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A 47-year mortgage? They're out there — and even longer ones could be coming

Banking regulator says about $250B worth of home loans are either currently or soon to be negatively amortized

Pete Evans || October 5, 2023

Bank regulator OSFI estimates there's about $250 billion worth of home loans currently stretched out for 35 years or more, which are most likely loans that have either dipped into negative amortization already, or soon will. (Chris Ratcliffe/Bloomberg)

Canada's top banking regulator will soon implement new guidelines for the mortgage market, aimed at reducing the risks posed by negative amortization mortgages — home loans where the payment terms have ballooned by years and sometimes decades because payments are no longer enough to pay down the loan on the original terms.

This month, the Office of the Superintendent of Financial Institutions will unveil new capital adequacy guidelines for banks and mortgage insurers. Among the expected changes will be some aimed at reining in a surge of negative amortized loans.

About one out of every five home loans at three big Canadian banks are now negatively amortizing, which happens when years get added to the payment term of the original loan because the monthly payments are no longer enough to cover anything but the interest.

On a standard 25-year home loan, under normal circumstances, a certain percentage of the mortgage payment goes to the bank in the form of interest, while another chunk is allocated toward paying down the principal. That way, as the borrower makes their payments, they owe less and less money over time.

But because of the large and rapid run-up in interest rates in the last year and a half, that balance has been thrown out of whack.

It happened to Michael Girard-Courty. He bought a duplex in Joliette, Que., last year on a 25-year, variable rate loan. The monthly payment was well within his budget, at $1,156. But since he signed on the dotted line, the Bank of Canada has hiked interest rates multiple times, which means that more and more of his payment is allocated toward interest — not toward paying down the loan at the pace he'd planned.

As things stand now, "only $23 goes to pay the capital of my mortgage and the rest is all in interest," he told CBC News in an interview. "And my mortgage went from 25 years to 47."

While he hopes to be able to change that, either through lower rates or higher payment amounts, the investment he bought in the hopes of accelerating his retirement has quickly turned into a liability that's on track to stick around for longer than he'd planned to work.

"It's not a fun situation and I never expected to be in it," he said. "I don't know how it's going to end up."

Michael Girard-Courty bought a duplex in Joliette, Que., last year. In less than a year, his mortgage has ballooned from 25 years to 47. (Emiliano Bazan/CBC)

He's not the only one in this predicament. Exact numbers are hard to come by, but regulatory filings from Canada's biggest banks show negative amortized loans make up a large and growing pile of debt. Roughly one fifth of the mortgages on the books at BMO, TD and CIBC were in negative amortization territory last quarter.

That's almost $130 billion of housing debt where, instead of a standard 25-year loan, the mortgage is stretched out over 35, 40 or more years. And with roughly 100,000 mortgages coming up for renewal in Canada every month, more are likely on the way.

Mortgage broker Patrick Betu thinks rules that allow for so many negative amortization loans need to be updated. (Philippe de Montigny/CBC)

Patrick Betu, a mortgage broker in Ottawa, says it's an "alarming situation" and one that needs to be addressed.

Betu says none of his clients have negatively amortizing loans, in large part because he's been recommending short-term, fixed rate loans to ride out the current volatility.

"Obviously we do not have a crystal ball so we can't really say whether or not mortgage rates will come down anytime soon, but that's basically the situation with my clients," he said.

