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Analysis in Brief

The evolving landscape of Canadian lending: Key trends in mortgage and non-mortgage loans

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The evolving landscape of Canadian lending: Key trends in mortgage and non-mortgage loans

by **Alexandre Fortier-Labonté** and **Marisa McGillivray**

Introduction

Canadian policy makers are paying close attention to debt accumulation to ensure financial stability. According to the Bank of Canada's 2022 Financial System Review,[1] elevated levels of household indebtedness and elevated house prices are two of the six key vulnerabilities in the Canadian financial system weighing on households. Canadians are becoming increasingly concerned about rising debt levels,[2] higher inflation and the higher interest environment affecting their debt obligations.

Debt can be a useful resource for growing wealth, as it allows buyers to pay a smaller amount upfront. However, it carries risk, especially when interest rates are rising. Higher-risk debt is usually accompanied by higher interest rates, and although mortgage interest rates are lower than other loan types, changes in rates can greatly affect borrowers because of high loan balances. Mortgage debt uses the property as collateral in the event of non-payment, whereas non-mortgage loans can be secured (backed by collateral) or unsecured. This analysis provides insights into loans to individuals supplied by chartered banks and how these were affected by the COVID-19 pandemic and the subsequent environment of high inflation and rising interest rates. The analysis highlights how residential mortgage loans and non-mortgage loans[3] are affecting household indebtedness and Canadian financial stability. Mortgage loans represent about 70% of total loans, while the remaining 30% are non-mortgage loans.

The main source of data for this analysis is the mortgage and non-mortgage loan reports[4] provided by chartered banks for Statistics Canada's Quarterly Survey of Financial Statements. All chartered banks are federally regulated in Canada and must follow the regulatory framework set by the Office of the Superintendent of Financial Institutions (OSFI). Canada's six largest banks account for more than 90% of all chartered bank loans. The analysis also draws from additional Statistics Canada data and reports and a wide array of other sources, including the Bank of Canada's data and reports, which are supplemented by Canada Mortgage and Housing Corporation (CMHC), the Canadian Real Estate Association, and Teranet.

The remainder of this analysis is divided into three sections. Section 1 looks at the principal components of non-mortgage loans, while Section 2 looks at mortgage loans and the breakdown of insured and uninsured mortgages. Section 3 looks at mortgage and non-mortgage loans and highlights indicators related to household indebtedness and financial stability.

Section 1: Overview of non-mortgage loans

Non-mortgage loans are above the levels seen before the pandemic

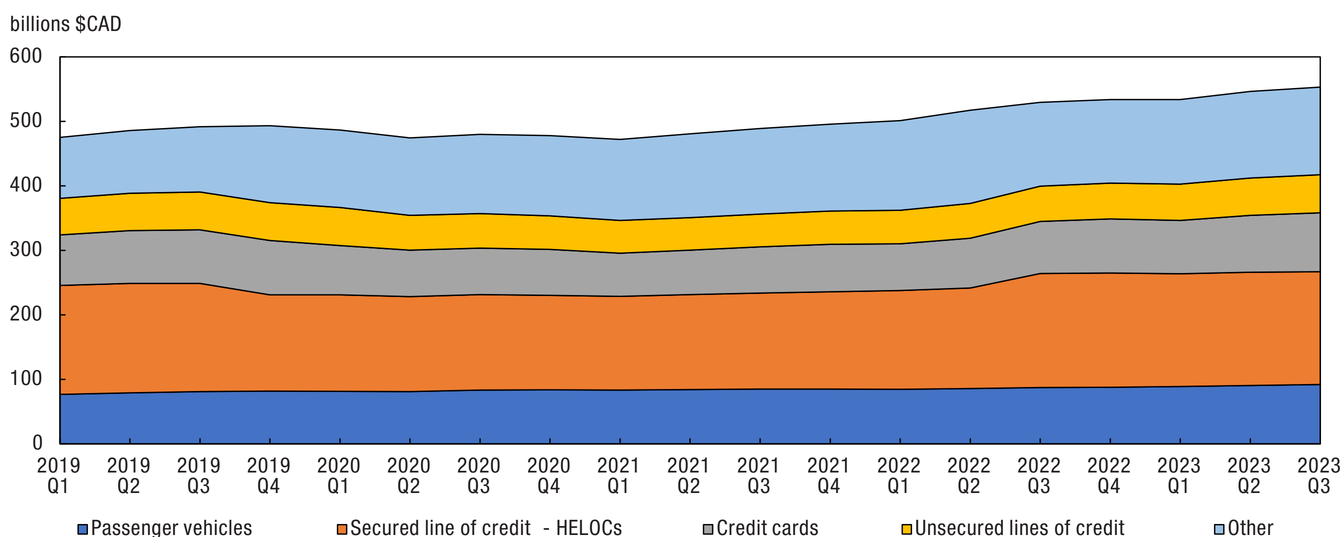
Non-mortgage loans can take on several forms—they can be secured or unsecured, revolving or a line of credit, or an instalment loan. Depending on the inherent risk associated with the loan and its terms, the interest rate charged can vary significantly. This analysis will focus on loans for purchasing consumer goods and other personal services, including credit cards, private passenger vehicle loans and lines of credit such as home equity lines of credit (HELOCs). Taken together, these loans accounted for 78% of all non-mortgage loans in the third quarter of 2023. The remaining loans are classified in the "other" category. Given the fungible nature of money, it is impossible to ultimately determine the precise uses of non-mortgage financing in most cases.

1. Bank of Canada (June 2022). Financial System Review 2022.
2. Office of the Superintendent of Bankruptcy (2022). Insolvency and CCAA Statistics in Canada.
3. For this analysis, non-mortgage loans consist of loans to individuals to purchase consumer goods and other personal services. They exclude loans to individuals for non-business purposes, including the purchase of securities and tax-sheltered plans.
4. The estimates are presented as booked-in-Canada to capture activity within Canada, with either domestic or non-resident lenders.

Overall, non-mortgage loans have surpassed their pre-pandemic level, reaching $553.1 billion in the third quarter of 2023, up 13.7% compared with the first quarter of 2020.

Non-mortgage loans have increased from the first quarter of 2019, and edged up in the first quarter of 2020. Over the next two quarters, non-mortgage debt levels declined as lockdowns came into full effect. Canadians were able to build up savings, reduce debt and reduce spending to bolster their finances against uncertainty as non-essential businesses closed and travel restrictions were imposed. Despite this reduction, since 2022, debt levels have risen, ultimately wiping out the previous effects. This increase in debt levels can be attributed to several factors, including inflation that peaked at 8.1% year over year in June 2022,[5] making everyday goods and services more costly.

Chart 1
Outstanding value of non-mortgage loans to individuals, by product type



Source: Statistics Canada, Non-Mortgage Loans Report (AS).

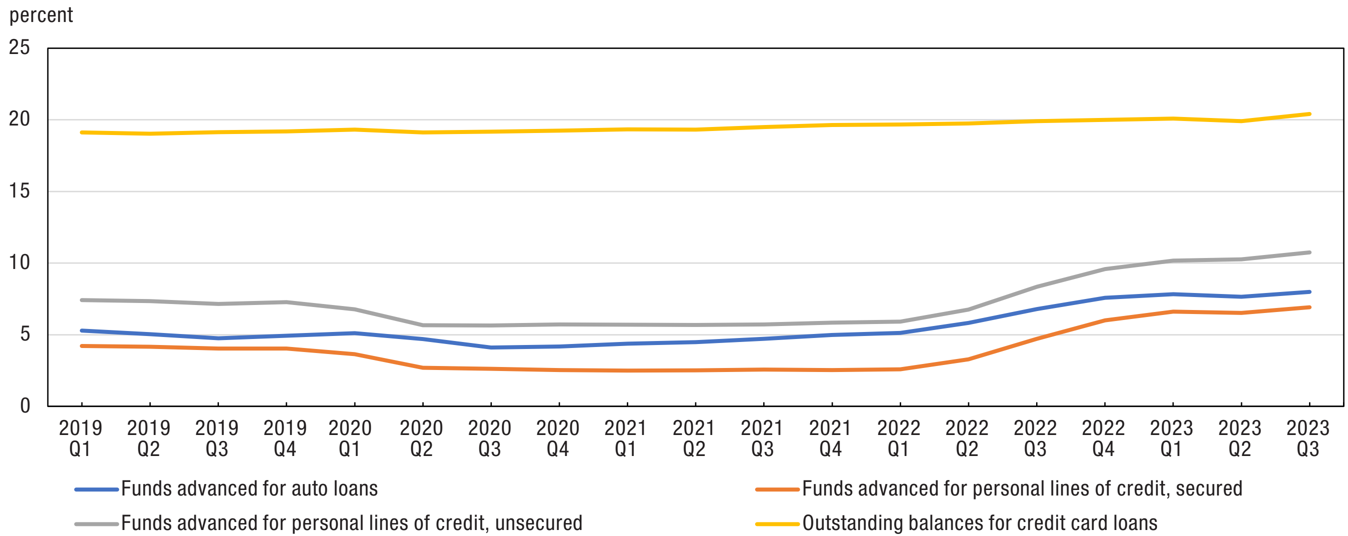
Loans for private passenger vehicles increase because of strong demand

Loans for passenger vehicles experienced a decrease in 2020 with the onset of COVID-19, followed by small quarterly declines thereafter. However, overall loans for passenger vehicles have largely trended upward, partly driven by higher prices during the pandemic. The price for vehicles has been affected by supply shortages for semiconductors, delayed repairs from insurance companies, and higher interest rates. Such shortages and shutdowns largely made new vehicles unavailable. However, Canadian demand for vehicles did not waver, resulting in a significant increase in demand for used vehicles during the pandemic, leading to additional price pressures. Overall, prices for passenger vehicles rose 16.3% from the first quarter of 2020 to the third quarter of 2023.

