

Economics

IN FOCUS

October 30, 2025

Household credit quality — what's in the pipeline

by Benjamin Tal benjamin.tal@cibc.com

The Bank of Canada is in the 9th inning of its easing trajectory, and the policy rate is still higher than it has been over the past decade and a half, aside from during the post-pandemic tightening cycle. Ditto for the long-end of the curve. The mortgage refinancing payment shock will reach its zenith in 2026 in terms of the share of borrowers facing payment shock of more than 40% — all in an environment of an elevated jobless rate. Should we worry?

Insolvencies — stabilizing

So far insolvencies statistics haven't shown much stress. Yes, the insolvency rate is notably higher than the historically low level seen in 2020, but it's currently stabilizing at a pre-covid rate, and hardly rising on a year-over-year basis. The relative stability in the insolvency trajectory has been masking a significant substitution between rising proposals and falling bankruptcies (Chart 1) — a trend that has been in place for

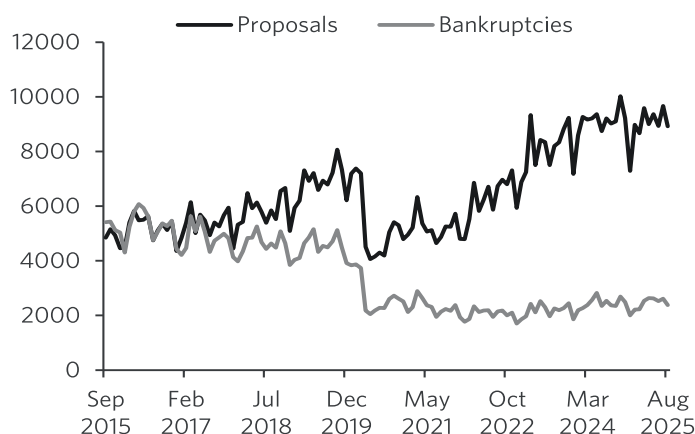
several years. This is a positive development since the legal cost and the losses per proposal are lower for lenders than in bankruptcies, while the recovery rate is much higher.

Beyond insolvencies

Now, the insolvency rate might tell us about the past but it's silent about the future. For that we need to monitor what's in the pipeline in a search for early signs of vulnerability

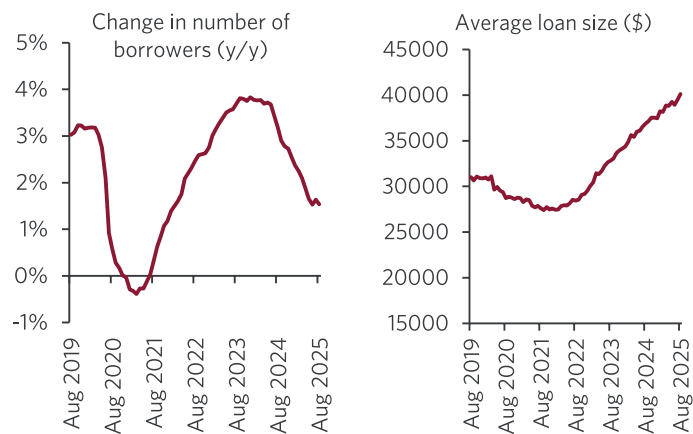
Granted, household credit is no longer rising at the nose-bleeding pace seen during covid, but at around 4% y/y, it is more or less where it was pre-covid. That pace of growth is less due to increased number of borrowers and more due to an increase in the average loan size (Chart 2). While the number of borrowers is currently 12% higher than it was in 2019, the average loan size has risen by 27% since then and by a whopping 46% since early 2022.

