

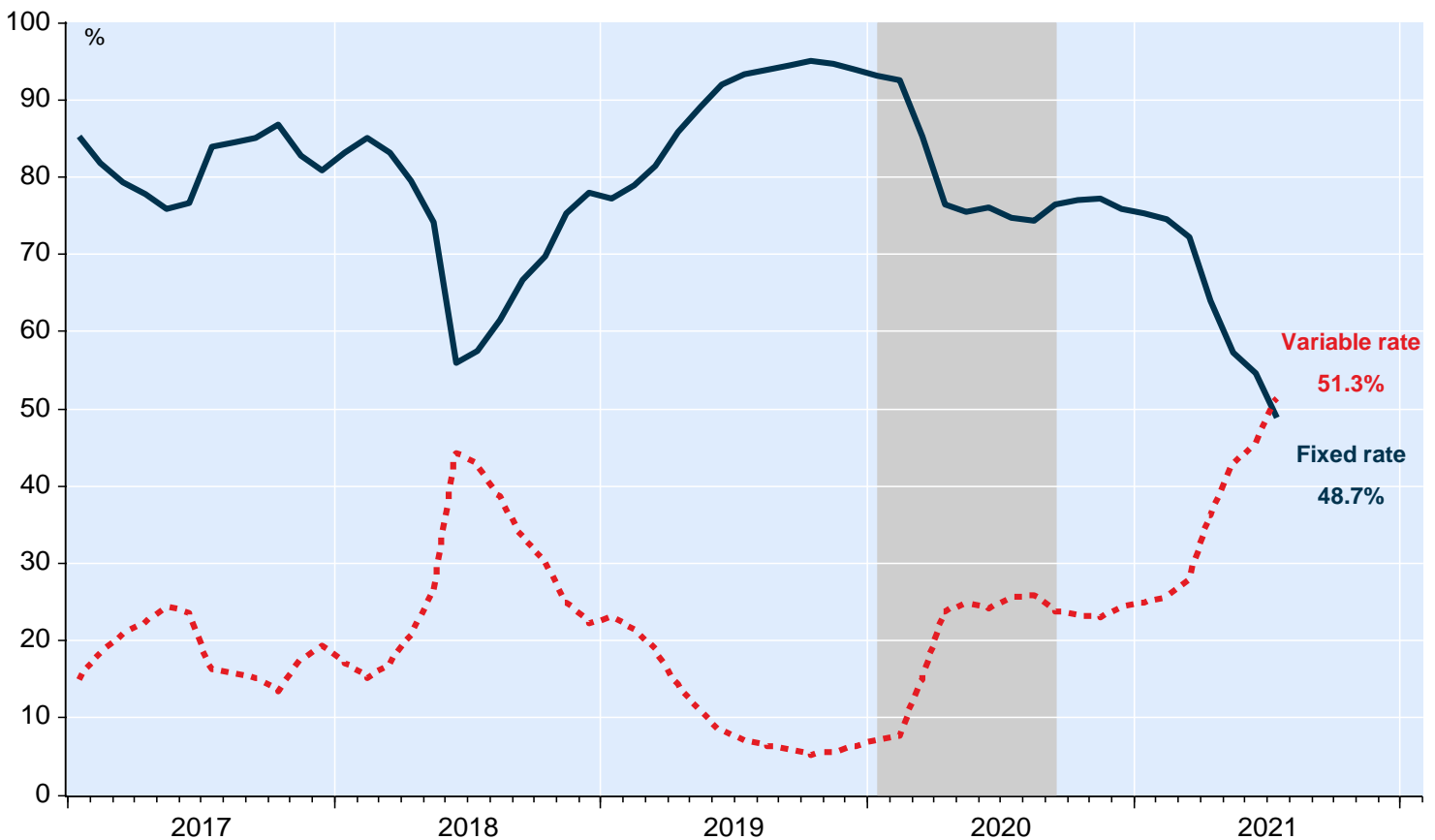
Canada Watch

By Daren King

Variable rate mortgages have never been more popular. According to Bank of Canada data, more than half of new mortgages made by banks (new purchases, renewals and refinances) were at variable rates in July. As today's Hot Chart shows, this is the first in at least five years that fixed rate mortgages have lost their lead. One reason for this is a widening spread between fixed and variable rates. For a conventional loan with a 5-year term in July, there was a 76-bps spread in favour of variable rates, the highest spread since June 2018. By choosing a floating rate over a fixed rate, home buyers increase their purchasing power by a sizable 9% for the same monthly payment. Does this make the Canadian economy more vulnerable to a payment shock should interest rates rise? Yes, but the impact is less than one might think. First, although most new mortgages are now variable rate, the share of this product in outstanding mortgages remains very low at 23%. Second, almost 40% of variable rate mortgages in Canada have fixed payments.¹ In other words, when the interest rate rises, the total mortgage payment stays the same and the capital-repayment portion decreases. Thus with such loans, as for fixed-rate mortgages, a rise of interest rates may be felt only gradually, as the loan matures.

Canada: Variable rate mortgages have never been more popular

Proportion of new residential mortgage made by banks, fixed rate and variable rate loans



NBF Economics and Strategy (data via Bank of Canada)

¹ Percentage estimated from the mortgage-backed securities market.

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