November 26, 2025 - (Vol. IX, No. 110)

Mortgage origination rising despite soft housing market

By Taylor Schleich

As per recent BoC data, mortgage activity is surging. Over the six months ended September, there's been $300 billion of origination, the most since 2021. This time, rising origination is not a function of frenzied home buying. Instead, home sales remain subdued, still below the post-COVID peak registered in late 2024. Rather, this origination is driven by mortgage *refinancing*. Specifically, Sep-20 and Oct-20 were the two highest months of 5-year fixed rate origination ever. Those are coming due and as this reverberation continues, origination will remain high in coming months.

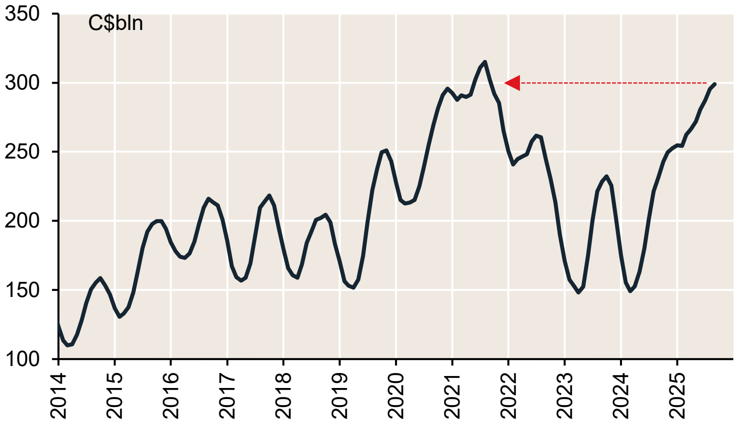
Unlike in 2020, Canadians are not locking in 5-year, fixed rate mortgages en masse anymore. Those going fixed are opting for shorter terms because: 1) shorter-term rates are lower and 2) borrowers want the option to re-negotiate sooner, hoping rates fall. We don't see much downside for mortgage rates, but it will take time for these hopes to break. Until then, ~3-year mortgages should remain the more popular fixed rate product exerting more paying pressure on 3-year swaps relative to 5-years.

In 2025, the market share of fixed rates has ceded ground to variable rates. That's consistent with historical behaviour as 275 bps of BoC rate cuts has made variable rates more competitive. The BoC has indicated its easing cycle is over, implying the next rate change could be a *hike*. If/when bond yields reflect a tightening bias, fixed mortgage rates will rise making variable even more attractive. In 2021-22, this dynamic led to a surge in variable rate origination right before the BoC started to tighten.

From a macro perspective, the impact of 2022-23 rate hikes has now almost been fully absorbed, as the average *originated* mortgage rate is only slightly above the average *outstanding* rate. That's not the case in the U.S. where many Americans are clinging to their ultra low COVID-era rates. That's created a large chasm between market rates and the borrowing costs faced by the average mortgage holder. So, despite the Fed being over a year into an easing cycle, earlier rate hikes weren't fully transmitted, which no doubt helped drive U.S. economic outperformance.

Chart 1: Mortgage activity has surged over the past year…

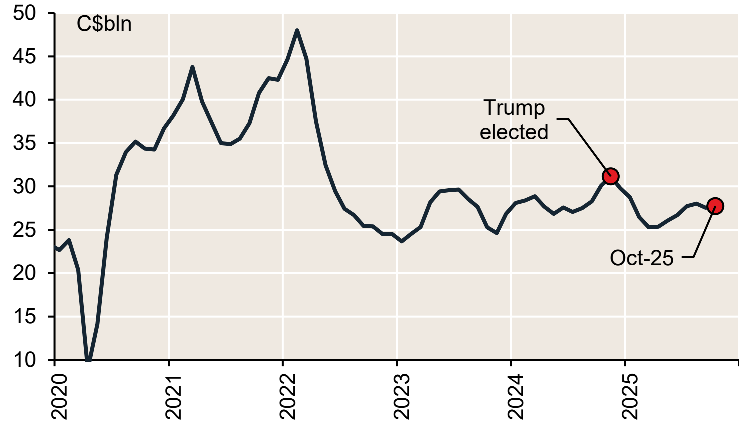
6-month moving sum of Canadian mortgage origination