Chart 1: Proposals and bankruptcies diverging



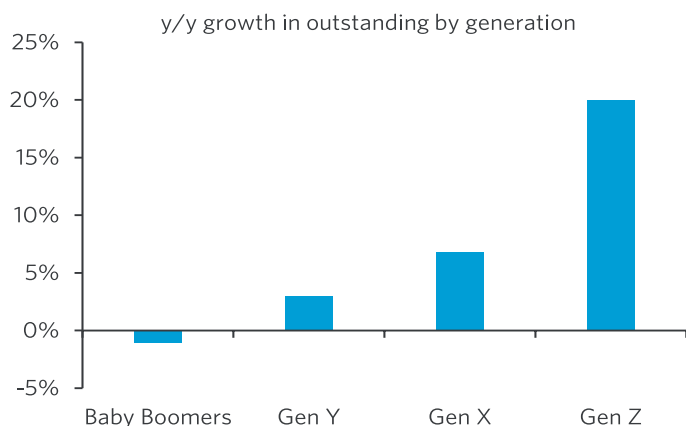
Source: Statistics Canada, CIBC

Chart 2: Credit growth largely due to increase in average loan size



Source: Trans Union, CIBC

Chart 3: Credit growth: Gen Z leads the way



Source: Trans Union, CIBC

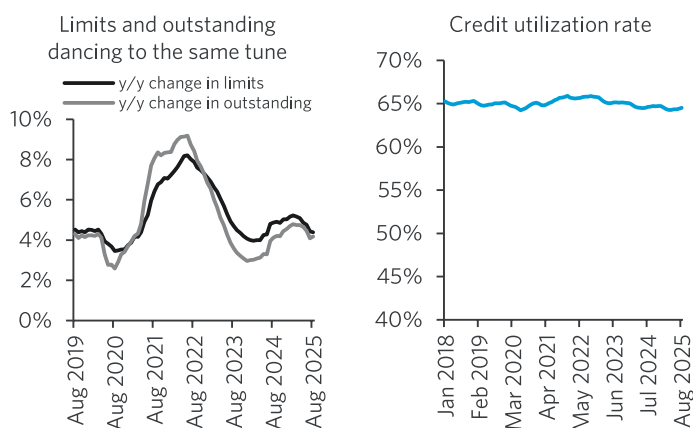
Chart 3 makes a lot of sense — the older you are the lower your credit demand is.

In fact, credit growth among baby boomers is now in negative territory. Note the rapid growth in credit demand among Gen Z. this portfolio however accounts for only 6% of total outstanding and again, more than half of that increase is due to a larger average loan size.

Furthermore, despite the slowing economy and a weakening labour market, there is no sign of a notable change in credit supply, with limits largely dancing to the tune of outstanding, keeping the credit utilization rate remarkably stable at 65% (Chart 4).

Zooming in on the aggregate risk profile of borrowers, things continue to look reasonably ok. The average credit score was able to sustain the gain it made during covid, and it is now notably higher than the level seen in 2019 (Chart 5 left). While the share of sub-prime borrowers has risen recently, it is still at a level consistent with a well balanced credit market (Chart 5 right), although we still need to look at how those loans are actually performing.

Chart 4: Credit utilization: stable



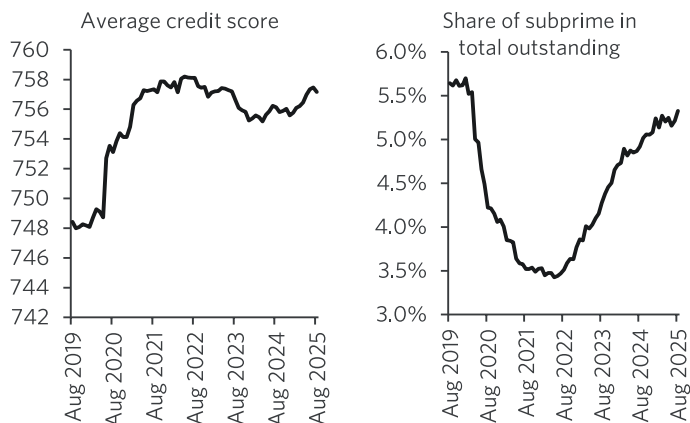
Source: Trans Union, CIBC

Digging deeper

So far so good. But risk is at its usual place — at the margins. So we have to dig deeper. Charts 6 illustrates an interesting development. While recent quarters have seen a surge in the 30-60 day delinquency rate (Chart 6 left), that trend did not carry into the 60-90 days bucket with pre-emptive actions by lenders preventing further bleeding (Chart 6 right). This is very different than the situation pre financial crises, when the correlation between the 30-60 days and 60-90 days buckets was much higher.

