HOUSING RESEARCH

Fall 2023

Residential Mortgage Industry Report

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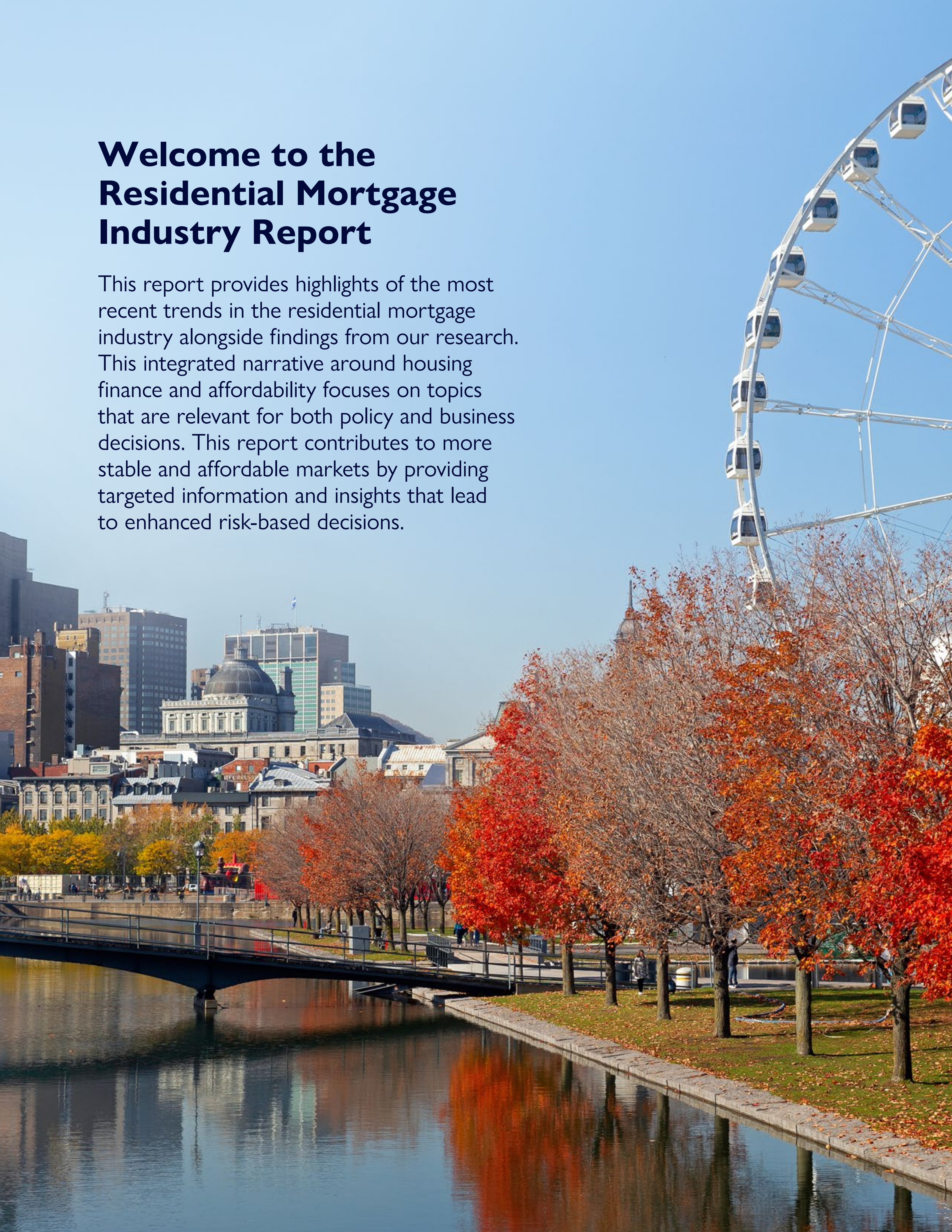
Welcome to the Residential Mortgage Industry Report

This report provides highlights of the most recent trends in the residential mortgage industry alongside findings from our research. This integrated narrative around housing finance and affordability focuses on topics that are relevant for both policy and business decisions. This report contributes to more stable and affordable markets by providing targeted information and insights that lead to enhanced risk-based decisions.



HIGHLIGHTS

The drop in home sales in the first half of 2023 led to a slowdown in new mortgage activity. However, overall outstanding mortgage debt continued to rise – especially for uninsured mortgages.