Since the first quarter of 2022, passenger vehicle loans have steadily increased. This rise is largely because of heightened household spending on vehicles, spurred by persistent pent-up demand and an increase in production as supply chain issues gradually subsided. Despite the hike in financing rates from a low of 4.1% in 2020 to 8.0% in 2023, the demand for private passenger vehicle loans remained strong. Overall, household final consumption of new vehicles increased by 23.0% in the third quarter of 2023, compared with the same period the previous year.

5. Statistics Canada (June 2022). The Daily – Consumer Price Index.

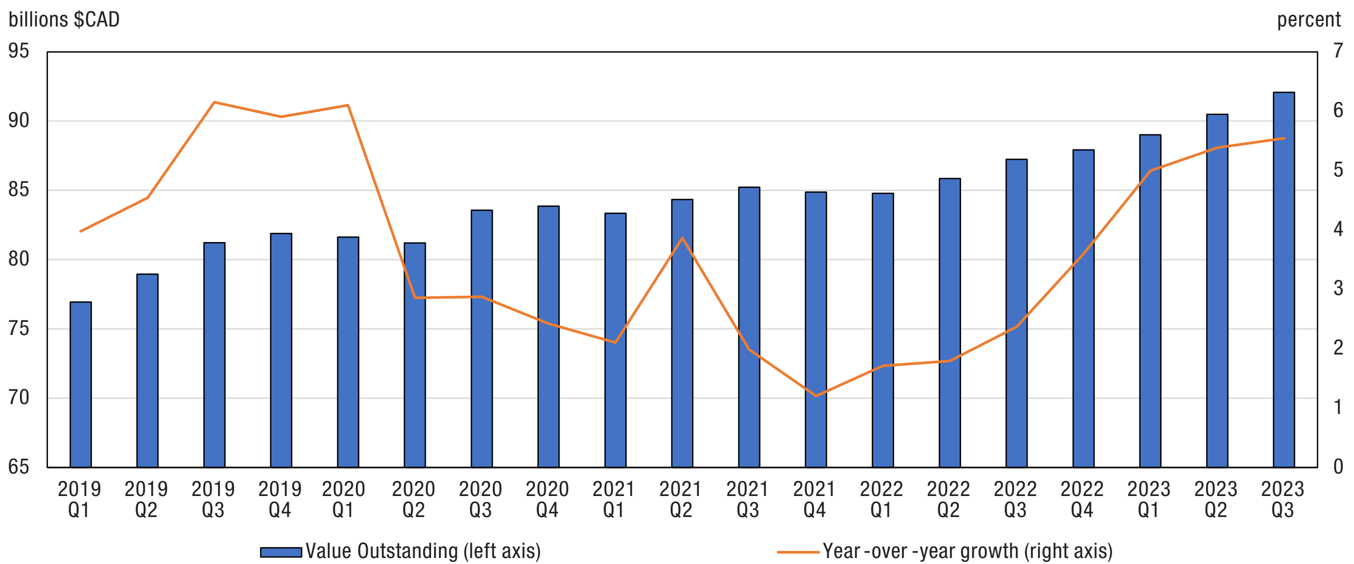
Chart 2
Interest rate for selected non-mortgage loans, quarterly average



Source: Statistics Canada, Table 10-10-0006-01, Funds advanced, outstanding balances, and interest rates for new and existing lending.

The amortization terms, alongside higher interest rates, are other factors affecting affordability. According to J.D. Power Canada's Automotive Market Metrics reports, 57% of new vehicle loans had loan terms of 84 months or greater in 2023, a value that has been increasing compared with past years. The associated monthly payments have also been increasing, rising from approximately $780 in 2022 to $840 in 2023.

Chart 3
Growth in passenger vehicle loans



Source: Statistics Canada, Non-Mortgage Loans Report (AS).

Credit card balances affected by inflationary pressures

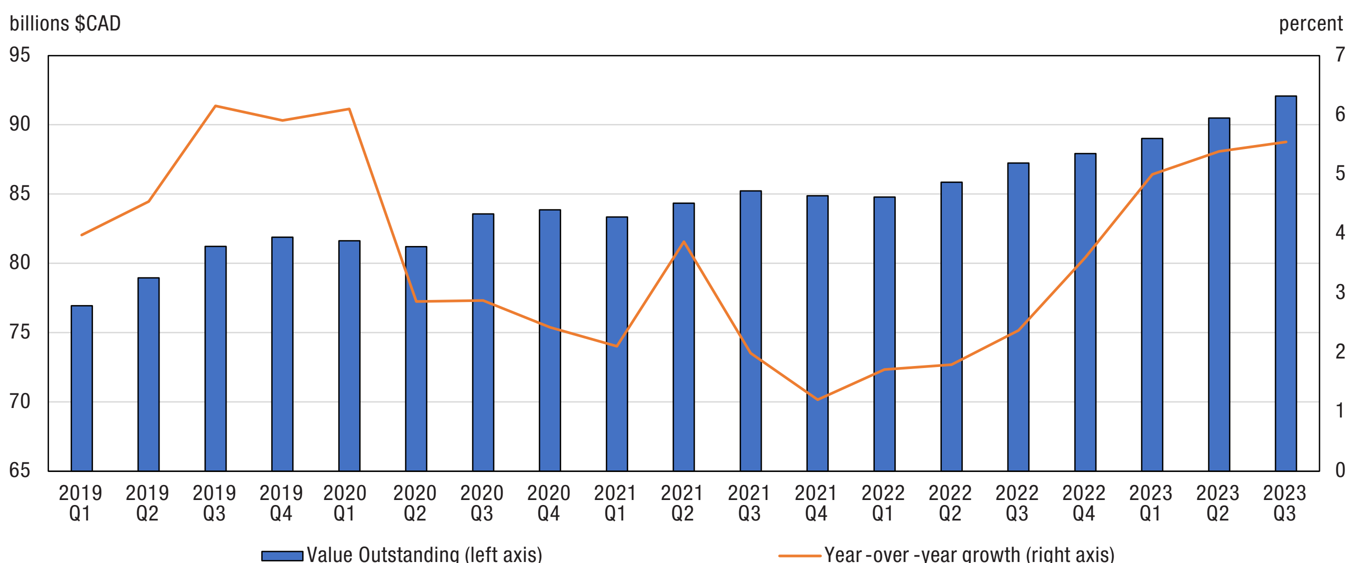
Canadians can use credit cards for several purposes, including everyday purchases of consumer goods and services, such as groceries, gas and travel expenses, as well as unexpected expenses, such as vehicle repairs and home renovations. Despite having higher interest rates than other non-mortgage loans, credit cards are a

revolving credit product, meaning borrowers can access credit on an ongoing basis. Terms and conditions of credit cards tend to vary little with market interest rates, and credit cards are an easy means to defer payment on purchases.

The pandemic significantly altered Canadian spending habits because of business closures and travel restrictions. Initially, many Canadians reduced their expenditures, contributing to historically high savings rates. This, in turn, led to a reduction in credit card debt obligations during the same period.

Credit card debt levels have increased and now exceed pre-pandemic figures. With the full reopening of the economy in 2022, households shifted their spending from goods related to home improvement to services, notably air transport and food and accommodation services. There was a notable surge in travel expenditures; air transport expenditures grew by 139.2% in the third quarter of 2023, reaching $5.3 billion, compared with the first quarter of 2022. Similarly, food, beverage and accommodation services recorded a significant increase in household expenditures (+26.2%) for this period.

Chart 4
Growth in credit card balances



Source: Statistics Canada, Non-Mortgage Loans Report (AS).