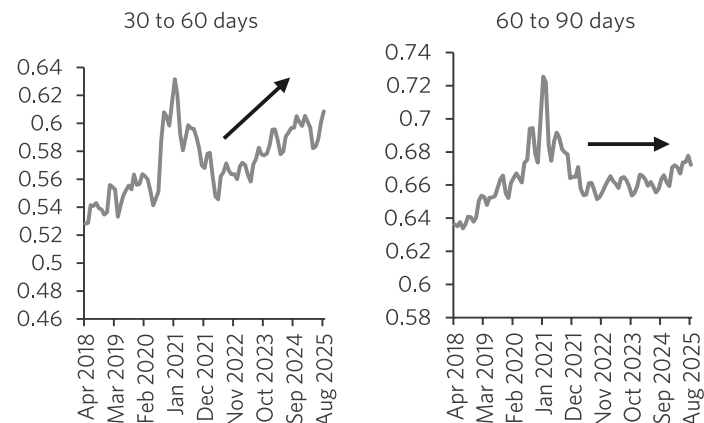
While that's the case for the portfolio as a whole, it's usually not the case for subprime borrowers where the 30+ day delinquency rate is still a good indicator of the future default rate. Zooming in on the margin of the margin (30+ day

Chart 5: Average credit score still elevated (L) subprime share back to 2019 level (R)



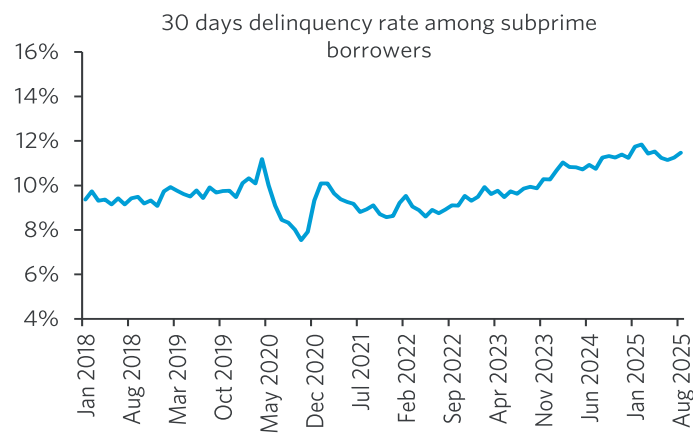
Source: Trans Union, CIBC

Chart 6: Delinquencies moving from...