Consumers moved away from terms of less than 3 years, indicating that hopes for an immediate decrease in interest rates have faded. However, the share of mortgages with terms of 5 years or more continued to be low as consumers chose not to lock in for a traditional term.

While overall mortgages in arrears are stabilizing at historically low levels, other delinquency indicators show that some Canadians are struggling with their debt payments.

Traditional lenders saw a slowdown in mortgage activity the first half of 2023 as the housing market cooled. Their risk profile, however, remained stable.

Alternative lenders experienced the least significant slowdown among mortgage lenders and increased their market share. Their risk profile has increased slightly from a year ago.

Over 290,000 fixed-rate borrowers faced the interest rate shock as they renewed their mortgage in the first half of 2023.[1]

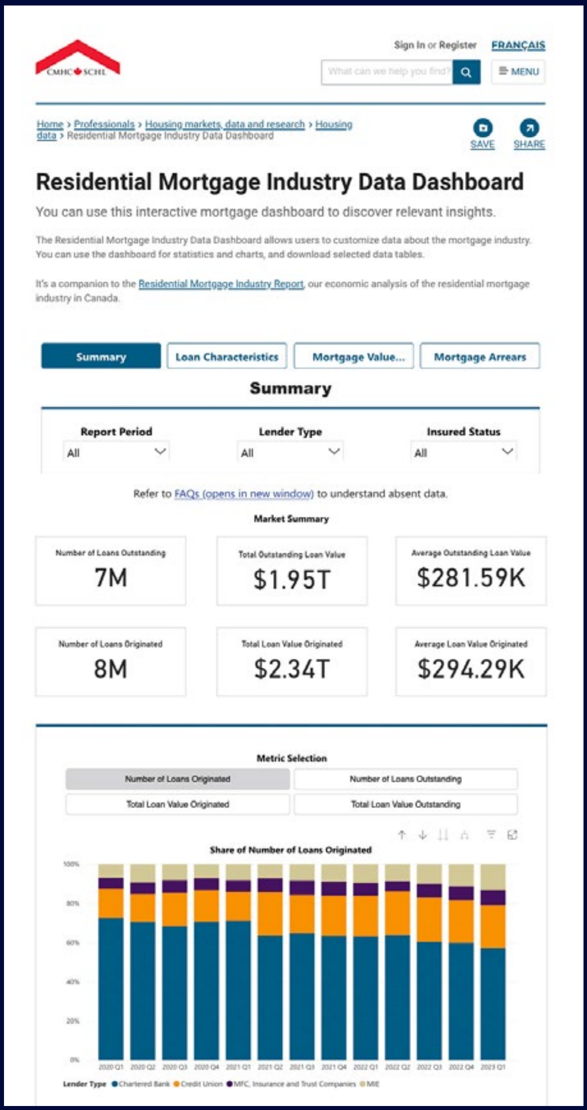
[1] With a chartered bank.

Explore The Data

Remember, you can always access most of the data by using the interactive mortgage dashboard to discover more insights that are relevant to you. The Residential Mortgage Industry Data Dashboard is a digital interactive companion to the Residential Mortgage Industry Report.

VISIT WEBSITE TO GET STARTED

https://www.cmhc-schl.gc.ca/en/professionals/housing-markets-data-and-research/housing-data/residential-mortgage-industry-data-dashboard



Recent mortgage market trends: The big picture

A slowdown in mortgage activity, fueled by fewer home sales, was recorded for all lender types. Despite this, Canadians' mortgage debt continued to grow, especially in the uninsured market.

