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CMHC warns mortgage delinquencies will rise in Toronto and Vancouver

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Canada's housing agency warned that the number of homeowners in Toronto and Vancouver defaulting on their mortgages is set to grow as relatively high borrowing costs weigh on their finances.

Even though the Bank of Canada has cut its benchmark interest rate in recent months, homeowners still need to contend with higher monthly loan payments. That is because many of them took out their loans when mortgage rates were below 2 per cent and are now facing much higher borrowing costs.

The rate of mortgage arrears, or when a homeowner misses a payment for at least 90 days, has been on the rise in Toronto and Vancouver since the central bank embarked on its plan to slow inflation through a series of interest-rate increases beginning in 2022.

In Toronto, the arrears rate was 0.14 per cent in the first quarter of this year, compared with 0.06 per cent in the third quarter of 2022, according to data from Canada Mortgage and Housing Corp. In Vancouver, the rate was 0.13 per cent in the first quarter of this year, compared with 0.08 per cent in the same period last year.

“It is picking up and it is a trend we see persisting,” said Mathieu Laberge, CMHC's senior vice-president of housing economics and insights, adding that the arrears rate in both cities has already doubled over a short period of time. “That is very significant,” he said.

In comparison, the mortgage arrears rates in other cities have not climbed by the same magnitude. Across the country, although the arrears rate was higher at 0.18 per cent in the first quarter of this year, that increase is much smaller from the fourth quarter of 2022, when it stood at 0.14 per cent.

There are two reasons CMHC expects the trend to persist in Toronto and Vancouver, the country's priciest real estate markets. First, both regions currently favour buyers. More homeowners have put their properties up for sale as the number of purchases has declined. That means it could take longer for someone to sell their property at a high enough price to pay off their mortgage.

The other reason CMHC cites is that mortgage holders in both cities are increasingly missing payments on their credit cards and/or car loans. The agency said delinquencies

in non-mortgage products are an early predictor of mortgage arrears as many Canadians will miss payments on their credit cards before defaulting on their mortgages.

CMHC relied on data from Equifax credit bureau and estimates it covered up to 90 per cent of the mortgage market including loans from chartered banks, credit unions and alternative lenders such as mortgage investment entities.