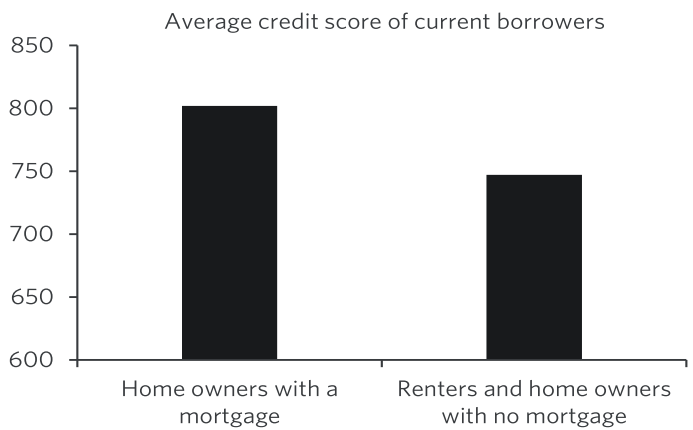
Source: Trans Union, CIBC

Chart 7: Margin of the margin



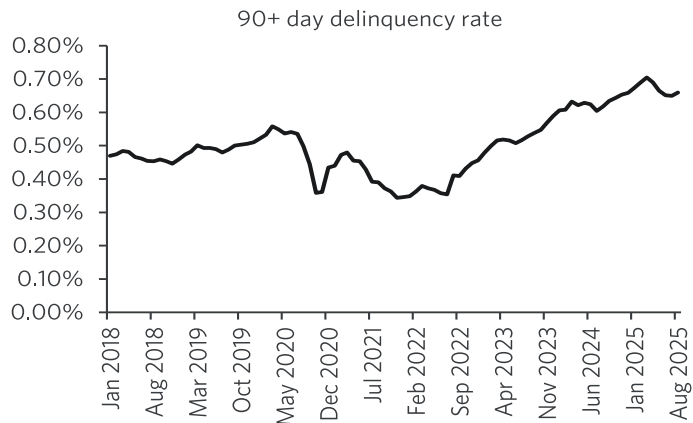
Source: Trans Union, CIBC

Chart 8: Average credit score



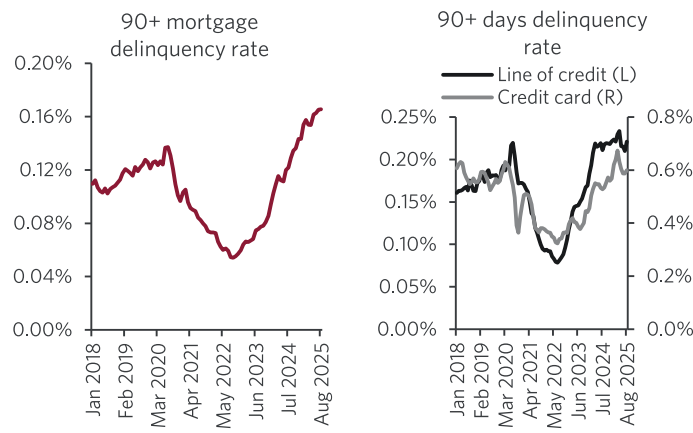
Source: Trans Union, CIBC

Chart 9: Delinquency rate among non-mortgage holders above 2019 level



Source: Trans Union, CIBC

Chart 10: Delinquency rate among homeowners with a mortgage



Source: Trans Union, CIBC

delinquency rate among subprime borrowers) reveals some signs of distress (Chart 7) with that rate standing at 11.5% — notably higher than pre-covid levels.

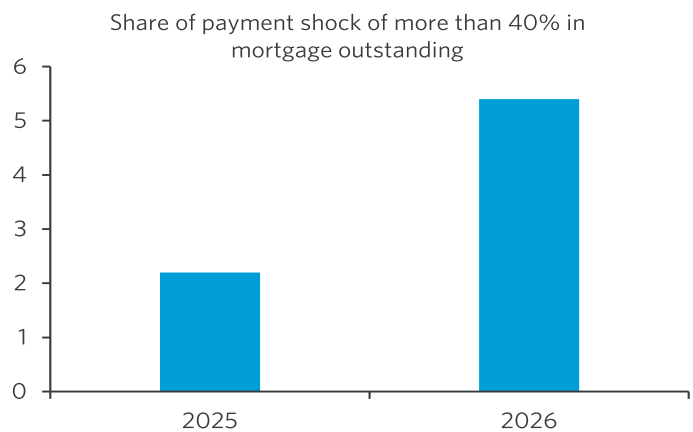
Another metric to focus on is the debt payment behavior of borrowers with a mortgage and those without a mortgage.

The debt pool of borrowers with no mortgage is dominated by renters. Not surprisingly, their average credit score is notably lower than that of borrowers with a mortgage where 75% are above prime credit rating (Chart 8).

Zooming in first on none-mortgage borrowers (Chart 9), the trend is clear. After reaching a cyclical low in late 2022, the 90+ day delinquency rate of that portfolio has been trending upward and it's now a full 0.2% higher than it was pre-covid. Given where we are in the economic cycle, we doubt that that rate will start trending downward any time soon. In fact, the opposite is the case.

Turning to the mortgage portfolio, the 90+ day delinquency rate has risen notably since its covid period trough to reach

Chart 11: Mortgage payment shock



Source: CIBC

a level that is marginally higher than seen in 2019 (Chart 10 left). We believe that most of that increase in arrears was due to economic reasons such as job-loss as opposed to payment shocks, given that the vast majority of the increase in mortgage arrears this year accrued well after borrowers adjusted their payments.

Chart 10 right can be seen as a leading indicator of future change in mortgage arrears given that most mortgage borrowers facing difficulties will first stop payments on other credit vehicles such as credit cards and more so lines of credit. And the message here is that some pressure on mortgage delinquencies is likely to persist and in fact, might intensify, mostly in the second half of 2026 when we expect the share of borrowers facing payment shocks of more than 40% to reach 5%-6% of the mortgage portfolio — more than double the share seen in 2025 (Chart 11).