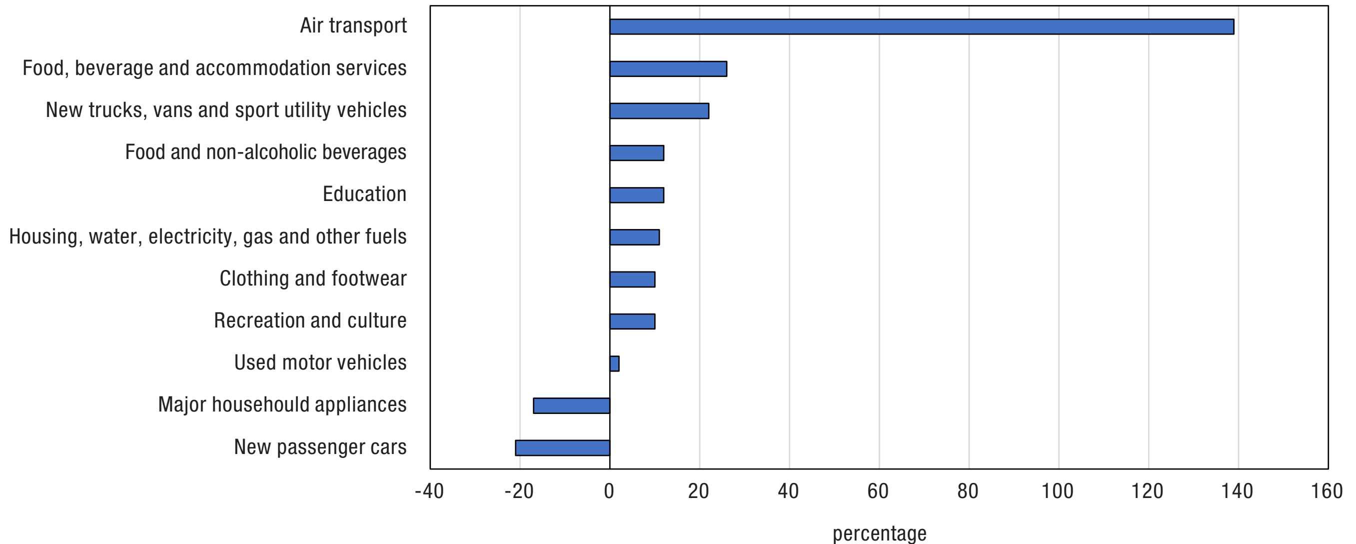
Population growth was also a key contributor to the rise in credit card balances, with over 1.3 million new card holders in the third quarter of 2023 compared with 12 months earlier.[6] According to Equifax Canada, the average balance of credit card holders rose from $3,727 in the third quarter of 2022 to $4,119, suggesting an increase in households' financial burden. This contributes to the rise of credit card debt among certain households.

The distribution of credit card debt among households varies significantly. Certain households, especially those with lower incomes, may have become more reliant on credit card debt to meet short-term obligations because of inflationary pressures[7]. From the first quarter of 2022 to the third quarter of 2023, costs for essential needs such as shelter (both rented and owned accommodation) and food increased by 10.9% and 13.8%, respectively, disproportionately affecting lower-income households' financial flexibility. According to the distributions of household economic accounts, in 2023, growth in disposable income for households in the lowest 40% income quintile decreased 0.1% compared with the previous year, coupled with the highest debt-to-income ratio among all quintiles. In contrast, households in the highest income quintile saw their disposable income rise 6.0% for the same period. Households in the lowest income quintile often lack sufficient savings to cover fixed expenses, such as housing and auto loans, limiting their ability to reduce variable expenses like credit card spending.

6. Equifax Canada (December 2023). Market Pulse Consumer Quarterly Credit Trends, Q3 2023.
7. Equifax Canada (September 2023). Market Pulse Consumer Quarterly Credit Trends, Q2 2023.

Consequently, this contributed to some extent to a continued rise in credit card debt levels. In contrast, higher-income households have more flexibility to cut back on discretionary spending to accommodate their increased credit payment obligations.

Chart 5
Select household expenditure changes from the first quarter of 2022 to the third quarter of 2023



Source: Statistics Canada, Table 36-10-0124-01, Detailed household final consumption expenditure.

Home equity line of credit debt trends upward

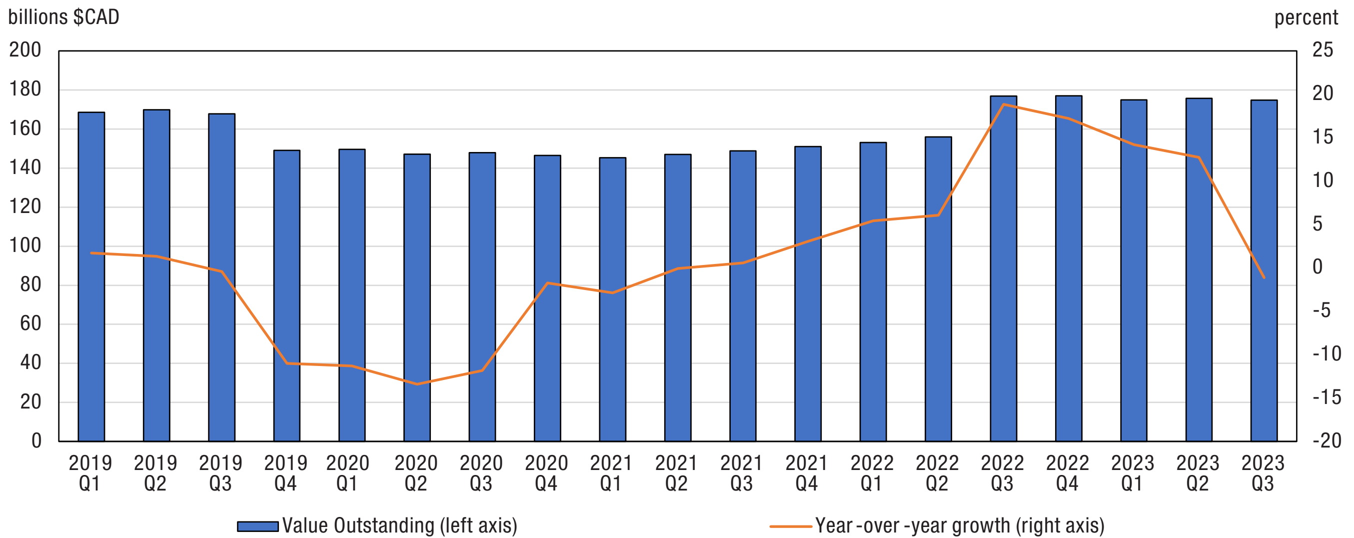
Household spending, house prices and HELOCs are interconnected,[8] primarily because of the "collateral effect." As home values increase, homeowners gain the ability to borrow more against their property's value. In Canada, HELOCs allow homeowners to access up to 65% of their home equity. According to a survey by Mortgage Professionals Canada, the funds extracted through HELOCs are used diversely: 28% for debt consolidation, 25% for home renovations, 25% for consumption and 22% for investment purposes. In short, HELOCs have many uses and often offer much lower interest rates than other loans.

HELOCs remained relatively stable from the first quarter of 2020 through the second quarter of 2022[9]. Since HELOCs serve various purposes, numerous factors can influence their utilization. For instance, some Canadians may have accessed their home equity to fund renovations, enhancing their living environments and boosting property values. During this period, home renovations increased by 10.9%[10]—a notable uptrend. Conversely, lower household consumption and higher saving rates during the initial phase of the pandemic potentially tempered the growth of HELOC usage.

As interest rates began to rise sharply in 2022, reaching 5.0% in the second half of 2023, HELOCs saw a modest decline after the third quarter of 2022. Households adjusted to the increased borrowing costs, dampening their appetite for tapping into HELOCs.

8. Bank of Canada (2019). Home Equity Extraction and Household Spending in Canada.
9. Some banks include mortgage balances in their reported HELOC balances. Specifically, with combined plans there is both a mortgage and HELOC component, but these combined plans are sometimes classified entirely as HELOCs.
10. Statistics Canada (May 2024). Gross fixed capital formation, quarterly, Canada.

Chart 6
Growth in home equity line of credit



Source: Statistics Canada, Non-Mortgage Loans Report (AS).

Section 2: Overview of mortgage loans

This analysis on mortgage loans differentiates between two types of mortgages: insured and uninsured. Each type of mortgage has different implications regarding who is bearing the risk in case of default. For insured mortgages, the lender (i.e., chartered bank) is paid by the insurer, and if the borrower becomes insolvent, the Government of Canada backstops the insurer[11]. By contrast, for uninsured mortgages, the lending institution is responsible for losses in the case of default.

