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Mortgage risks have likely more than doubled amid higher rates, CMHC says

Naomi Barghiel || May 29, 2024

Risk in the mortgage market has likely more than doubled since 2019, according to new research by the Canada Mortgage and Housing Corporation.

In a report released Wednesday, the Crown corporation largely attributes the spike in risk to the Bank of Canada's interest rate hikes beginning in 2022.

Increasing the amortization schedule from 30 years to 40 would also likely have little effect on reducing the mortgage market risk, the CMHC says.

"Under current interest rate conditions, more mortgage holders find themselves in precarious financial situations; the financial buffer they were able to build up during the pandemic has been exhausted," the report explains.

The findings are part of the CMHC's 2024 spring Residential Mortgage Industry Report.

The corporation used data on households' financial positions from a 2019 survey to estimate what percentage of homeowners with mortgages would not be able to pay for both essential life expenses and new mortgage payments upon renewal given the current interest rates.

It found that, in a simulated situation with current mortgage rates and 2019 unemployment rates, more than eight per cent of homeowners would not be able to sustain their mortgage payments and afford basic life necessities.

This finding is contrasted with its baseline scenario, where it says four per cent of homeowners would not be able to make both payments with 2019 unemployment rates and mortgage rates.

Comparing the two shows that the risks to homeowners' ability to financially keep up with necessary expenses and mortgage payments have doubled.

The report adds that raising the amortization schedule from 30 to 40 years would only reduce monthly mortgage payments by five per cent.

“Raising the amortization schedules would be more effective at reducing monthly mortgage payments when interest rates are low,” it says.

In March 2022, the central bank delivered the first of what would be 10 interest rate hikes in a bid to tame rampant inflation. Since then, the bank has increased its overnight lending rate from 0.25 per cent to the current five per cent, pushing mortgage rates to and above 6.5 per cent.

Market watchers said in April this year some Canadian lenders were raising their fixed-mortgage rates on offer despite indications from the Bank of Canada that rate cuts are possible in the months ahead.

Documents released in March 2024 revealed that the bank’s governing council seems to be growing in confidence that it will be able to lower its benchmark interest rate sometime this year. However, it also showed concern among monetary policymakers about risks to the central bank’s outlook, particularly regarding the possibility of a resurgent housing market.

As of February 2024, the CMHC’s new report says mortgage growth is at its softest in nearly 23 years. It says while the slowdown could prove to be short-lived, higher home sales and prices over the coming years — fuelled by declining mortgage rates, population growth and salary boosts — could lead to mortgage debt growing faster.

“The combination of higher cost of living and increasing debt-servicing costs has significantly affected households’ budgets over the past year. In this context, the already elevated high household debt poses considerable risks to financial stability,” it says.