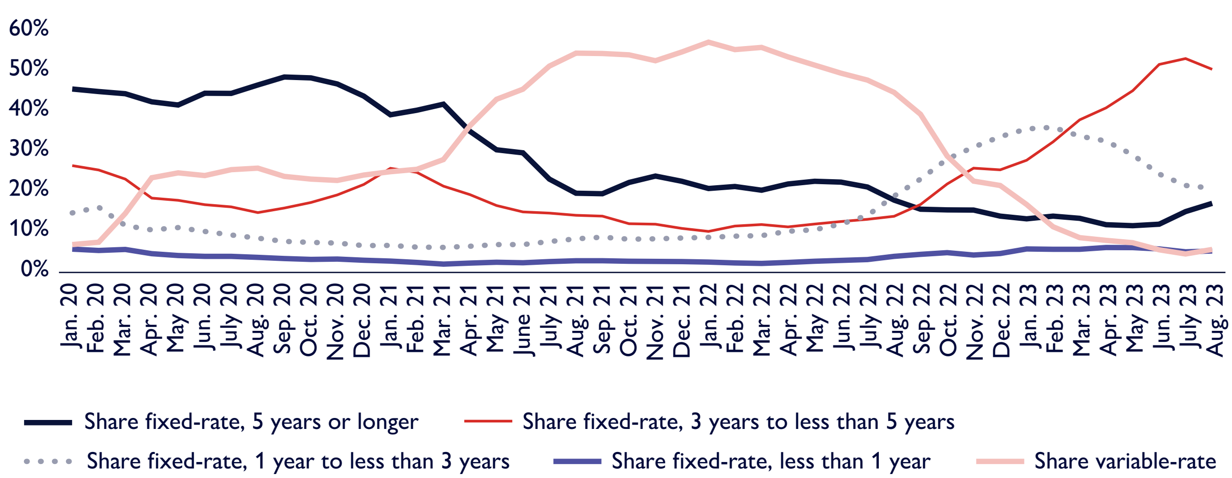
- As of August 2023, residential mortgage debt stood at 2.14 trillion (+3.4% compared to August 2022). Year-over-year growth in the first 8 months of the year slowed as housing market activity decreased in comparison to the highly active market of 2022. Despite this slowdown in mortgage growth, home prices are on the rise again after a temporary drop in 2023.
- Borrowers continue to have a strong preference for fixed-rate mortgages. This preference is driven by a noteworthy discount offered by fixed-rate mortgages relative to variable-rate mortgages and concerns about further rate hikes.

  Federally regulated financial institutions lent $244.5 billion for new and renewed mortgages under fixed-rate agreements in the first 8 months of the year. This amount is considerably more than the amount lent under variable-rate agreements ($20.1 billion).

  Borrowers are also shifting their preference for the length of fixed-rate terms: agreements between 3 and 5 years have become the most popular option (see figure 1).
- Across chartered banks, 73% of outstanding residential mortgages were uninsured in 2023Q2. This proportion is much higher than in 2016, when only 45% of mortgages were uninsured (see table 1).

  The increase is partly caused by past regulatory changes that tightened mortgage insurance eligibility rules. It's also caused by rising house prices in many markets: more properties are now near or above the allowed insurable limit of $1 million. The increasing difficulty of first-time homebuyers to become homeowners is likely another contributing factor, as many would require mortgage insurance.
- A look at non-bank mortgage lenders reveals a similar trend in the uninsured segment. During 2023Q1, the value of uninsured mortgages outstanding increased by 9% compared to the same period in 2022. The value of insured mortgages, meanwhile, remained the same. However, both uninsured and insured mortgages extended during this period decreased (-10% and -31%, respectively).

Figure 1: Borrowers have started to prefer fixed-rate mortgages with terms between 3 and 5 years. Fixed-rate mortgages with terms between 1 and 3 years, meanwhile, are losing popularity.