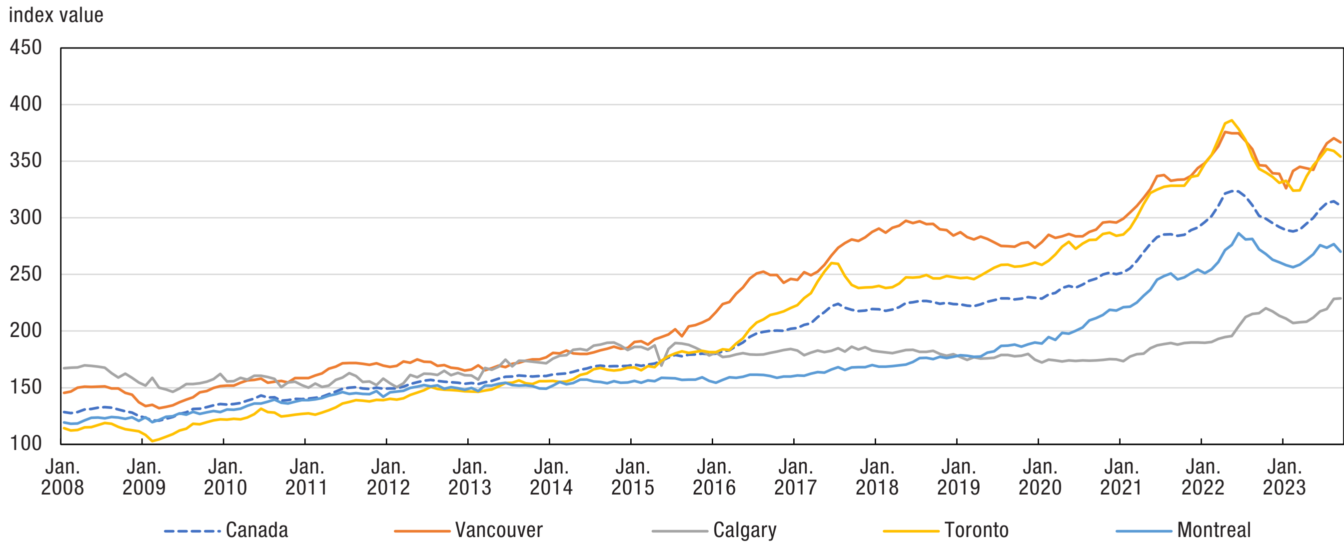
As a federal Crown corporation, CMHC, which had a share of about 35% of all insured mortgages in 2023, is fully backed by the government.[12] The government guarantee of mortgage insurance is intended to protect against severe risks that could threaten financial stability.

Uninsured mortgage loans grow faster than insured ones as house prices increase

House prices in Canada saw a steady increase starting in 2014 and began to stabilize by the end of 2017, with large urban centres contributing significantly to this rise. In 2020, prices in most major Canadian cities climbed steeply, hitting record highs by mid-2022, driven by heightened demand and low interest rates. However, later in 2022, as the Bank of Canada raised its policy rate to combat inflation, house prices started to decline. This decrease was short-lived, and prices rebounded in the first half of 2023, as limited housing supply and renewed demand put upward pressure on prices.

11. Overview: Lender Risk Sharing for Government-Backed Insured Mortgages.
12. Also, to support competition in mortgage insurance, the government guarantees private insurers' obligations to lenders, subject to a 10 per cent lender guarantee deductible.

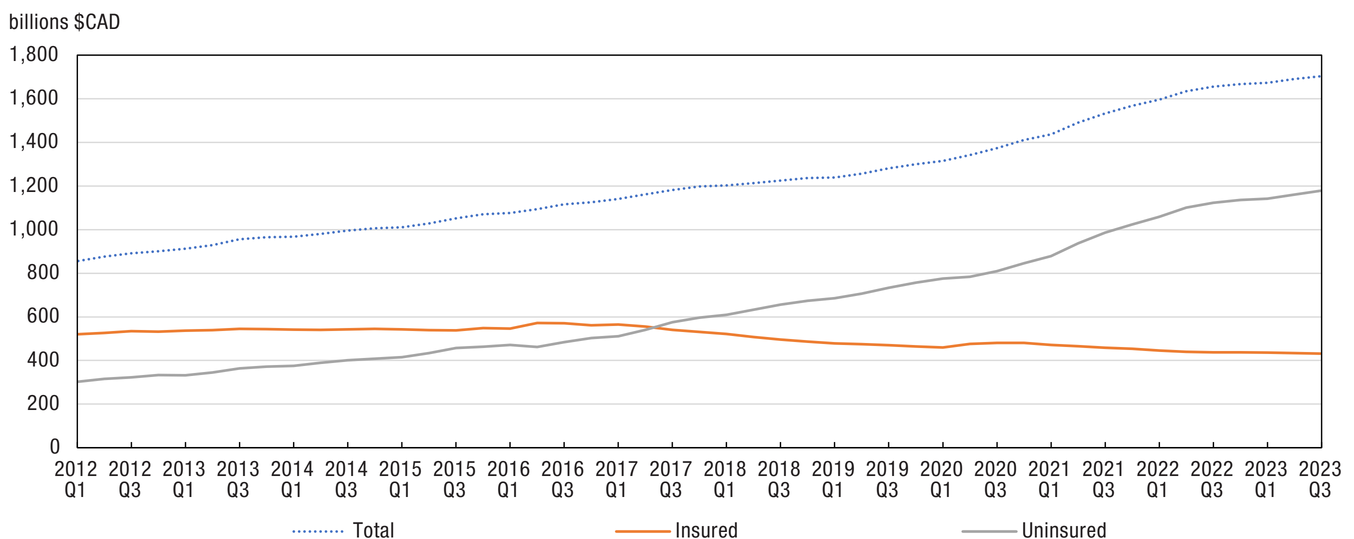
Chart 7
Housing price index, monthly



Source: National Bank – Teranet.

Since 2017, uninsured mortgages have predominated in Canada, overtaking insured ones for the first time that year. From 2012 to 2019, the outstanding value of uninsured mortgages grew by an average quarterly rate of 3.0%, compared with a decline of 0.4% for insured mortgages. This disparity widened during the pandemic as house prices soared, driven by lower borrowing costs and pent-up demand, accelerating the quarterly growth rate of uninsured mortgages to 3.4% from 2020 to 2022, while that of insured mortgages fell slightly to a decline of 0.5%. Because of rising interest rates, housing market activity began cooling off from early 2022 through the third quarter of 2023. Consequently, the growth of uninsured mortgages decelerated, averaging 2.0%, compared with a decline of 1.0% for insured mortgages during the same period.

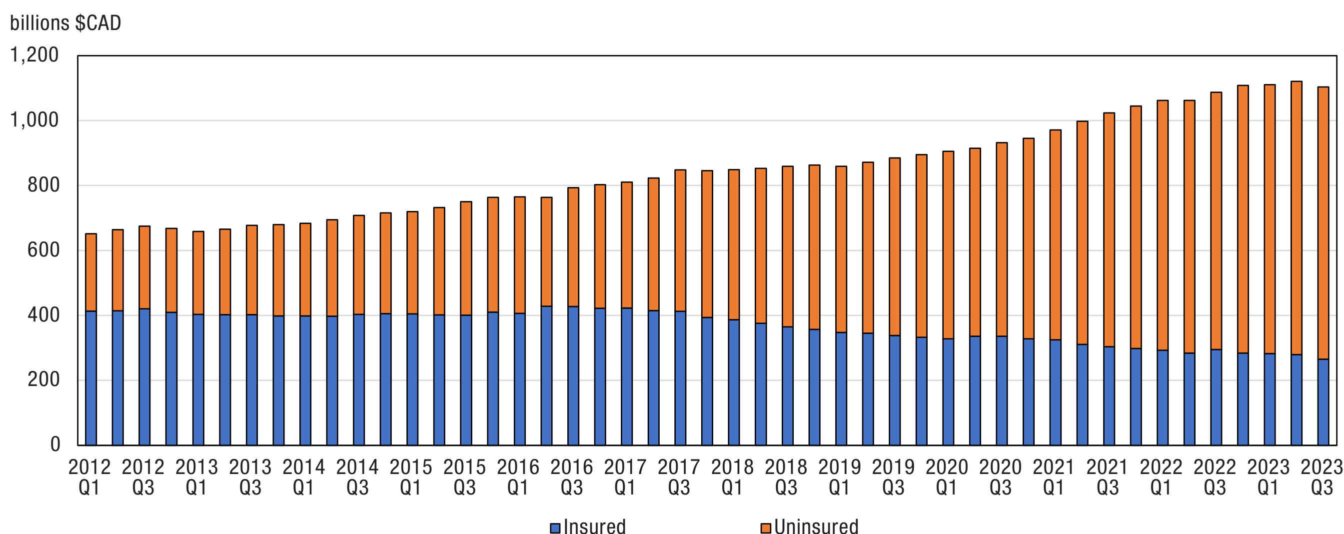
Chart 8
Outstanding value of mortgage loans, by type



Source: Chartered banks, mortgage loans report, end of period, Bank of Canada. Table 10-10-0134-01.

The increase in uninsured mortgages, propelled by soaring housing prices, is mainly because of regulatory constraints that make homes valued over $1,000,000 ineligible for insurance[13] and require at least a 20% down payment. Consequently, uninsured mortgages are more prominent among single-detached homes, which typically carry higher values.

Chart 9
Outstanding value of mortgage loans for single detached



Source: Statistics Canada, Mortgage loans report (ES).