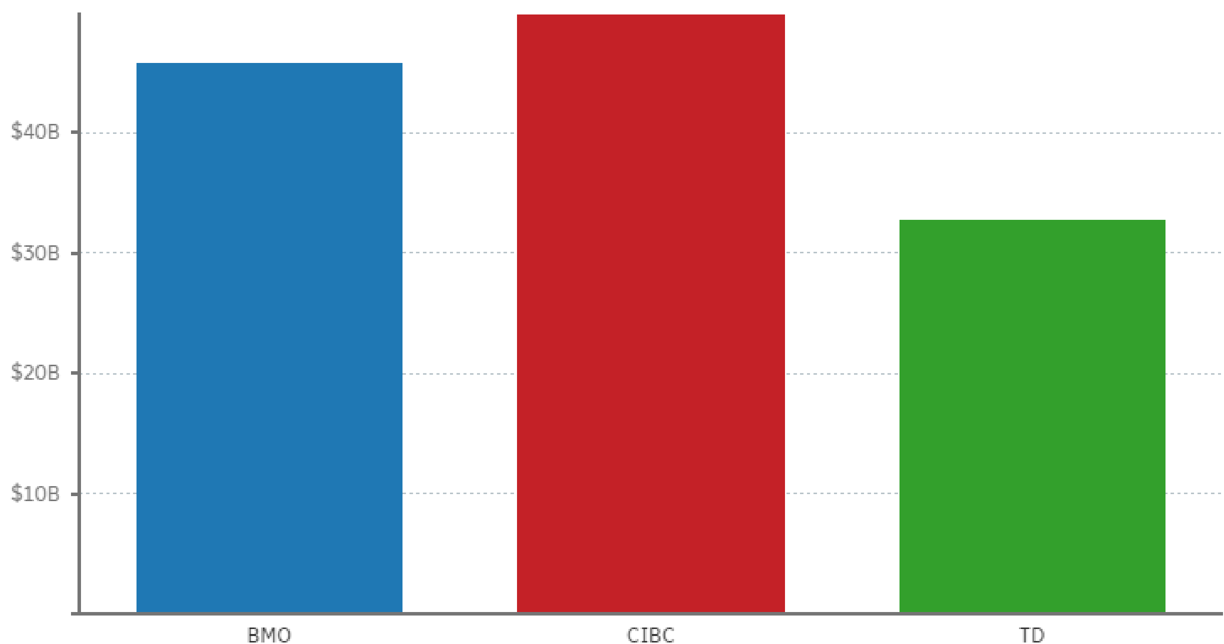
Some lenders limit the possibility of negative amortizations by either requiring borrowers to come up with lump sum payments when their payment mix nears the limit, or switching them to a fixed rate loan with higher but steady payments.

Two other big Canadian banks, Royal Bank and Scotiabank, do exactly that, which is why they're in a different situation.

"We do not originate mortgage products with a structure that would result in negative amortization, as payments on variable rate mortgages automatically

increase to ensure accrued interest is covered," RBC said in its most recent report to shareholders.

(Despite that, almost a quarter of the mortgages on the books at RBC are amortized for more than 35 years. At TD it's 22 per cent, at BMO it's 18 and at CIBC it's 19, while at Scotiabank, less than 1 per cent of the banks' Canadian home loan book is for longer than 35 years, Scotia recently revealed.)



Betu is among those who thinks variable rate loans with fixed payments that lead to negative amortizations shouldn't be allowed at all, and he hopes the new rules will crack down on them.

At a recent news conference, the head of the Office of the Superintendent of Financial Institutions, Peter Routledge, poured cold water on the notion that any sort of "crackdown" was coming, but said the forthcoming guidelines are aimed at reducing the risk these loans present to the financial system in the aggregate.

"The risk concentration is not high enough to give us severe concerns ... but if you [asked] me five years ago if I would want a problem this size, no." he said. "I think

both banks, financial institutions and borrowers would be better off if the prevalence of this product was less."

Routledge says there's approximately $250 billion worth of mortgages in Canada that are currently amortized for 35 years or longer, which is a decent proxy for a loan that's either already longer than originally planned, or will be soon.

That's about 12 per cent of Canada's total mortgage debt of just over $2.1 trillion — "not small, not huge either [but] manageable," Routledge said.

But he did acknowledge it's a problem, and the guidelines to be published this month "will begin to discuss how we might address that and how we might put in place a little bit more regulatory oversight to make this product a little bit less prevalent."