Consumer Watchdog Issues Alert for Canadians as Interest Rates Rise

Written by Kelley Keehn
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Interest rates in Canada increased in July for the first time in seven years and again in September. They didn't move much – only a quarter of a percentage each time. So what does this mean to you and your debt load?

Why Are We Being Warned Now?

In an alert, the commissioner of the Financial Consumer Agency of Canada, Lucie Tedesco warns: “Many Canadians have high debt and low savings. Even a slight increase in interest rates puts Canadians at risk of carrying debt over longer periods of time, leaving them more vulnerable to unforeseen events or unexpected expenses."

“Canadians owe about $1.67 for every $1 earned," says Laurie Campbell, CEO of Credit Canada. "As rates rise, that means higher monthly payments on mortgages, personal lines of credit, credit products, loans and more. But the sad truth is that most Canadians can't afford an increase to their monthly payments — they're already maxed out. That's why they've relied on debt and credit products like home equity lines of credit, or HELOCs, to supplement their cash flow."

Your Line of Credit is Actually a Demand Loan

Campbell cautions: “Most Canadians don't know that most HELOCs in Canada are payable on demand. That means if your lender gets nervous about your ability to pay, or your property value starts to drop significantly, not only could your credit limit change but your lender could potentially call in the entire debt, whether you're defaulting on your payments or not."

Student Loans Affected

“Anyone with a student loan will feel the bite as well, both old and recent graduates," warns Campbell. “Recent graduates' monthly student loan payments will be based on the interest rate on their first payment date. For those already carrying student loans, the interest rate increase means less of their monthly payment will go towards paying down the principal, which means more years in debt and limited credit options. The warning signs are there. It's up to us to take action now before we hit rock bottom."

What Can You Do About Rising Interest Rates?

“When interest rates rise, it's a good time for Canadians to review their expenses and identify how higher debt payments could impact their overall finances," says Jane Rooney, Financial Literacy Leader of the Financial Consumer Agency of Canada.

“Canadians who budget, make plans to pay off debt and set savings goals are more confident when it comes to making financial decisions and feel in control of their money."

The FCAC offers a variety of tools including a Budget Calculator, Financial Goal Calculator and Credit Card Payment Calculator.

Awareness is key

Sheila Walkington, a fee-only Certified Financial Planner with **Money Coaches Canada**, agrees that formal budgets are important, but even simple steps can get you on a path to financial empowerment.

With her clients, she finds that the biggest spending culprits are groceries, dining out and kids' activities.

“That's where I find people spend the most money," she says. "I would say cook more at home, even before making a budget. It's easier to just think about cooking at home, and I want my clients to think, 'you know what? – if I do that, it means that we can afford that holiday next summer.'"

"It's being very conscious about your spending on a daily basis. I could say track or make a budget, but really, the most important thing is just to be conscious of how you're spending your money, and asking yourself, 'can we do better?'"