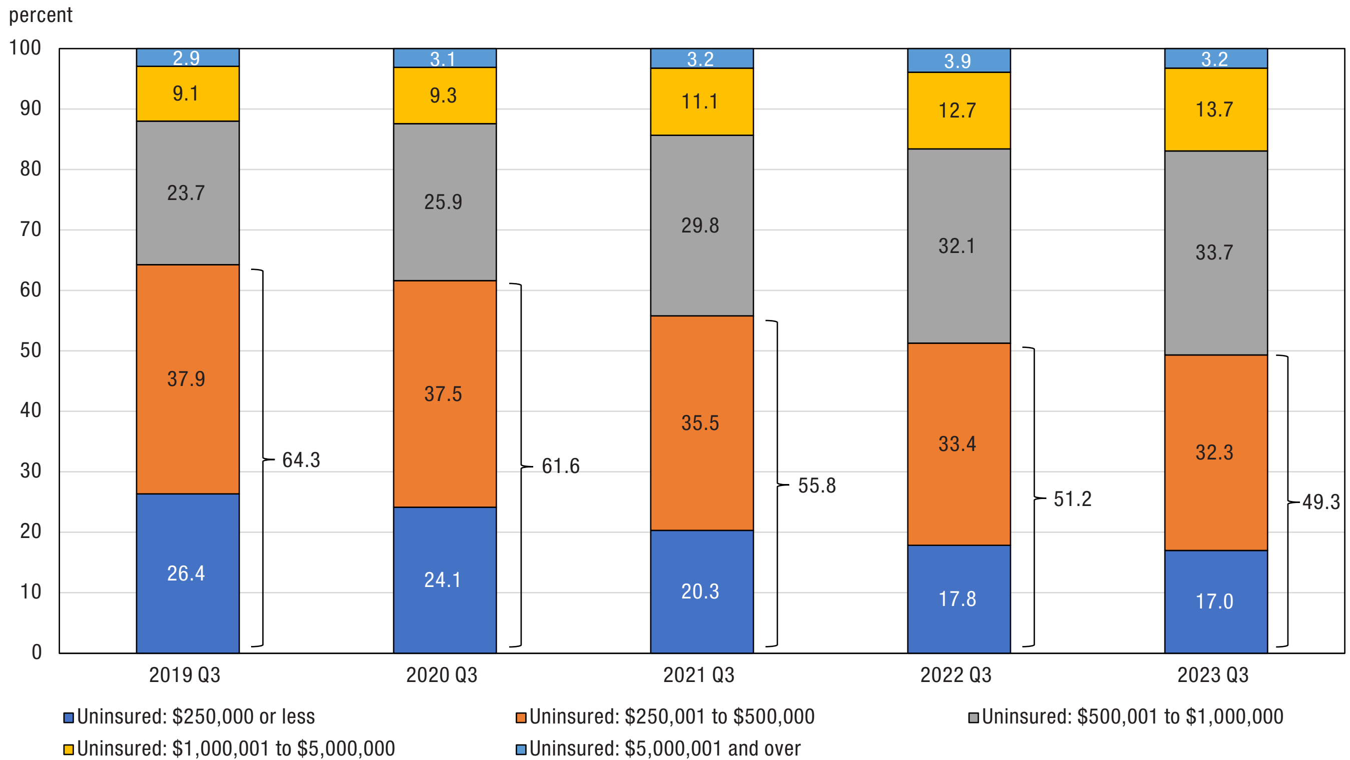
Housing prices in major Canadian cities largely contributed to this rise in the outstanding value of uninsured mortgages. The average price for a single-family detached home was $1.5 million in the Toronto area and $2.0 million in the Vancouver area[14] in the third quarter of 2023. In contrast, the average value was $650,000 in Calgary and $692,000 in Montréal for the same period. According to the latest data available, in 2016, the share of newly originated uninsured mortgages was 87% in Toronto and 90% in Vancouver.[15] While the average value for a single-detached home in Calgary and Montréal is lower, their shares of newly originated uninsured mortgages were significantly smaller, at 64% and 68%, respectively.

Newly originated uninsured mortgage loans shift to higher amounts

Mortgage loan origination amounts have increased in tandem with house prices, leading to shifts in the proportion of uninsured mortgage loans at various price levels. In 2019, 64.3% of newly originated uninsured mortgage loans were below $500,000, a figure that fell to 49.3% by the third quarter of 2023. This shift largely reflects the 10.0% increase in uninsured mortgage loans ranging from $500,000 to $1,000,000 over the past three years. A similar pattern occurred with newly originated insured mortgages: 80.1% were under $500,000 in 2019, decreasing to 69.7% in 2023.

13. Eligible Mortgage Loan Regulations (justice.gc.ca)
14. Royal Bank of Canada affordability report, December 2023.
15. Bank of Canada (November 2017). Financial System Review - November 2017: Table A2

Chart 10
Amounts of newly originated uninsured mortgage loans

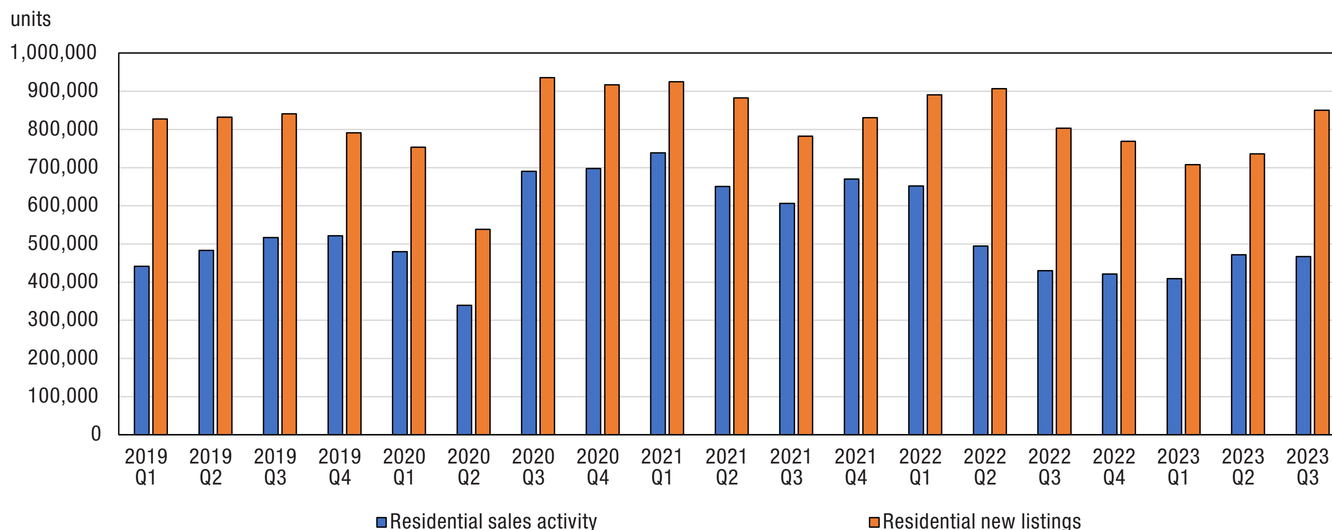


Note: The percentages in brackets represent the combined value of the two categories shown in the corresponding bar segments.
Source: Statistics Canada, Mortgage loans report (ES).

Value of newly originated mortgages declines in 2023 from earlier pandemic levels

Resales and new listings dropped at the onset of the pandemic, given a higher level of uncertainty, as many Canadians chose to bolster their finances to ensure their financial stability. However, new listings and resales increased sharply and held strong until the second quarter of 2022, driven by low interest rates, shifting housing preferences and pent-up demand. As interest rates began to rise sharply in 2022, resale activity declined in the second quarter and continued to stay below pre-pandemic levels.

Chart 11
Residential new listings and sales activity, seasonally adjusted at annualized rates



Source: Canadian Real Estate Association (CREA).

