

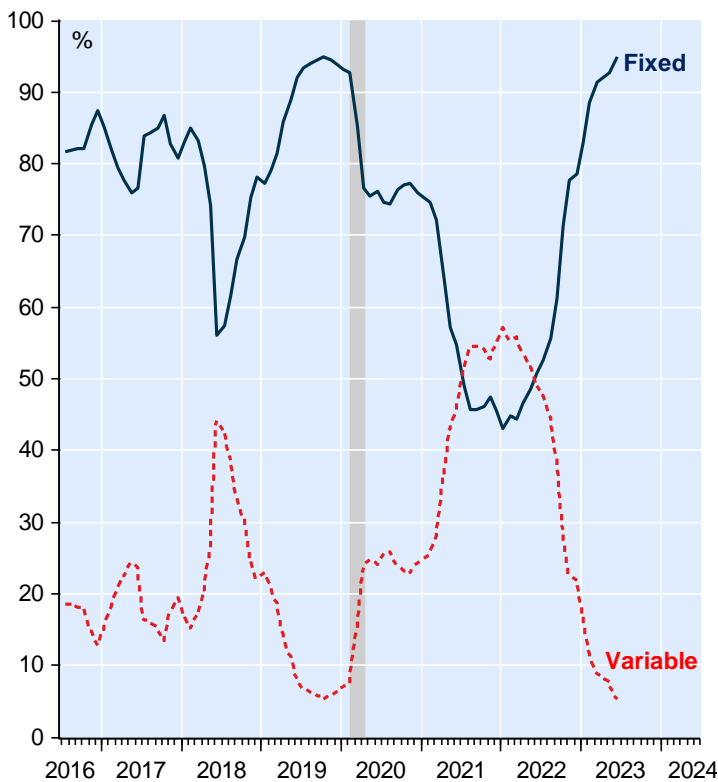
Canada Watch

By Daren King

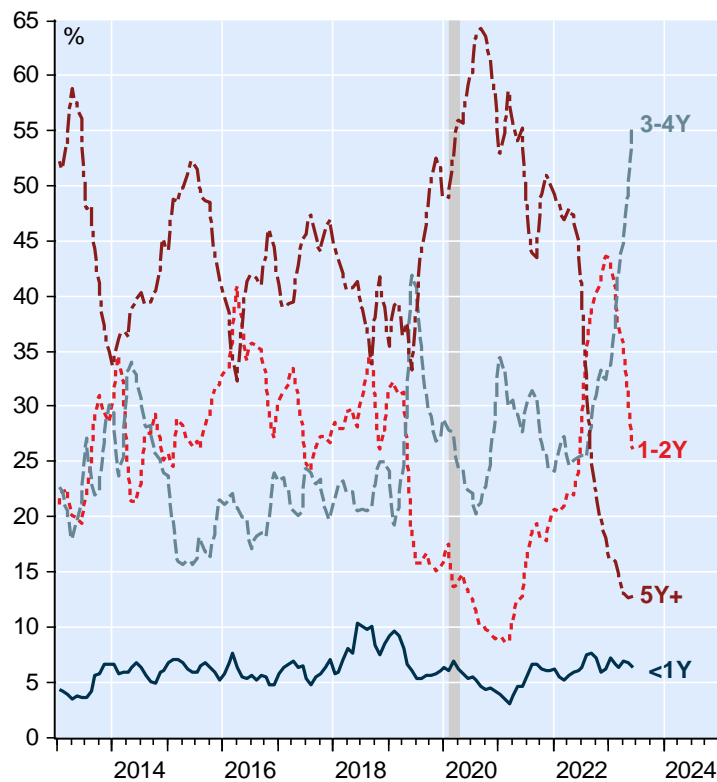
In today's interest rate environment, borrowers buying a home or renewing their mortgage face a difficult choice when it comes to selecting the terms of their mortgage. Indeed, the inversion of the yield curve and high interest rates have given room for some mortgage gymnastics. As today's Hot Chart shows, a record 95% of new mortgages in June 2023 were fixed-rate, a significant turnaround from the start of rate hikes in 2022, when that share was just 43%. That's a surprising development, given that many believe we're nearing the peak in policy rates and that a downturn is likely. Does this mean that households are locking in at potential rate peak for the long term? Not so fast. Gone are the days when the vast majority of borrowers locked in 5-year term. In fact, borrowers are reluctant to lock in such a high-rate as evidenced by a record low 13% opting for this term. A majority of 55% of mortgage holders chose the 3- & 4-year terms. There is reason to believe that they opted for this option because it is more favourable than the shorter term options (1 to 2 years) which reduces the payment and eases qualification. However, they don't want to miss out on possible rate reductions down the road.

Canada: Mortgage gymnastics for borrowers under pressure

Distribution of mortgage originations, by rate type



Distribution of fixed-rate mortgage originations, by term length



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