EQUITY VS DEBT

IS IT HOUSEHOLD DEBT OR IS IT EQUITY?

If you hold a mortgage on a home that is worth more than you owe, should that be considered a high debt load? The debate is raging as Canadian government warns of increasing household debt.

Some startling reports on Canadian household debt, especially among older people, appears to show that many are getting in over their heads, but some lenders note that if the debt is residential mortgages, it may not be debt but equity.

According to a study by TD Bank for example, older Canadians have been increasing their debt load at a faster rate than younger people. In particular, those over age 65 are racking up debt at three times the average pace for all age groups.

However, as one Vancouver mortgage broker noted, older people are often investing in real estate as a retirement hedge. And in Metro Vancouver, where the typical house price has increased 29 per cent in five years and 8.8 per cent in the last 12 months and the typical condo price is up 4.4 per cent from last year and 21.3 per cent in the past five years - those taking out mortgage debt at today's low interest rates may be smarter than the herd.

Indeed, a closer look shows that a large part of the debt increase among older Canadians reflects investment in real estate. The trend toward real estate has been more prominent than average among the 65+ group, where average holdings have doubled since 2002, according to TD Bank.

"For those in or close to retirement, low returns on interest-bearing securities and sharp [stock market] losses in recent years have provided an added incentive to diversify into real estate," TD notes in its survey.

A separate survey from Canada Mortgage and Housing Corp. (CMHC) also shows that most Canadians are smart about handling their mortgage loans.

"Survey findings indicate that 75 per cent of Canadian home buyers feel it is very important to pay off their mortgage as soon as possible. In fact, 39 per cent of recent buyers have their mortgage payment set higher than the minimum required. Further, since taking out their mortgage, 20 per cent of recent home buyers have already made a lump sum payment to their mortgage," CMHC noted.

Even Canada's largest mortgage lender, Royal Bank (RBC) does not seem too concerned about rising mortgage debt levels.

"Elevated consumer debt levels in Canada have created some risks for household balance sheets, if interest rates rise significantly or the economy suffers a shock to the labour market, housing market or both," said David Onyett-Jeffries, an economist with RBC Economics. "We expect only modest interest rate increases ... resulting in the cost of servicing households' debt burden remaining manageable."