Source: NBC, BoC | Note: Latest data point = September 2025

Chart 2: …which is not a function of homebuying activity…

Volume of home sales: Average price x number of transactions

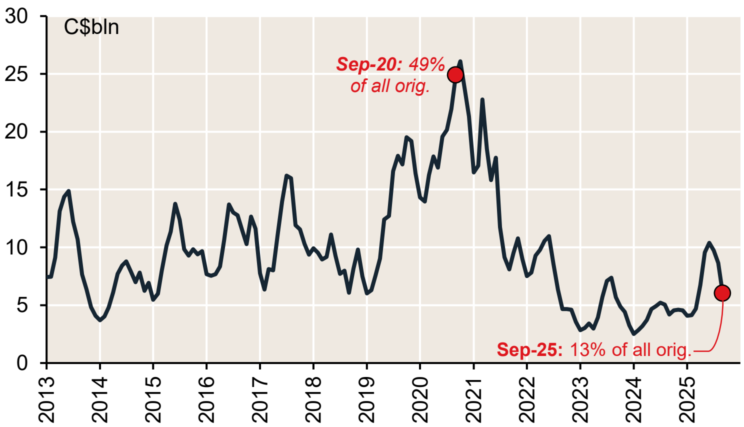


Source: NBC, CREA | Note: Latest data point = October 2025

Over the last 6 months, mortgage origination has surged to near-record levels but that's not being driven by a rejuvenated housing market. In fact, the volume of home sales is still only two-thirds of what it was in 2021, when mortgage origination peaked. Going forward, lower rates may marginally help boost homebuying but a return to a 2021-style housing market is highly unlikely.

Chart 3: …rather, Canadians are refinancing 2020 mortgages

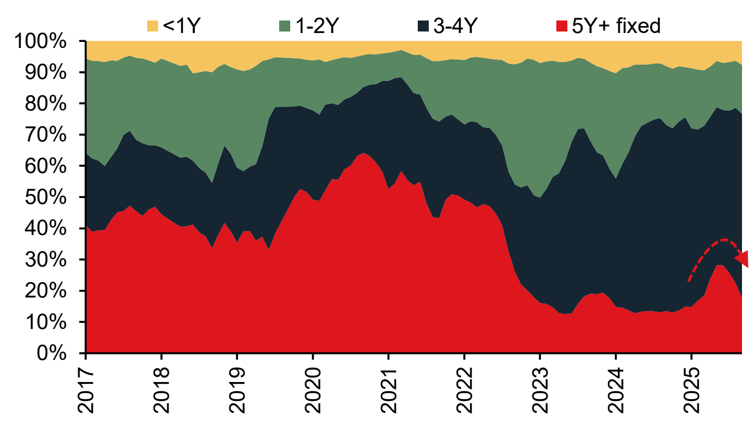
5-year fixed rate mortgage origination



Source: NBC, BoC | Note: Latest data point = September 2025.

Chart 4: Canadians are still avoiding 5-year mortgages

Share of fixed rate origination by term bucket

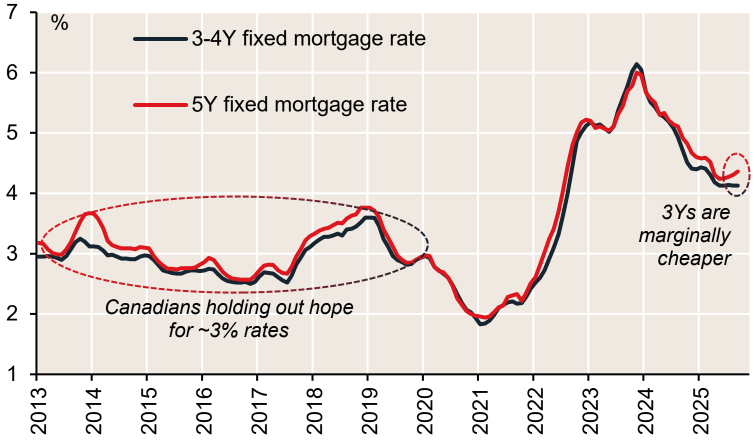


Source: NBC, BoC | Note: Latest data point = September 2025.