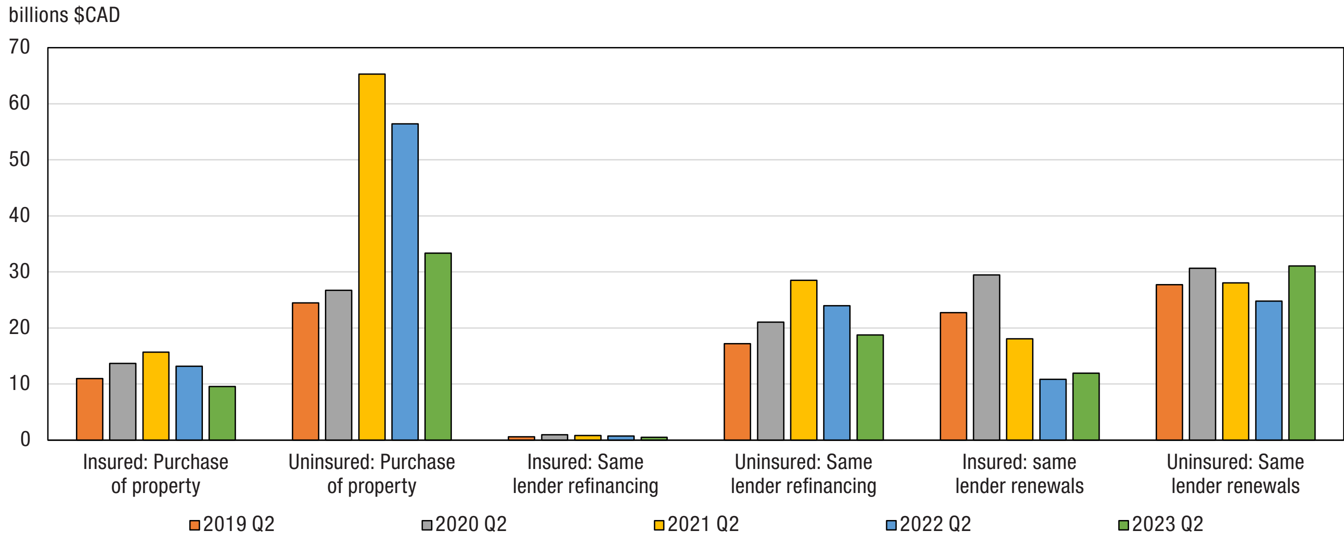
Newly originated mortgage lending can be categorized into a new origination for the purchase of a property or an origination related to renewals and refinancing with the same or a different lender. Mortgage originations for the purchase of a property closely followed the trend in resale activity. Both insured and uninsured originations rose steeply in 2020, with the uninsured portion continuing to trend upward in 2021 before declining at the end of 2022, alongside insured mortgages. The value of newly originated insured mortgages for the purchase of a property rose 20.0% in the second quarter of 2022, compared with the second quarter of 2019, mainly driven by first-time buyers, who usually have smaller down payments. For the same period, the value of newly originated uninsured mortgages for the purchase of a property increased 130.5%, fuelled by single-detached housing, which accounted for 66% of total originations in 2020 and 2021.

Renewals for insured and uninsured mortgage loans rose at the onset of the pandemic, as interest rates were at historical lows. Many financial institutions allowed borrowers to renew several months before the end of their term.[16] Therefore, the rise in renewals could have been fuelled by a combination of early renewals and end-of-term renewals.

As rising interest rates began to cool housing prices and resale activity from their early 2022 peak, chartered banks saw a year-over-year decline in new mortgage lending across nearly all categories in the second quarter of 2023. This decrease was led by a decline in uninsured mortgages for the purchase of a property (-40.9%) and refinancing (-21.6%). Same lender renewals for uninsured mortgages saw a slight increase, as a greater proportion of these mortgages were due for renewal in 2023, compared with the previous year.

16. Statistics Canada (February 2021). Trends in the Canadian mortgage market: Before and during COVID-19.

Chart 12
Newly originated mortgage lending, by purpose and type



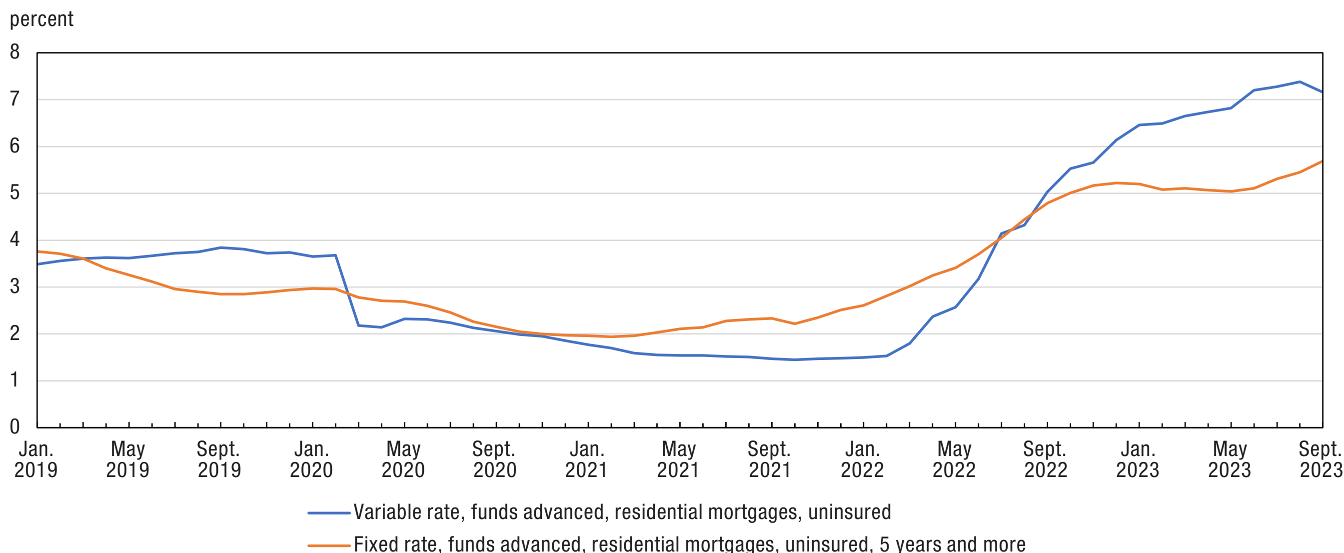
Source: Statistics Canada, Mortgage loans report (ES).

Amortization terms and monthly mortgage payments rise as Canadians approach their trigger rates

At the start of the pandemic, the Bank of Canada's interest rate cuts led to notably lower variable mortgage rates, compared with fixed rates, throughout much of 2021 and early 2022. By 2022, variable rate mortgages accounted for about one-third of all mortgage loans, with three-quarters of these having fixed payments. For these fixed-payment variable rate mortgages, the total monthly payment does not change over time, despite fluctuating interest rates. However, as interest rates rise, a greater portion of the payment goes towards interest rather than the principal, reducing equity accumulation. When the interest portion reaches the trigger rate—where monthly payments cover only interest—borrowers must renegotiate their loan terms, typically resulting in higher payments or extended amortization periods.[17] By the first half of 2023, nearly 80% of households with variable rates and fixed payments had hit their trigger rate.[18]

17. RateHub. The trigger rate: Everything you need to know.
18. As of November 2022, the Bank of Canada estimated that 50% of these mortgages had hit their trigger rate, representing 13% of all mortgages. In March 2022, the Bank of Canada began quantitative tightening and increased rates 4.25% in less than 12 months. When the Bank examined trigger rates, 100 basis points were not captured, indicating an even higher percentage of mortgages hitting their trigger rates.

Chart 13
Interest rate by mortgage term, uninsured mortgages



Source: Statistics Canada, Table 10-10-0006-01, Funds advanced, outstanding balances, and interest rates for new and existing lending.

Some chartered banks have been accommodating borrowers by allowing the principal owed to grow to 105% of the original loan value before requiring any additional payments. Consequently, the share of mortgages with an amortization period longer than 25 years has been increasing. The share of new uninsured mortgages with an amortization period longer than 25 years rose to 52.0% in the third quarter of 2023, up 12.0% from 40.0% in the third quarter of 2019.[19] An increase in the amortization period affects the amount allocated to the payment of the principal and interest component of the loan.

Ultimately, borrowers who have extended their amortization period will not see an increase in their payments before the end of their term. All else being equal, in doing so, borrowers reduce their monthly debt servicing cost. However, these borrowers could see significant increases in mortgage payments when their term is up for renewal. According to the Bank of Canada, these borrowers will need to increase their payments by approximately 40% to maintain their original amortization schedule, assuming a renewal in 2025 or 2026.

