



The Credit Crisis and its Impact on Debt Financing in Canada

[Darryl Holyday](#)
[Christopher Partridge](#)

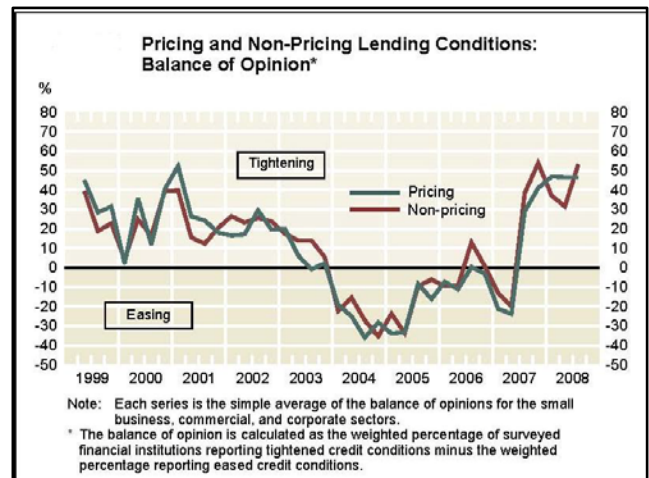
On October 10, 2008 the Bank of Canada released two surveys, the third quarter Senior Loan Officer Survey (“SLO”) and the third quarter Business Outlook Survey (“BOS”), indicating that the obtaining of debt financing in Canada is becoming increasingly more difficult and expensive as the global credit crisis deepens. The SLO and BOS found that both Canadian businesses and senior loan officers at Canadian banks and other financial institutions feel that credit conditions in the third quarter of 2008 have tightened significantly. However, seemingly contrary to the SLO and BOS findings, overall credit financing in Canada continues to grow.

Senior Loan Officer Survey

The SLO collects information on the business lending practices of Canadian financial institutions. In particular, the SLO gathers the perspectives of respondents on price and non-price terms of business lending and on topical issues of interest to the Bank of Canada. The Bank of Canada’s survey of senior loan officers attempts to gauge credit conditions by asking representatives of major Canadian financial institutions about the costs and terms of obtaining credit. The SLO surveyed 11 major financial institutions between September 11, 2008 and September 28, 2008. Though the SLO has been conducted quarterly since 1999, the 2008 third quarter SLO was the first released to the public.

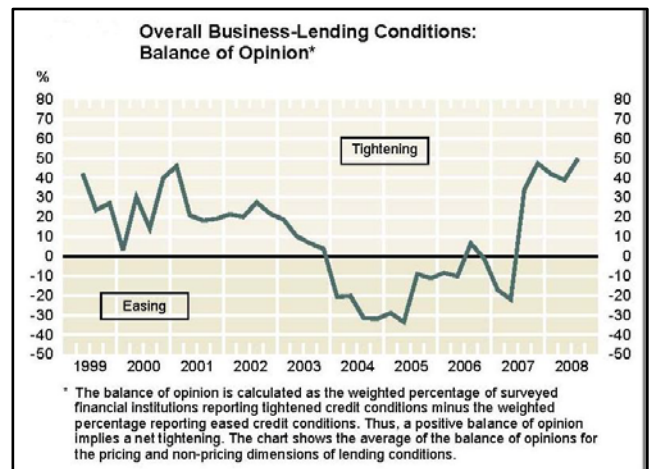
SLO respondents reported “widespread tightening in both the pricing and non-pricing dimensions of business lending conditions”, with respondents attributing the tightening conditions primarily to “the ongoing turmoil in the credit markets and concern about the general economic outlook”.

The SLO found that “there was a near-record shift in responses towards tighter pricing (47 per cent) and non-pricing (53 per cent) aspects of lending conditions” and that “the non-pricing responses indicate that lenders tightened the terms for loans or limited the amount allocated to some sectors, regions or businesses”.



SOURCE: BANK OF CANADA

The overall balance of opinion on credit conditions (50%) was the highest since the survey began in 1999, “indicating that a large portion of respondents reported tightening to all three types of business borrowers: small business, commercial and corporate”.



SOURCE: BANK OF CANADA

It should be noted that the SLO indicates only the direction of change in conditions, and not the magnitude of the change.

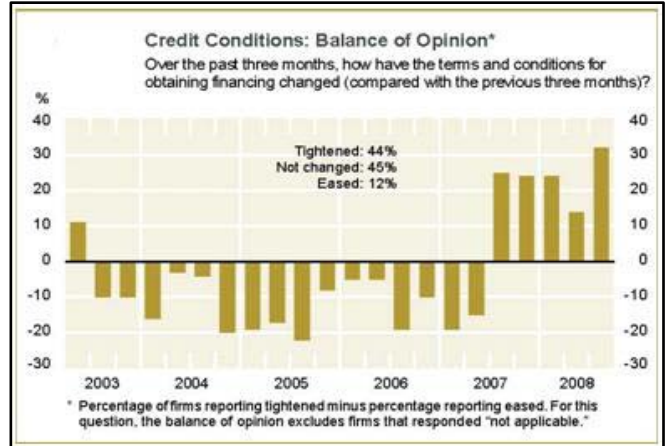
It should also be noted that the SLO was conducted between September 11, 2008 and September 26, 2008, and therefore does not reflect the steps taken by the Bank of Canada and the Government of Canada to help alleviate tight credit markets. These measures included: (i) the commitment by the Government of Canada of \$25 billion to buy mortgage-backed securities on October 10, 2008; (ii) the Bank of Canada interest rate cut of 0.5 of a percentage point on October 8, 2008; and (iii) the \$12 billion made available to lenders by the Bank of Canada on October 3, 2008 in order to ease loan terms.

