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Lenders now seeing 60, 70, even 90-year mortgages as Canadians struggle with rocketing interest rates

Some banks mostly offer fixed-payment variable mortgages which allows homeowners to keep monthly payments the same, but leaves them vulnerable to paying little off the principal, experts say.

Clarrie Feinstein || June 27, 2023

For most homeowners, the standard time to pay off a mortgage is 25 years.

Now, in the face of crippling interest rates, some existing homeowners are seeing their amortization period go as high as 90-years as their 'fixed-

payment' variable-rate mortgages adjust automatically to rising interest rates while the monthly payment remains the same.

"We've seen 60 years, 70 years, and we did see someone with 90 years," said mortgage broker Ron Butler. "The majority of mortgages at some of the major banks are being extended and homeowners are getting concerned."

There are two types of variable rate mortgages, experts say, one is a variable-rate fixed-payment mortgage, the other an adjustable-rate mortgage — a "floating" payment that rises and falls with changes in the prime rate.

Homeowners with a variable-rate fixed-payment are in a riskier position during a high-interest-rate period, experts say, because they are seeing a greater percentage of their monthly payment go toward interest and not principal — and for a longer period of time.

"A month ago I came across someone with an 87-year amortization," said mortgage broker Mary Sialtsis. "That's a problem. Even if they like having their mortgage payment stay the same it's still being adjusted because now they're paying much less principal and are more in debt."

It's important to note, said Sialtsis, that major banks aren't handing out 90-year mortgages when people first buy a home; the changing amortization period is only happening on existing variable-rate fixed-payment mortgages.

"The major banks that offer this product aren't extending the amortizations by choice," she said. "It's just how the product works. It changes automatically in their system."

Hit their trigger rate

Once a homeowner's entire mortgage payment is going toward interest and not the principal, they've hit their trigger rate, said mortgage broker Victor Tran of Ratesdotca. When this happens, the lender sends a notice that their monthly mortgage payments need to change.

"They either need to increase their mortgage payment, so they're paying more of their principal, pay a lump sum, or move to a fixed rate instead of variable rate," he said.

That means a mortgage payment could jump significantly to ensure the homeowner is paying more of the principal, or they pay a lump sum — typically from 10 per cent to 20 per cent of the original principal balance — to bring down their amortization.

Once a homeowner has hit their trigger rate, it's unlikely the amortization can be extended unless it's an exceptional circumstance, he said.

"Interest rates are likely to go down, so that will automatically shorten the homeowners' amortization or they'll hit their trigger rate," Tran said. "But since the bank has increased rates, everyone has been noticing these longer amortizations. I can tell you none of us (brokers) have dealt with this type of issue before."

These lengthy amortization periods have recently come under scrutiny by Canada's banking industry regulator.

The Office of the Superintendent of Financial Institutions (OSFI) recently released its annual risk assessment report in which it named housing as the number one risk it is monitoring in the coming year and said it is "actively assessing the risks posed by variable rate fixed payment mortgages" to determine whether revisions are warranted.

"Extended amortizations present increased risks, including a greater persistence of outstanding loan balances (keeping borrowers in debt longer) and greater risks of loss to lenders," OSFI said in an email to the Star. "OSFI expects federally-regulated lenders to proactively address and mitigate these risks. Extended amortizations are not a long-term solution for borrowers and should be reduced at the earliest opportunity."

But OSFI emphasized, if homeowners amortizations extend to 90 years, they won't be paying a mortgage for that length of time because at renewal they must go back to their initial amortization.

"It's notional," said an OSFI spokesperson. "At renewal borrowers have to go back to the original lending requirements. Extending amortizations is a transitional measure so people can get through this period. It's not meant to be a permanent measure in our system."