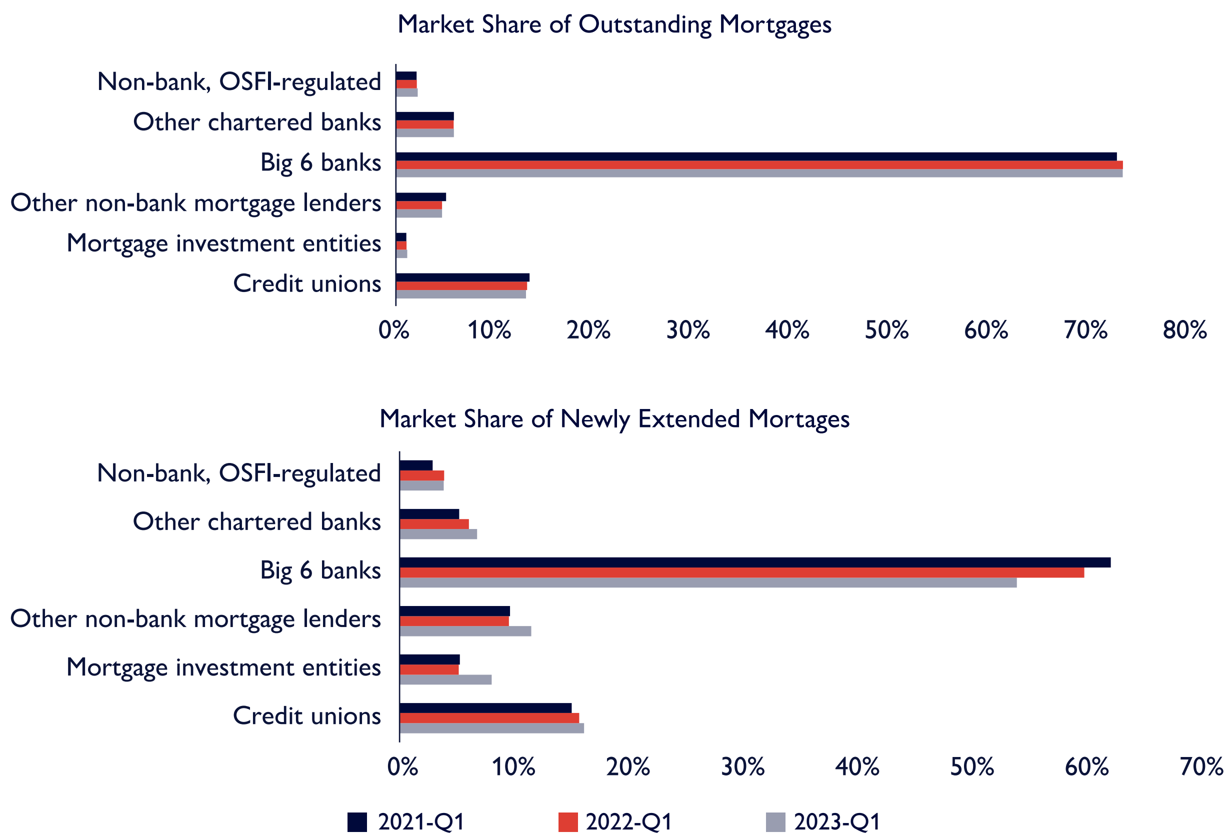
Source: Statistics Canada. Table 10-10-0006-01 Funds advanced, outstanding balances, and interest rates for new and existing lending, Bank of Canada; CMHC calculations. August 2023

Table 1: Increasing share of uninsured mortgages extended widened the gap between insured and uninsured mortgages outstanding (in billions of $)

	2015Q2	2016Q2	2017Q2	2018Q2	2019Q2	2020Q2	2021Q2	2022Q2	2023Q2
Insured	539	572	556	509	476	477	467	440	435
Uninsured	434	462	541	634	707	785	939	1,102	1,163
Percentage	45%	45%	49%	55%	60%	62%	67%	71%	73%

Source: Statistics Canada. Table 10-10-0134-01 Chartered banks, mortgage loans report, second quarter of 2023, Bank of Canada

Figure 2: Alternative lenders increase their market shares in the first quarter of 2023



Source: Survey of Non-Bank Mortgage Lenders, CMHC NHA MBS mortgage reporting, CMHC calculations, first quarter of 2023

In 2023Q1, mortgage investment entities and other non-bank mortgage lenders registered the largest increase in market share, year over year, for mortgages extended (+2.9 and +1.9 percentage points, respectively). The Big 6 banks recorded the only decrease in market share for extended mortgages (-5.9 percentage points). However, their market share of outstanding mortgages remained the same as it was a year ago (73.1%)

Risks and vulnerabilities to the housing finance system

Overall mortgages in arrears are stabilizing at historically low levels. Other delinquency indicators, however, show that an increasing share of Canadians are struggling with their debt payments.

- In the first 2 quarters of 2023, more than 290,000 mortgage borrowers renewed their mortgage at a significantly higher interest rate with a chartered bank. The resulting increase in their debt-servicing costs is putting financial pressure on these borrowers.
- The decreasing ability of Canadians to make their debt payments is becoming a more significant vulnerability for the housing finance system. Reasons for this are:
  - a high debt-to-income ratio (171.9% in 2023Q2)[1] due to household mortgages;
  - interest rates that have more than doubled since the start of last year; and
  - a significant share of mortgages with a variable rate (1 out of 3).
- The share of overall mortgages in arrears (delinquent for 90 or more days) has been stabilizing at historically low levels (0.15%)[2] for the past 16 months. This stabilization has occurred despite increasing debt-servicing costs due to higher interest rates.