Presuming mortgage rates evolve according to current market expectations, the median payment increases for mortgage holders over the 2023-to-2026 period will be about 20% higher relative to February 2022.[20]

The total debt service ratio associated with newly originated uninsured mortgage loans increases

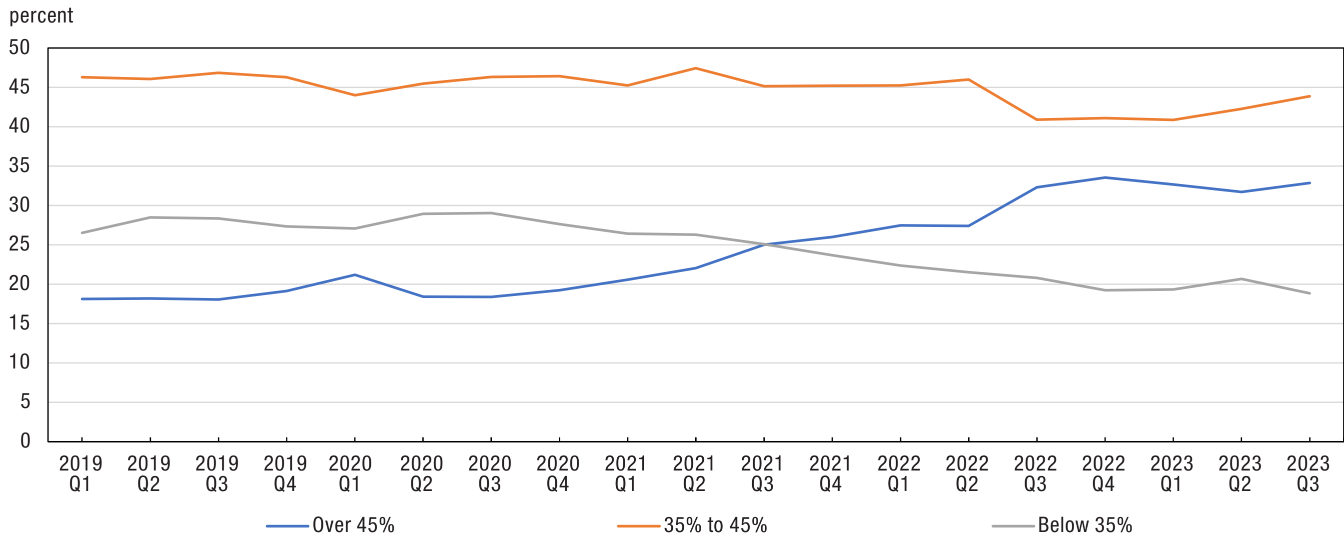
The total debt service ratio (TDSR) captures the debt servicing burden, which includes all loan obligations as a ratio of disposable income. The TDSR includes loans for credit cards, car loans, leases, mortgage payments, property taxes and other loans. The higher the ratio, the more disposable income is needed to meet all loan obligations.

The share of newly originated uninsured mortgages with a TDSR over 45% increased to 32.9% in the first quarter of 2023, up 0.6% from 32.3% a year earlier. However, compared with the first quarter of 2019, the TDSR recorded a significant increase, rising 14.9%. This can be attributed to borrowers allocating a larger share of their disposable income to debt obligations, given elevated interest rates and persistent inflationary pressure.

Newly insured mortgages did not experience the same trend, as CMHC restricts the TDSR to 44% for new insured mortgage originations, although non-CMHC insured mortgages can have a higher TDSR.

19. Bank of Canada. Indicators of financial vulnerabilities.
20. Bank of Canada (May 2023). Financial System Review 2023.

Chart 14
Total debt service ratio of newly originated uninsured mortgages



Source: Statistics Canada, Mortgage loans report (ES).

Although the TDSR of newly originated uninsured mortgages increased significantly in the last years, the associated credit score also grew during the same period. The share of uninsured mortgages for which borrowers had a credit score of 750 or more[21] rose from 60.9% in the third quarter of 2019 to 66.1% in the third quarter of 2023, up 5.2% during the period. This suggests that even though the overall indebtedness of homebuyers rose, a large share of uninsured mortgage loans throughout this period are associated with households that had a good credit score, implying a greater capacity to meet debt obligations.

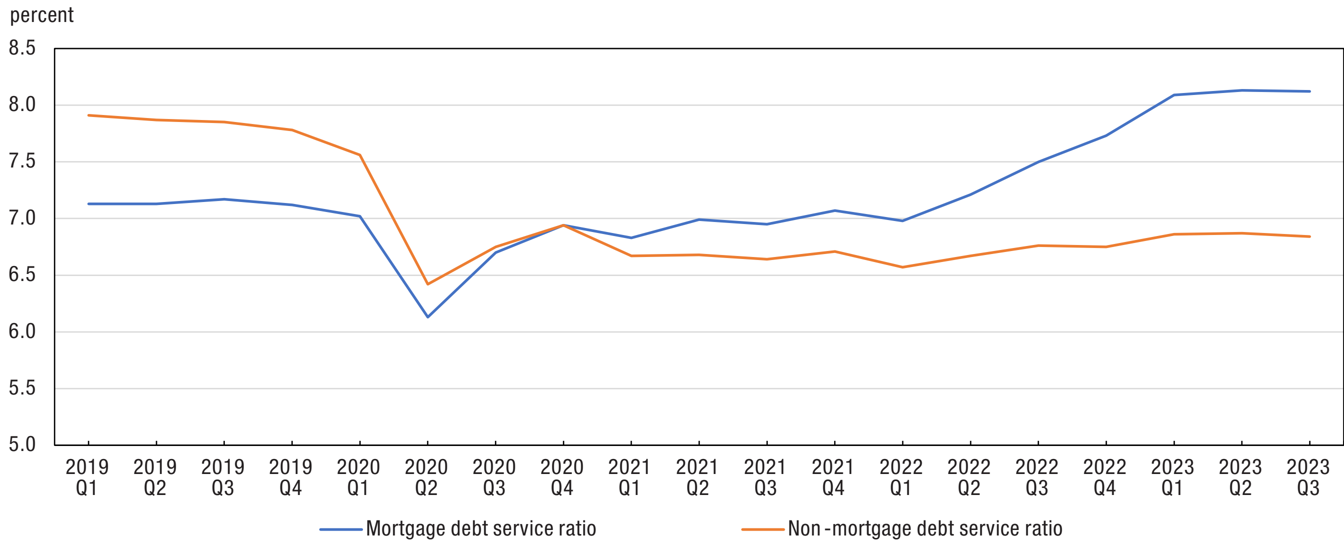
Section 3: Indicators of household indebtedness and risks to financial stability

Mortgage debt drives household debt service ratio to record levels

While not all households have felt the impact of higher interest rates on their mortgage payments, the overall household debt service ratio (DSR) has steadily increased in recent quarters. Mortgage debt payments were up 18.0% from the third quarter of 2022 to the third quarter of 2023, continuing a significant rise that began in the second quarter of 2022. Mortgage interest payments were 45.4% higher in the third quarter of 2023 compared with a year earlier because of ongoing rate hikes. Overall, the mortgage DSR, measured as total obligated payments of principal and interest on mortgage debt as a proportion of household disposable income, was up 0.62% on a yearly basis in the third quarter of 2023, reaching 8.12%. The mortgage DSR previously peaked at 8.13% in the second quarter of 2023 to its highest level since the data was made available in 1990. Meanwhile, non-mortgage interest payments were 29.9% higher in the third quarter of 2023, compared with the third quarter of 2022. The non-mortgage DSR was up 0.17% for the same period.

21. A score of more than 750 is considered good.

Chart 15
Household debt service ratio by mortgage and non-mortgage debt



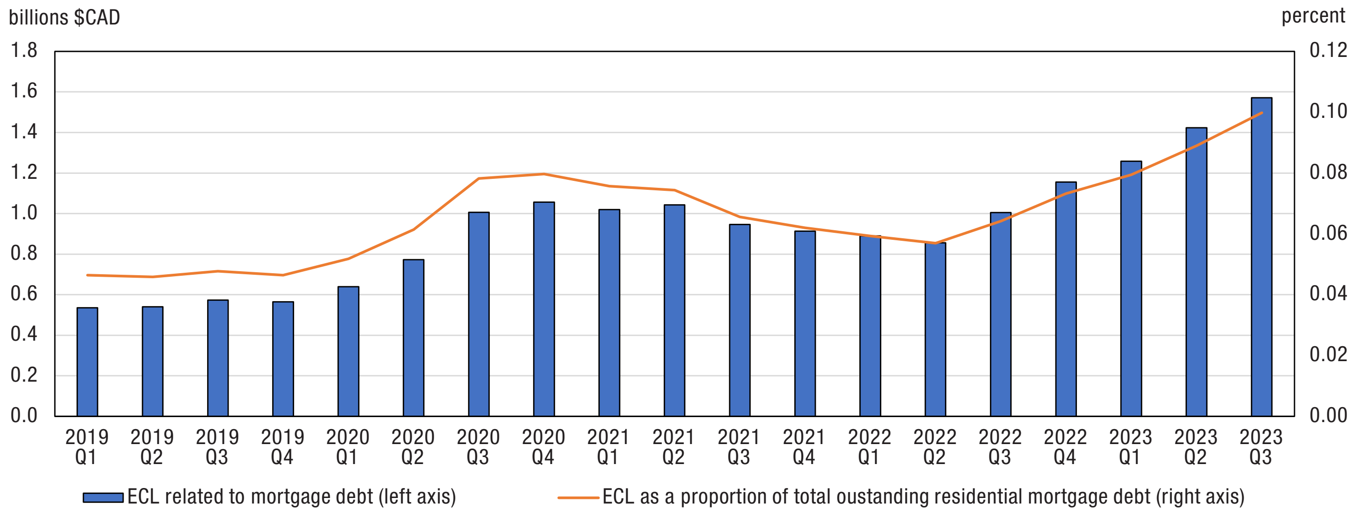
Source: Statistics Canada, Table 11-10-0065-01, Debt service indicators of households, national balance sheet accounts.