Business Outlook Survey

The BOS summarizes interviews conducted by the Bank of Canada’s regional offices with senior management of approximately 100 firms selected in accordance with the composition of Canada’s gross domestic product. The survey’s purpose is to gather the perspectives of these businesses on topics of interest to the Bank of Canada (such as demand and capacity pressures) and their forward-looking views on economic activity.

Similar to the results illustrated by the SLO, the third-quarter BOS saw the percentage of businesses reporting tighter credit conditions increase dramatically. The BOS found that “the balance of opinion on credit conditions reached a record-high level for the survey, with significantly more firms reporting tighter credit conditions than those reporting that conditions had eased”.

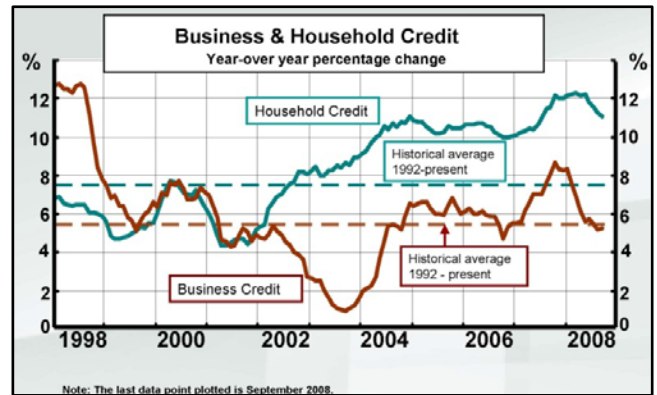
In fact, some 44% of businesses surveyed reported tighter credit conditions, while only 12% reported easing. The remainder of the businesses surveyed reported that lending conditions were unchanged in the previous three months.



SOURCE: BANK OF CANADA

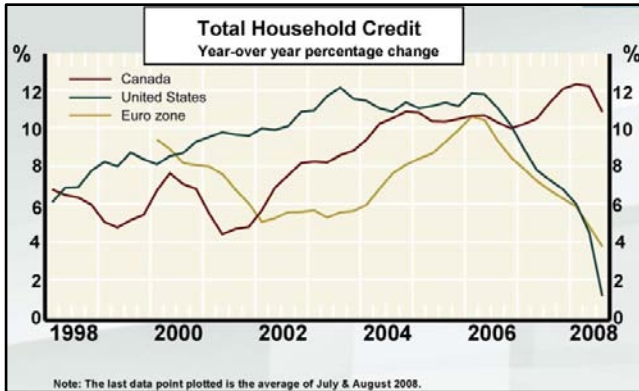
Credit Growth

In contrast to the SLO and BOS results, recent information provided by the Bank of Canada indicates that credit financing is growing in Canada. Bank of Canada statistics show that over the past year mortgage lending has increased 7.7% and personal loans have grown 15.3%. Business lending has decreased over the past year, but by a mere 1.7 %.



SOURCE: BANK OF CANADA

Drawing on international comparisons, the growth in Canadian household credit financing has been strong over the past decade and continues to be strong compared to other countries such as the United States and the nations comprising the European Union.



SOURCES: BANK OF CANADA, BIS, U.S. FEDERAL RESERVE

Conclusion

The small 1.7% drop in business lending and the increase in both mortgage and personal loan lending over the past year does not seem to mesh with the results presented in the SLO and BOS. It should be noted, however, that the SLO and BOS are indicators of forward-looking views on economic activity while the credit growth statistics provided by the Bank of Canada represent historical data. Although Canadian mortgage and personal loan lending has increased and business lending has slowed slightly over the past year, the SLO and BOS suggest that lending conditions in Canada will tighten in the near future. Unfortunately, the SLO and BOS do not provide an indication of magnitude, leaving one to guess as to the degree of tightening in the Canadian credit financing market should the SLO and BOS indications come to fruition.

This update is intended as a summary only and should not be regarded or relied upon as advice to any specific client or regarding any specific situation.

If you would like further information regarding the issues discussed in this update or if you wish to discuss any aspect of this commentary, please feel free to contact us.

Wildeboer Dellelce LLP

Wildeboer Dellelce Place
365 Bay Street, Suite 800
Toronto, ON M5H 2V1
Phone: (416) 361-3121
Fax: (416) 361-1790

72 Victoria Street South, Suite 401
Kitchener, Ontario N2G 4Y9
Phone: (519) 741-8708
Fax: (519) 741-9576



wildlaw.ca