Adding it all up, household credit quality indicators do not look too alarming at the moment. Yes, insolvencies are rising but from an extremely low base, and are still within the range seen in 2019. But a closer look at the margins suggests that the current trend is not your friend. Early-stage delinquencies in the below-prime space are on the rise and are already well-above 2019 levels. Renters are clearly feeling the impact of a slowing labour market with delinquency rates in both the credit card and lines of credit portfolios comfortably above the 2019 level. Non-mortgage debt held by homeowners with mortgages is showing early signs of stress — mainly in the line of credit portfolio. This does not bode well for the mortgage portfolio, mainly in the second half of 2026 when we expect the impact of mortgage refinancing payment shocks to be much more visible.

So the upward trajectory in delinquency rates is likely to continue in the coming quarters. However, our assessment that we are already very close to peak unemployment for the current cycle, along with a reasonable starting point and increased pre-emptive activity by lenders suggests that future credit losses should be consistent or even better than what might be priced in by the market.

Contacts:

Avery Shenfeld
avery.shenfeld@cibc.com

Benjamin Tal
benjamin.tal@cibc.com

Andrew Grantham
andrew.grantham@cibc.com

Ali Jaffery
ali.jaffery@cibc.com

Katherine Judge
katherine.judge@cibc.com

CIBC Capital Markets
PO Box 500
161 Bay Street, Brookfield Place
Toronto, Canada, M5J 2S8
[Bloomberg @ CIBC](#)

economics.cibccm.com

CIBC Capital Markets is a trademark brand name under which Canadian Imperial Bank of Commerce ("CIBC"), its subsidiaries and affiliates (including, without limitation, CIBC World Markets Inc., CIBC World Markets Corp. and CIBC Capital Markets (Europe) S.A.) provide different products and services to our customers around the world. Products and/or services offered by CIBC include corporate lending services, foreign exchange, money market instruments, structured notes, interest rate products and OTC derivatives. CIBC's Foreign Exchange Disclosure Statement relating to guidelines contained in the FX Global Code can be found at www.cibccm.com/fxdisclosure. Other products and services, such as exchange-traded equity and equity options, fixed income securities and futures execution of Canadian securities, are offered through directly or indirectly held subsidiaries of CIBC as indicated below.

Distribution

This report is written by the economics team at CIBC Capital Markets and is not the product of a CIBC Capital Markets research department. This report is issued and approved for distribution: (a) in Canada, by CIBC World Markets Inc., a member of the Canadian Investment Regulatory Organization, the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund; and (b) in the United States, by either: (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority. U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets Inc. in Canada and does not constitute an offer or solicitation to buy or sell any securities discussed herein, including (without limitation) in any jurisdiction where such offer or solicitation would be prohibited.

The distribution of this report in the United Kingdom is being made only to, or directed only at, persons falling within one or more of the exemptions from the financial promotion regime in section 21 of the UK Financial Services and Markets Act 2000 (as amended) ("FSMA") including, without limitation, to the following:

- authorised firms under FSMA and certain other investment professionals falling within article 19 of the FSMA (Financial Promotion) Order 2005 ("FPO") and directors, officers and employees acting for such entities in relation to investment;
- high value entities falling within article 49 FPO and directors, officers and employees acting for such entities in relation to investment; and
- persons who receive this presentation outside the United Kingdom.

The distribution of this report to any other person in the United Kingdom is unauthorised and may contravene FSMA. No person falling outside such categories should treat this report as constituting a promotion to them or rely or act on it for any purposes whatsoever. This report is distributed solely to eligible counterparties or professional clients and not retail clients as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018.

For all other jurisdictions, this report is distributed solely to institutional clients and not retail clients as defined by the applicable securities legislation and regulation to which CIBC Capital Markets may be subject in any jurisdiction.

Miscellaneous

This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC. Before making an investment decision on the basis of any information contained in this report, the recipient should consider whether such information is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC suggests that, prior to acting on any information contained herein, you contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice; as with any transaction having potential tax implications, clients should consult with their own tax advisors. Past performance is not a guarantee of future results.

The information and any statistical data contained herein were obtained from sources that we believe to be reliable, but we do not represent that they are accurate or complete, and they should not be relied upon as such. All estimates and opinions expressed herein constitute judgments as of the date of this report and are subject to change without notice.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets Inc. is prohibited by law and may result in prosecution.

CIBC Capital Markets and the CIBC Logo Design are trademarks of CIBC, used under license.