Instead, recent mortgage origination is driven by refinancing 5Y fixed rate mortgages taken out in fall 2020. (There's a smaller echo from shorter term mortgages originated in H1:2023 too). Canadians have not gone back to the 5-year term though, instead opting for shorter terms (mostly the 3Y). There had been some momentum towards 5Ys earlier in the year but that fizzled out more recently.

Chart 5: Canadians holding out hope for a return to 3% rates?

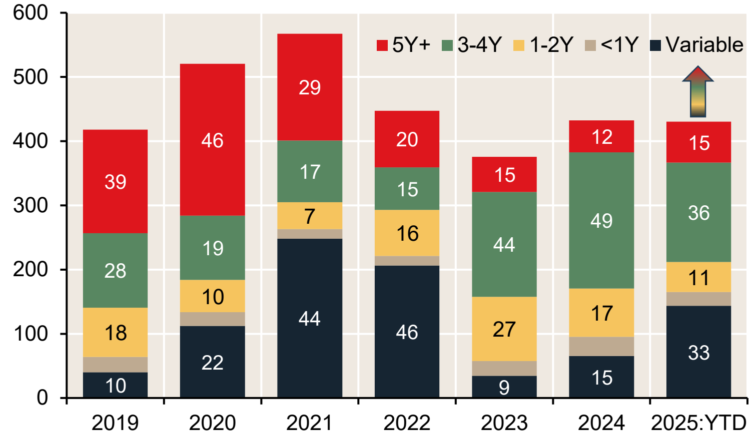
Average originated 3-4Y and 5Y fixed mortgage rates



Source: NBC, BoC | Note: Rates are for uninsured mortgages only.

Chart 6: Variable mortgages are more popular in 2025

Mortgage origination by year and mortgage type/term

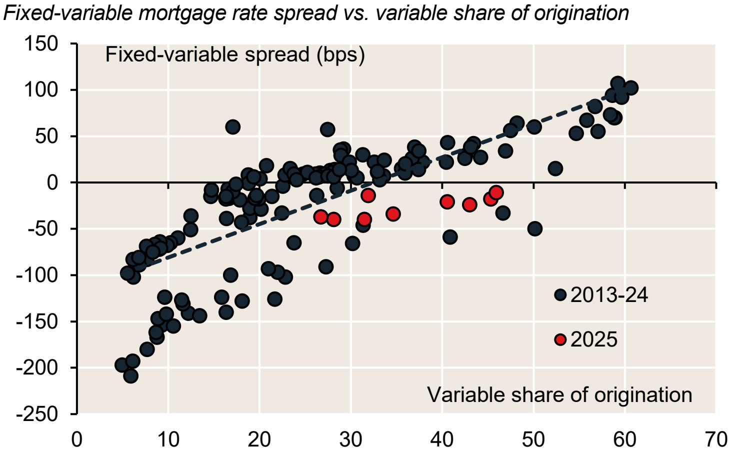


Source: NBC, BoC | Note: 2025:YTD is through September

Why a preference for shorter-term fixed rates? 1. They're (a bit) lower. 2. There's a (misplaced) expectation that mortgage rates from the 2010s will return. This hope may take time to break. Until then, shorter terms should remain dominant. More generally, fixed rates have ceded market share to variable rates. There's been more variable origination 2025:YTD than 2023 and 2024 combined.

Chart 7: As the BoC cuts, variable grows more attractive

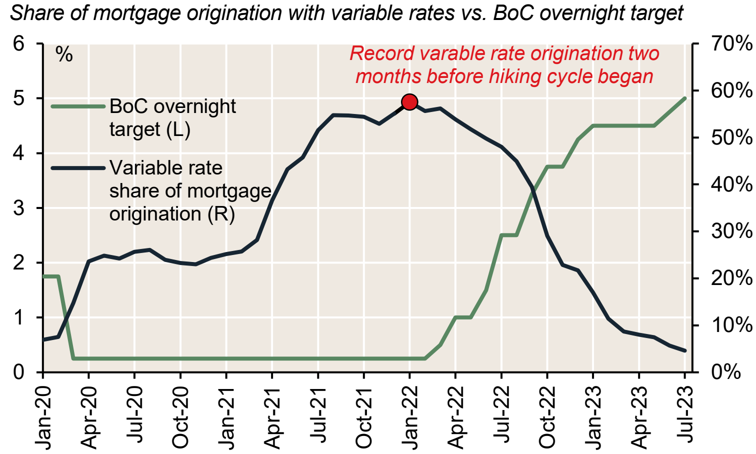
Fixed-variable mortgage rate spread vs. variable share of origination



