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An infinite mortgage? Not so fast says federal regulator

Ricardo Veneza || October 14, 2023

A new mortgage phenomenon is popping up across the country and in Windsor-Essex that sees homeowners facing extended mortgage terms of 50, 60 or even 70 years.

Rasha Ingratta, a mortgage advisor with Mortgage Intelligence in Windsor, says about 10 per cent of the calls she is receiving are tied to this issue.

“With the calls that I’m getting, I just want people to not panic,” Ingratta told CTV News. “The best option is to either increase your payment if you can [or] refinance if you can.”

The issue is tied to variable rate mortgages with fixed payments. Rising interest rates have thrown the balance off between paying down principal and interest on a mortgage term so much so that upon renewal, the amortization schedules have been extended decades to compensate.

The Office of the Superintendent of Financial Institutions (OSFI) has received similar reports of negative amortization, but is downplaying their significance. The OSFI is an independent federal agency regulating and supervising 400 federally regulated financial institutions like banks and credit unions.

OSFI declined an interview request from CTV News and instead pointed to a recent statement on the matter. The statement outlines the reports “are not entirely accurate” but, regardless, has proposed changes to mitigate the mortgage risk.

“These kinds of projected amortizations are not realistic and do not represent what borrower’s actual repayment period will be,” reads part of the statement. “In most circumstances lenders will restore borrowers to their contractual amortization period.”

The OSFI statement also characterizes these renewal term extensions as “hypothetical” and goes on to say in some cases “an infinite amortization period” could be produced by the repayment calculation.

NEW TERRITORY

Ingratta has been working in the mortgage lending industry since 1999 and said this a new problem arising from rising interest rates, spurred by the Bank of Canada’s attempt to get inflation inline with its two per cent mandate.

“We haven’t really seen this before,” said Ingratta.

While the issue is popping up in Windsor, many of the calls Ingratta receives are from outside of the region.

The dour financial picture is leading many of her clients to pursue alternate housing arrangements, including multi-family homes.

“I’ve seen situations where people have moved in together,” said Ingratta. “We are going to see that.”

SOLUTIONS

OSFI has laid out key actions borrowers can take to manage debt loads, particularly those with variable rate mortgages with fixed payments during periods of high or rising interest rates.

OSFI advises the following actions:

- increasing mortgage payments
- making lump sum payments
- renegotiating their mortgages

OSFI has also recommended changes to lending and capital ratio targets meant to “lessen the number of mortgages” that would run into negative amortization.

“We have proposed capital requirements to ensure banks and mortgage insurers have adequate capital buffers to absorb risks that arise when mortgages fall into negative amortization,” said Peter Routledge, superintendent of financial institutions, in a statement. “We believe these incremental changes add necessary resilience to Canada’s mortgage finance system.”

OSFI has stressed, because of the changes, consumers with a current mortgage term should not expect an increase in monthly payments.