

Financial Post – May 3, 2023

Posthaste: Homeowners buckling under high interest rates as mortgage rates balloon

Many anxious higher rates will lead to bigger payments come renewal time

Victoria Wells

Published May 03, 2023



People who have 25 years or longer to go on their mortgages are especially worried about higher payments once they renew. PHOTO BY COLE BURSTON/BLOOMBERG

Bank of Canada interest rate increases have expanded mortgage rates and appear to be causing financial hardship for some homeowners while also creating anxiety over future renewals, new research says.

Homeowners with both fixed and variable mortgages are starting to buckle under higher rates with 30 per cent saying they're having a hard time managing their payments, according to a study from the non-profit Angus Reid Institute. The damage is even worse for those with variable-rate mortgages, on which interest payments move in lockstep with the central bank each time it touches rates. Half those people with such mortgages say they're struggling.

But even if they're not having financial issues right now, homeowners overall say they're worried about what the future may hold when it comes time to renew their loan agreements. Three-quarters admit to being anxious over how high their mortgage payments might climb once they renegotiate terms with their banks. Recent homebuyers are especially anxious and 91 per cent of those who have 25 or more years left on their mortgages say they're concerned. More than half are "very worried" their payments will rise significantly.

The Bank of Canada has lifted interest rates eight times since March 2022, sending the key policy rate to 4.5 per cent from 0.25 per cent. Mortgage rates have followed suit with some variable-rate mortgages above six per cent from around 1.5 per cent a year ago. Those on variable rates are feeling the pain in real time, but people with fixed-rate loans will also experience the wallop from higher rates once they renew, which usually occurs every five years for many, although more people are pivoting to mortgages with renewal terms of every one to two years or three to four years. In a hint of what's to come, most Canadian banks have their prime lending rate set at 6.7 per cent, compared to 2.7 per cent at the start of 2022.

The result is that housing affordability has suddenly become a more universal concern. Fears of affordability, once centred among people in pricy urban real estate markets such as Vancouver and Toronto, have spread beyond city limits, and are affecting current homeowners, not just those trying to get into the market. "The ... rise in mortgage lending rates has many of those already in the housing market now adding their voices to the affordability crisis," the study said.

There are other signs that higher interest rates are hurting people's ability to comfortably make ends meet. Seventy-one per cent of fixed-rate and 65 per cent of variable-rate borrowers say they've had to cut back on extra spending recently. Many are also holding off on making big purchases, such as major appliances or a vehicle. Still, those with variable mortgages seem to be feeling the brunt of the financial pain. They're more likely to say their finances are in "poor or terrible" condition right now and half also admit to having to dip into savings to access extra cash, compared to 45 per cent of those with fixed mortgages.

A correction in home prices is adding further strain for some. The average price of a house in February was down 15 per cent from a peak in the previous year. That's not as big of a deal for people who bought before 2020, because prices haven't fallen below pre-pandemic levels. But it's a different story for many more recent homebuyers with 25 years or more left on their mortgages. Twenty-seven per cent of such homeowners say they'd lose a lot of money if forced to sell.

There's more bad news for people with mortgages. Bank of Canada governor Tiff Macklem has said interest rates may need to stay "higher for longer." That means higher mortgage rates will also be here for longer, at least in the short term. Many economists predict the central bank could start cutting interest rates next year, and some even say a rate-cut could be in store in 2023. No doubt, that will bring welcome relief for people with variable-rate mortgages and those on a fixed rate preparing to renew.