



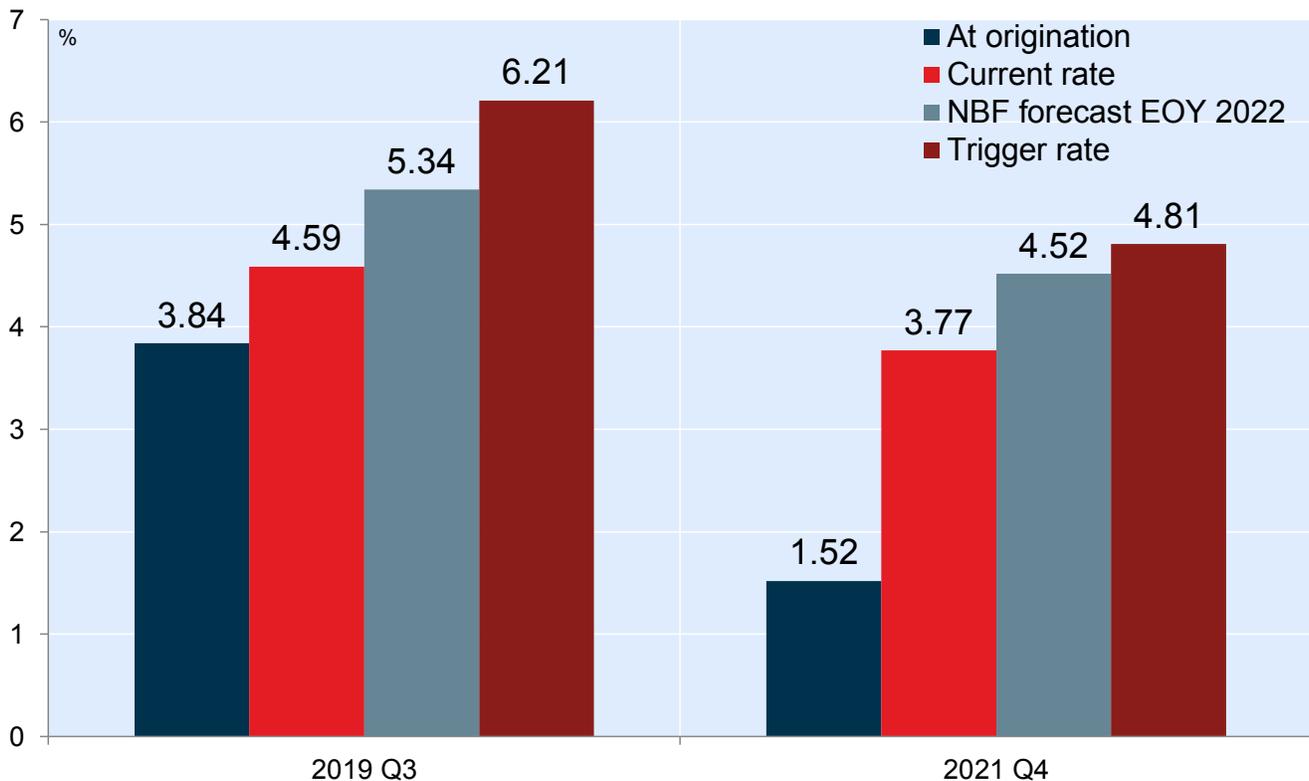
Canada Watch

By Daren King & Matthieu Arseneau

This may come as a surprise to some, but the payment on most variable rate mortgages in Canada does not change with a variation in the central bank policy rate. In fact, for this type of mortgage, if the interest rates are on the rise, the monthly payment remains fixed, but the interest portion of the payment increases, while the principal payment decreases. However, if interest rates increase significantly, there may be a situation where the borrower is no longer paying principal on the loan, but only interest. To avoid this situation, a "trigger rate" is usually specified in the client's contract. This is the rate at which the lender must contact the client and modify the payment to meet the amortization schedule. As today's Hot Charts shows, we are not there yet even if the media talks about it a lot in the wake of the jumbo policy rate increase by the BoC last week. We looked at the highest variable rate (2019 Q3) that has been issued in the last 5 years and the lowest (2021 Q4) to assess how vulnerable the portfolio is to the trigger rate in the current context. Our calculation shows that at current rates and if our forecast of a terminal rate of 3.25% by end of year materialize, the trigger rate would not be reached for borrowers this year, which is reassuring. That said, if those mortgage holders could avoid a surprise increase in their payment in the short-term, a significant increase awaits them at the time of renewal if the amortization schedule is respected.

Canada: Is the "Trigger rate" about to bite for variable rate mortgages?

Variable rate granted in 2019Q3 and 2021Q4, current rate, expected rate at the end of 2022 and trigger rate



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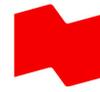
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