Source: NBC, BoC | Note: Fixed rate = lowest rate across all term buckets

Chart 8: Before '22 hiking cycle, Canadians piled into variable

Share of mortgage origination with variable rates vs. BoC overnight target

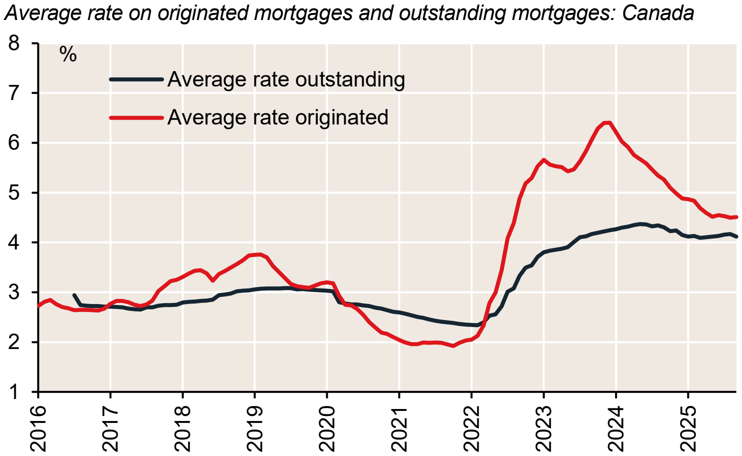


Source: NBC, BoC

In Canada, mortgage rate decision making is easy. When fixed (variable) rates are lower, go fixed (variable). In 2025, rate cuts drove more Canadians to variable rate mortgages, which may continue even if the easing cycle is over (or at the very least on pause). That's what happened in 2021-22: Fixed rates rose ahead of hikes, leading to a surge in variable origination (and some eventual pain).

Chart 9: Earlier rate hikes (almost) fully passed through…

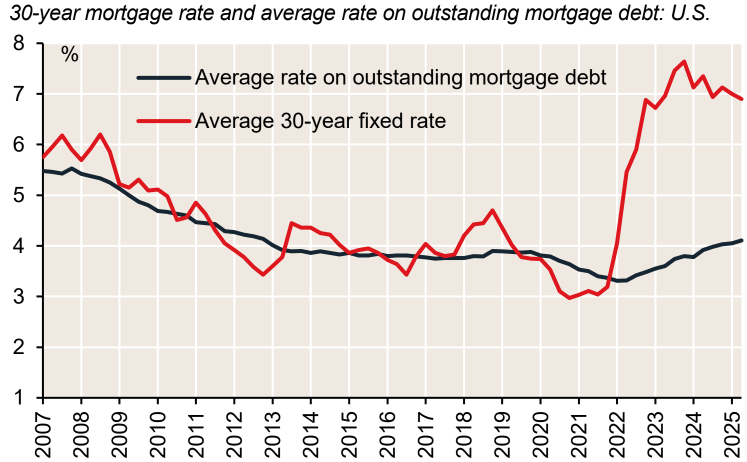
Average rate on originated mortgages and outstanding mortgages: Canada



Source: NBC, BoC | Note: Data on average outstanding rates began in mid-2016

Chart 10: …but in the U.S., most continue to pay COVID rates

30-year mortgage rate and average rate on outstanding mortgage debt: U.S.



Source: NBC, BEA, BankRate.com

While some Canadians have yet to adjust to post-COVID rates, most are now strapped with higher interest rates as 2022-23 hikes have almost been fully absorbed. In the U.S., many Americans are clinging to their low 30-year rates from 2020-21. For these households, a 4%-pt rise in mortgage rates haven't had a (direct) impact. Barring a return to ZIRP, earlier hikes will still gradually transmit.

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