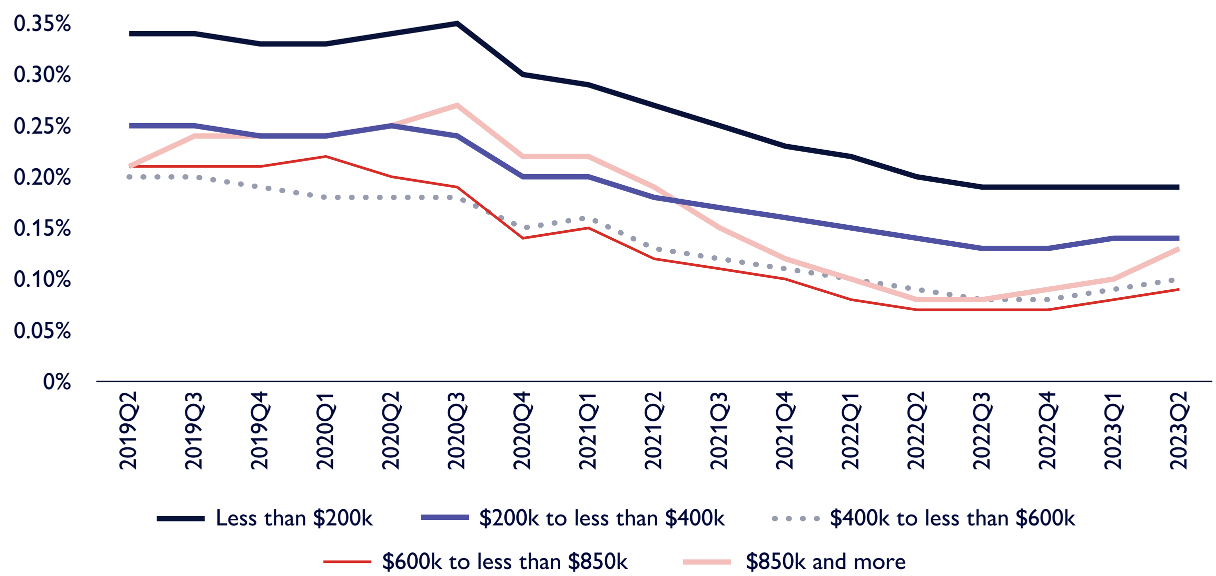
  Increasing delinquency rates among other credit products (auto loans, credit cards and lines of credit) and in specific mortgage segments indicate that an increasing share of credit consumers are struggling with debt payments:
  - Borrowers with larger mortgage loans ($400,000 and up) have shown an increasing trend in mortgages in arrears since 2022Q3. A more significant increase was recorded among borrowers with the largest mortgages ($850,000 and up) (+3 basis points, reaching 0.13%). Mortgage loans with lower values (less than $400,000) had higher arrears rates than larger mortgage loans, but their arrears rate remained stable during this period (see figure 4).
- Both second- and third-stage mortgage delinquency rates (respectively meaning that payments are 30 to 59 and 60 to 89 days past due) recorded notable increases in 2023Q2 compared to the same period 1 year earlier. An increase in these initial stages in the delinquency process suggests that borrowers are beginning to encounter financial strain.
- Additionally, the delinquency rates of credit cards and auto loans have increased continuously throughout the last 6 quarters. Auto loan delinquency rates, in particular, have overshot pre-pandemic levels. The delinquency rate for lines of credit (LOCs) has increased continuously since 2022Q2 (see figure 5 — for more information and data visit Mortgage and Consumer Credit Trends Data Tables (cmhc-schl.gc.ca).[3]

[1] Statistics Canada. Table 38-10-0238-01 Household sector credit market summary table, seasonally adjusted estimates (https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=3810023801)

[2] Canadian Bankers Association, Read the latest statistics on mortgages in arrears in Canada (https://cba.ca/mortgages-in-arrears)