Expected credit losses rise, but represent a small portion of total mortgage loans

As part of their risk management activities, financial institutions estimate the proportion of their mortgage loan portfolio that may default within each period. These expected credit losses (ECLs) are based on actuarial assumptions that attempt to anticipate the default rates on their loans and, subsequently, the amount of impaired loans that may need to be written off in each period.

ECLs rose during the initial phase of the pandemic, as many businesses were unable to operate because of public health restrictions. ECLs for mortgage loans peaked in the fourth quarter of 2020, reaching $1.1 billion, or 0.08% of the total outstanding mortgage debt. ECLs slowly declined thereafter, reaching $0.8 billion in the second quarter of 2022. As borrowing costs rose as a result of a 4.5% increase in the policy rate in 2022, ECLs on mortgage loans started gaining upward momentum in the third quarter of 2022. They reached their highest level in the third quarter of 2023, $1.6 billion. This figure represents 0.1% of all the outstanding value of residential mortgages, exceeding levels seen during the early stages of the pandemic.

Chart 16
Expected credit losses on outstanding value of residential mortgage loans



Source: Statistics Canada, Mortgage loans report (ES).

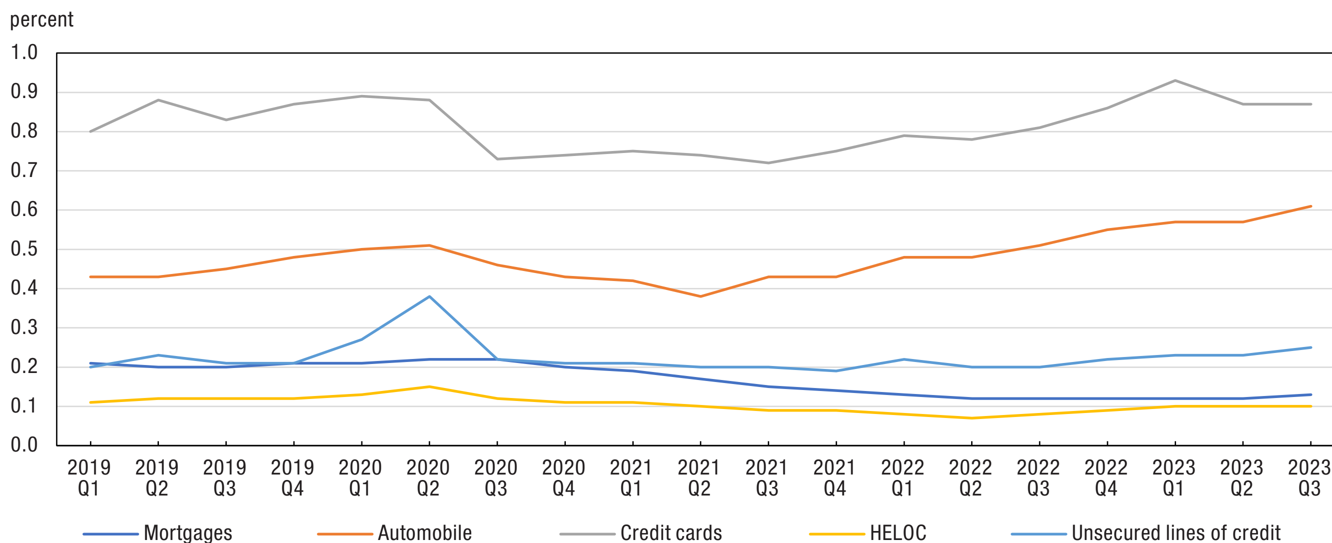
Arrears for non-mortgage loans are trending upward

Households with loans in arrears are those that are late on their debt payment obligations by 90 days or more. During the first and second quarters of 2020, all loan categories saw a slight increase in arrears, as closures in several sectors of the economy put financial stress on many households. Government support to households during the pandemic contributed thereafter to a decline in arrears as households' disposable income rose. However, as interest rates began rising and the government pulled back on COVID-19-related support, non-mortgage loan arrears began to climb again in 2022. Passenger vehicle loans (+0.18%) and credit card loans (+0.07%) saw the largest increases in the third quarter of 2023, compared with the first quarter of 2019.

Mortgage loan arrears have not experienced a similar increase since the rise in interest rates. They were still below pre-pandemic levels in the third quarter of 2023, down 0.08% compared with the first quarter of 2019. This could be explained by the enhanced flexibility of chartered banks regarding households that reached their trigger rates. As previously mentioned, not all borrowers saw an increase in their mortgage payments, as their mortgage amortization periods were extended. Additionally, most households have yet to see the full effect of higher interest rates on their mortgage payments, as their renewals are due in the coming years. According to CMHC, in 2024 and 2025, an estimated 2.2 million mortgages will be facing an interest rate shock, affecting 45% of all outstanding mortgages in Canada.[22] Most of these borrowers contracted their fixed-rate mortgages at record-low interest rates and, most likely, at or near the peak of housing prices in 2020 and 2021. The total amount of mortgage loans to be renewed during this period represents over $675 billion, close to 40% of Canada's gross domestic product in 2022.

22. CMHC (November 2023). Rising rates on homeowners and the shocks that lie ahead.

Chart 17
Rate of loans in arrears, by product type



Source: Bank of Canada, indicators of financial vulnerabilities.

Risks of borrowers shifting to non-bank lenders

Chartered banks in Canada are regulated by OSFI and require borrowers to abide by certain requirements, such as mortgage stress testing.[23] As mortgage interest rates increased, the stress test tightened, requiring that borrowers qualify at these elevated rates. Consequently, this has potentially prevented some people from qualifying for new mortgages or renewals through chartered banks, leading them to seek financing from non-bank lenders. Lenders such as credit unions are regulated provincially, whereas other lenders may be less regulated.[24] As a result, borrowers who are unable to meet the requirements of chartered banks may turn to these alternative financing sources. The Survey of Non-Bank Mortgage Lenders collects data from non-bank lenders to estimate the market share of non-bank lenders operating in Canada.

In the third quarter of 2023, the share of the outstanding value of mortgages from non-bank lenders compared with that from chartered banks was down 2.3% from 25.1% in the first quarter of 2020. During the same period, when excluding credit unions from non-bank lenders, as they are mostly provincially regulated, the share decreased 1.8% from 9.1% in the first quarter of 2020. Overall, non-bank lenders do not represent a large share of the mortgage-lending market, and their market share has slightly decreased since 2020.

Although there does not seem to be a shift from chartered banks to non-bank lenders, a growing number of borrowers are turning to non-bank lenders to renew or refinance their mortgage. Excluding credit unions, the value of insured mortgages extended for other lender renewals or refinancing grew by $547 million (+320.1%) in the third quarter of 2023, from $310 million a year earlier. This may indicate that some borrowers are having difficulty meeting the stress test requirements with their institution and are turning to non-bank lenders to renew or refinance their mortgage. However, this does not have a sizable effect on the total value of insured mortgages extended, as other lender refinancing and renewals represent a small portion (4.8%) of this total.

Canadian chartered banks are well positioned to face risks to financial stability

Considering higher borrowing costs, the Bank of Canada is mindful of the ability of households to service their debt. More households are expected to face financial pressure in the coming years as their mortgages come due for renewal. According to the 2023 Financial System Review from the Bank of Canada, a large negative shock,

23. Final Revised Guideline B-20: Residential Mortgage Underwriting Practices and Procedures – Office of the Superintendent of Financial Institutions.
24. Most non-bank lenders are either provincially regulated (i.e., credit unions) or unregulated, although non-bank lenders (mostly trusts and insurance companies) are also regulated by OSFI. Unregulated lenders do not need to abide by OSFI's mortgage underwriting standards.

such as a severe global recession with significant unemployment that depresses house prices, could lead to an increase in loan defaults among households. If defaults on uninsured mortgages with negative equity[25] were to occur on a large scale, they could result in sizable credit losses for Canadian lenders.

Chartered banks must comply with the Basel III standards and, as a result, must maintain capital and liquidity buffers that help withstand an economic downturn or an episode of market stress. Previous work from Bank of Canada staff shows that in a stress test scenario with a severe recession, the capital position of major Canadian banks would be weakened but would not breach minimum requirements. Moreover, Canada rebuilt its domestic stability buffer after the onset of the COVID-19 pandemic. This means Canadian banks are holding additional capital buffers[26] in case of a severe economic downturn. Overall, Canadian banks are well positioned to ride out the volatility, and the changing landscape is continuously being monitored to assess financial risk[27] and to ensure long-term financial stability.

25. Negative equity occurs when the value of an asset is less than the outstanding balance on the loan.
26. The six biggest Canadian banks have Common Equity Tier 1 ratios generally hovering from 12% to 15%.
27. OSFI proposed changes to the guidelines for capital adequacy requirements and the mortgage insurer capital adequacy test. These changes are expected to encourage banks to reduce the number of mortgages that would otherwise go into negative amortization.

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