

Canadians score better than Americans on credit

Garry Marr, Financial Post

The number of Americans with bad credit continues to rise. Is there any reason to believe Canadian credit is better?

New statistics from U.S. credit agency FICO show about 25% of American consumers now have a credit score below 600 -- anyone below this is considered a high-risk borrower. Credit score determines whether a consumer gets credit and at what rate.

TransUnion LLC and Equifax Inc. are the two companies providing credit ratings in Canada. TransUnion provided a snapshot of the Canadian marketplace: For the period 2005-2009 there has been a downward shift in the number of Canadians with scores of 720 or better and an upward shift in scores less than 660. "Fewer consumers have higher-end credit scores and more consumers have a lower-end credit score," says John Branham, a consultant for TransUnion Interactive.

Bank of Montreal senior economist Earl Sweet believes Canadians are better off than Americans. "Canadians on average have about 67% equity in their home. That compares with under 40% in the U.S."

Credit scores are based on things like payment history, debt ratio, type of credit, so household equity may not have a direct impact on your rating. But it stands to reason that if you have more equity, you have less debt. At least that's true in Canada, where the goal is to pay down your mortgage as fast as you can.

Americans think differently. "Part of it is institutional and regulatory. The tax laws in the United States are quite different with respect to your ability to deduct mortgage interest payments from income taxes. It's not a hugely sensible policy, but it's been there a long time," says Mr. Sweet. The effect is Americans load up on mortgage debt.

Credit card delinquency rates -- the percentage of the population that hadn't paid off their credit cards in 90 days -- were 1.4% in Canada in the first quarter compared with 2.2% in the United States. Canadian mortgage delinquencies were a miniscule .45%.

But Laurie Campbell, executive director of Credit Canada, says Canadians shouldn't get too cocky. "I think the Americans are turning things around. Their savings rate is moving up," she says.