lower probability of skipping or delaying non-mortgage payments, compared with those who did not own their principal residence. Families in the bottom 20% of after-tax income were also more likely than families in the top 20% to skip or delay non-mortgage payments.

Lone-parent families were three times more likely to use payday loans than couples with no children, and were also more likely to skip or delay a mortgage payment.

Note to readers

This release uses data from the 2016 Survey of Financial Security (SFS). The SFS collects information from a sample of Canadian families on their assets, debts, employment, income and education. Information is collected on the value of all major financial and non-financial assets, and on the money owing on mortgages, vehicles, credit cards, student loans and other debts.

Three categories of debt-to-asset and debt-to-income ratios were used in this study. The categories were organized to identify the one-quarter of Canadian families that had the highest proportions of debt-to-income and debt-to-asset ratios. In 2016, one-half of families with debt reported a debt-to-asset ratio above 0 and up to 0.25. Another 23% had a ratio above 0.25 and up to 0.50, and 28% had a ratio above 0.50. Similarly, 54% of families with debt reported having a debt-to-income ratio above 0 and up to 1.5, 21% had a ratio above 1.5 and up to 3.0, and 25% reported a ratio above 3.0.

In the SFS, questions related to financial distress were formulated as follows: (1) "In the last 12 months, have you skipped or delayed a non-mortgage payment?"; (2) "In the last 12 months, have you skipped or delayed a mortgage payment on this [primary residence] property?"; and (3) "In the past 3 years, have you (or anyone in your family) borrowed money through a pay day loan?"

Definitions, data sources and methods: survey number 2620.

The study "Debt and financial distress among Canadian families" is now available in *Insights on Canadian Society* (**75-006-X**).

For more information, contact us (toll-free 1-800-263-1136; 514-283-8300; **STATCAN.infostats-infostats.STATCAN@canada.ca**).

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