

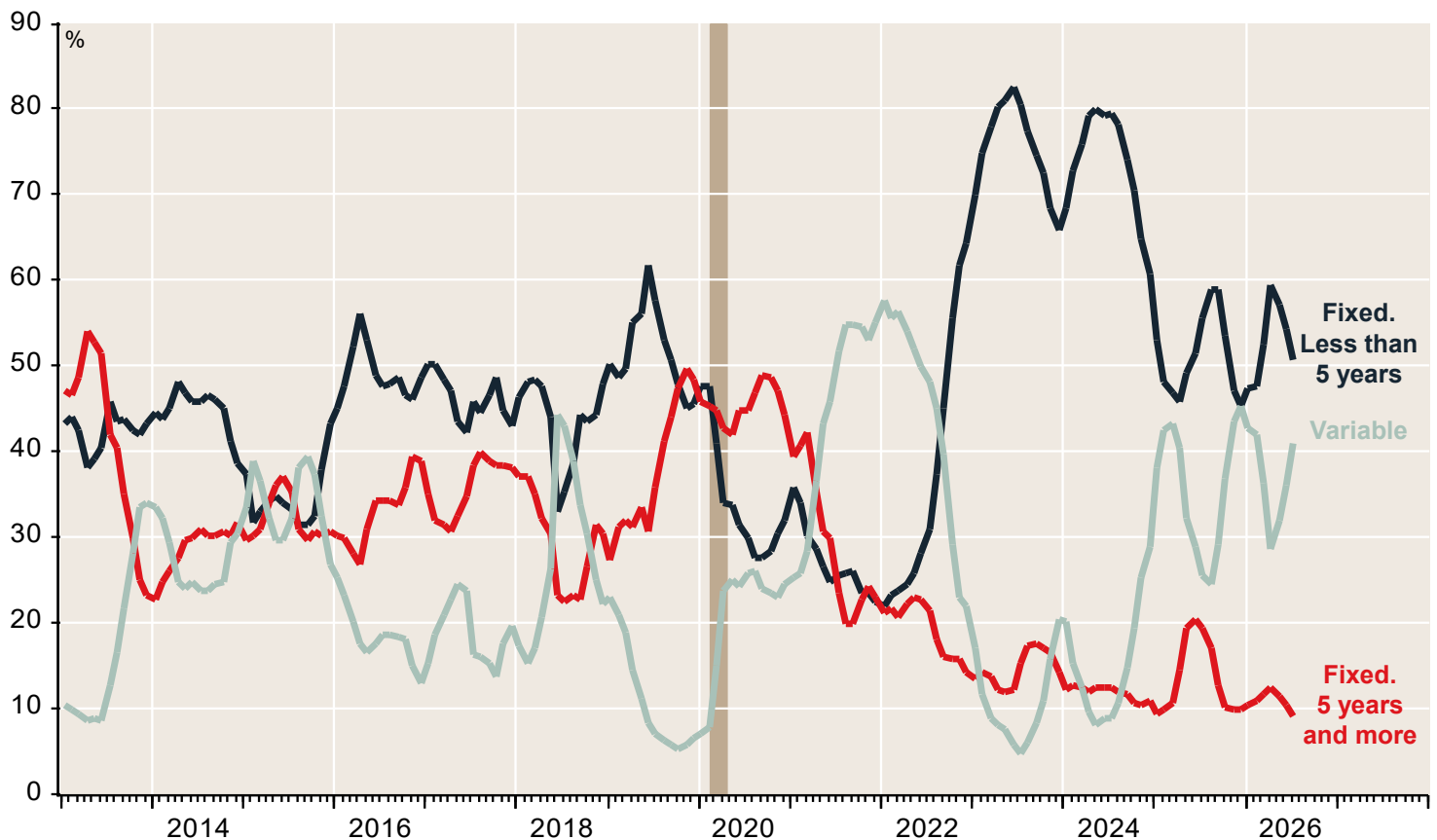
Canada Watch

By Daren King

Data on mortgage originations reveal a significant shift in households' financing choices as markets anticipate a tightening of monetary policy. The five-year fixed-rate mortgage, long the preferred option for Canadians, has been losing ground for several years to shorter terms and, more recently, variable-rate mortgages. As shown in today's *Hot Chart*, the share of new loans with a fixed rate of five years or more fell to just 8.8% in July, its lowest level since records began in 2013, leaving 91.2% of new loans with fixed terms of less than five years and variable rates. This shift is not new, as the proportion of loans with terms of five years or more fell below 20% as early as 2022 and has never truly recovered since. In 2023 and 2024, borrowers primarily favoured shorter fixed terms, but these in turn lost ground in 2025 and 2026 to variable-rate mortgages. This behaviour is not surprising, as shorter-term mortgages have become relatively more affordable since 2025. However, this trend has an important macroeconomic dimension. The more households opt for short-term or variable-rate financing options, the more quickly the Bank of Canada's decisions are passed on to their mortgage payments. As these loans gain ground in the outstanding loan portfolio, the transmission of monetary policy could therefore accelerate compared to the past. This development is all the more relevant for the real estate market because an aggressive tightening of monetary policy, as investors currently anticipate, would reduce the appeal of the short-term and variable-rate financing options that buyers now favour. A rise in financing costs could thus further dampen a residential market already grappling with modest activity and a less favorable demographic outlook.

Canada: Five-year mortgages lose favour as monetary policy gains bite

Distribution (%) of mortgage originations by interest rate type and term



NBC Economy and Strategy (data via Bank of Canada)



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