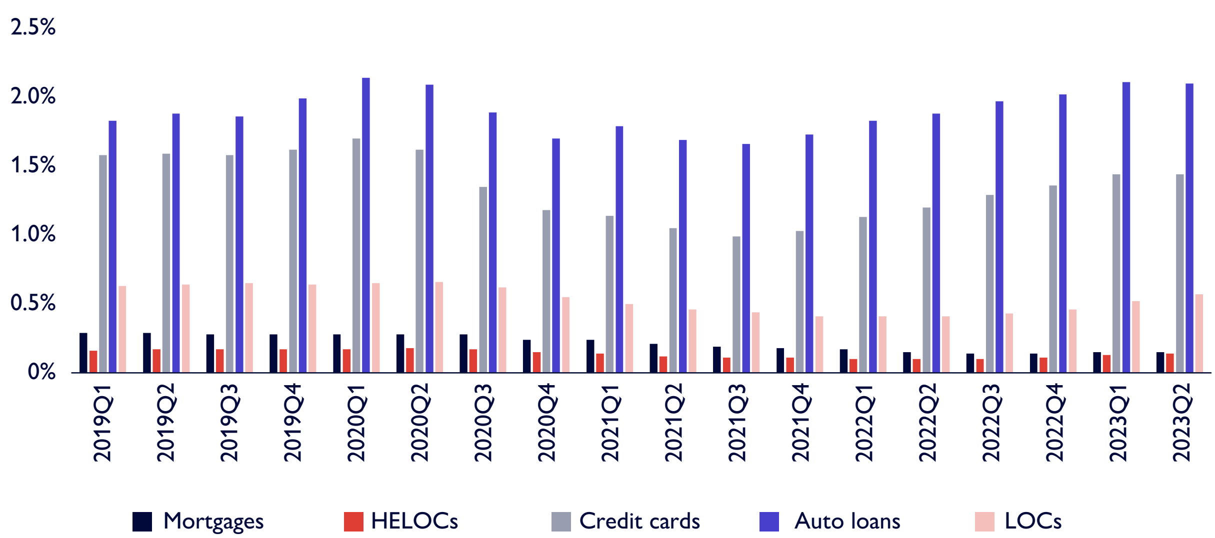
[3] https://www.cmhc-schl.gc.ca/professionals/housing-markets-data-and-research/housing-data/data-tables/mortgage-and-debt/mortgage-consumer-credit-trends-cmas

Figure 3: Mortgage delinquency rate by mortgage value at origination
Based on the number of accounts 90 days or more past due — seasonally adjusted



Source: Equifax and CMHC calculations, 2023Q2

Figure 4: While overall mortgages in arrears are stabilizing at historically low levels, arrears of other credit products suggest that an increasing share of Canadians are struggling with their debt payments
Share of the number of accounts 90 or more days past due over the previous 3 months



Sources: Equifax and CMHC calculations, 2023Q2

Traditional lending segment

Traditional lenders saw a slowdown in mortgages for the purchase of property and refinances. Additionally, their risk indicators stabilized in the first half of 2023.

- Traditional lenders saw a slowdown in activity in the first half of 2023. For chartered banks, mortgages for the purchase of property and refinances were both down from the same period last year, falling 44% and 34%, respectively.

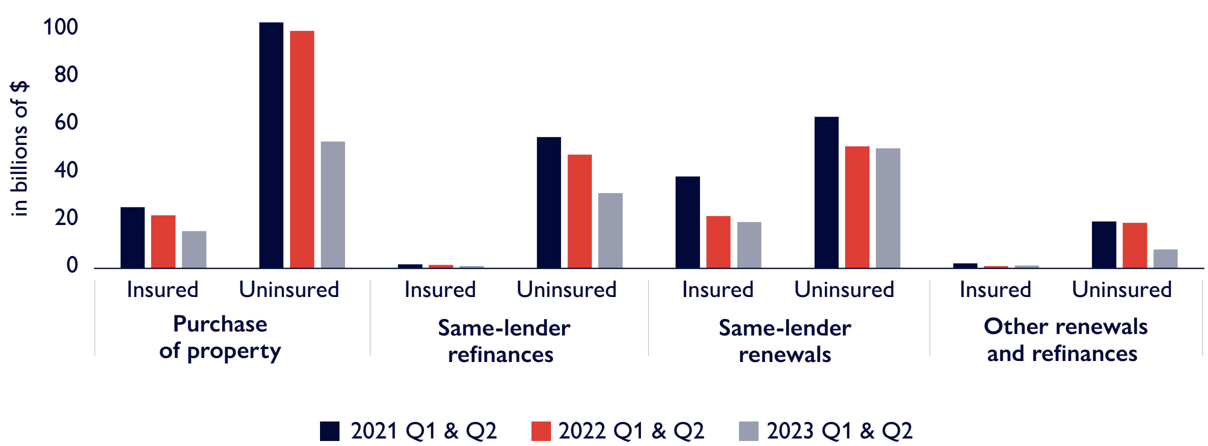
  The decrease in mortgages for the purchase of property is the result of fewer sales relative to the first half of 2022, when the housing market was very active. Meanwhile, refinances have decreased for 2 reasons:

  - Borrowers are less able to find rates lower than those they currently have. This removes their incentive for refinancing.
  - Unlike in recent years, current stagnant house prices reduce the equity available to borrowers.
- For chartered banks, the overall risk from new loans was relatively stable year over year. Amortizations continued to be longer than they were before the beginning of recent interest rate increases. In the first half of 2023, nearly 2 out of 3 newly extended mortgages had an amortization longer than 25 years, compared to only half in 2020. Longer amortizations lower borrowers' monthly mortgage payments, but increase lender risk, since less principal is repaid every month.
- The share of new uninsured loans with a high total debt service (TDS) ratio (a TDS ratio greater than 50%) began to fall in the first half of 2023. After reaching a peak of 16.6% in 2022Q4, it fell to 15.5% in 2023Q2.

  At the same time, however, the trend toward mortgages with lower loan-to-value (LTV) ratios stalled in the first half 2023, as the distribution of LTV ratios remained almost exactly the same as 2022. The level of risk caused by high LTV ratios has decreased since 2019, but these ratios are still higher than they were in 2018.

  In the first half of 2023, the overall risk profile of mortgages is relatively unchanged compared to 2022.

Figure 5: Mortgages for the purchase of property and refinances saw significant drops from the first half of 2022 to the first half of 2023



Source: CMHC residential mortgage data reporting of NHA MBS issuers; CMHC calculations. 2023Q2

Table 2: Lender risk indicators remained stable from 2022 to 2023

TDS ratio	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2
Greater than 50%	12.1%	12.1%	12.7%	13.6%	14.0%	12.6%	14.6%	16.6%	16.1%	15.5%
40% to 50%	38.2%	39.9%	41.7%	41.9%	43.8%	45.9%	46.3%	46.5%	46.3%	45.5%
Less than 40%	49.7%	48.0%	45.6%	44.5%	42.1%	41.5%	39.1%	36.9%	37.6%	39.0%

Amortization	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2
25 years or less	49.6%	47.2%	43.8%	42.8%	38.1%	37.4%	41.4%	39.7%	37.4%	36.5%
Over 25 years	50.4%	52.8%	56.2%	57.2%	61.9%	62.6%	58.6%	60.3%	62.6%	63.5%

Source: CMHC residential mortgage data reporting of NHA MBS issuers; CMHC calculations

LTV ratio	2018	2019	2020	2021	2022	2023 (Q1 & Q2)
Less than 65%	41.1%	37.9%	37.1%	38.2%	39.8%	39.9%
Between 65% and 75%	18.0%	18.2%	17.8%	17.5%	16.7%	16.4%
Greater than 75%	40.9%	43.9%	45.2%	44.3%	43.5%	43.7%

Source: CMHC residential mortgage data reporting of NHA MBS issuers; CMHC calculations

Alternative lending segment

Alternative lenders increased their market share in the first half of 2023, and their risk profile increased compared to last year.

- In 2023Q1, the assets under management of Canada's top 25 mortgage investment corporations (MICs) grew by 7.1% year over year. Overall mortgage debt in the country, meanwhile, grew by close to 6%. MICs remain a growing lender segment, but these latest growth figures represent a notable slowdown after 5 consecutive quarters of double-digit year-over-year growth.

  Looking forward, capital availability for alternative lenders may be affected by a shift in investor appetite toward other high-return investments with less or no exposure to our housing markets.

- In 2023Q1, the alternative lender mortgage portfolio remained at relatively low risk compared to pre-pandemic levels, despite some risk indicators increasing year over year. The share of second (or lower) priority single-family mortgages is increasing, and the debt-to-capital ratio remains high (24.1%).

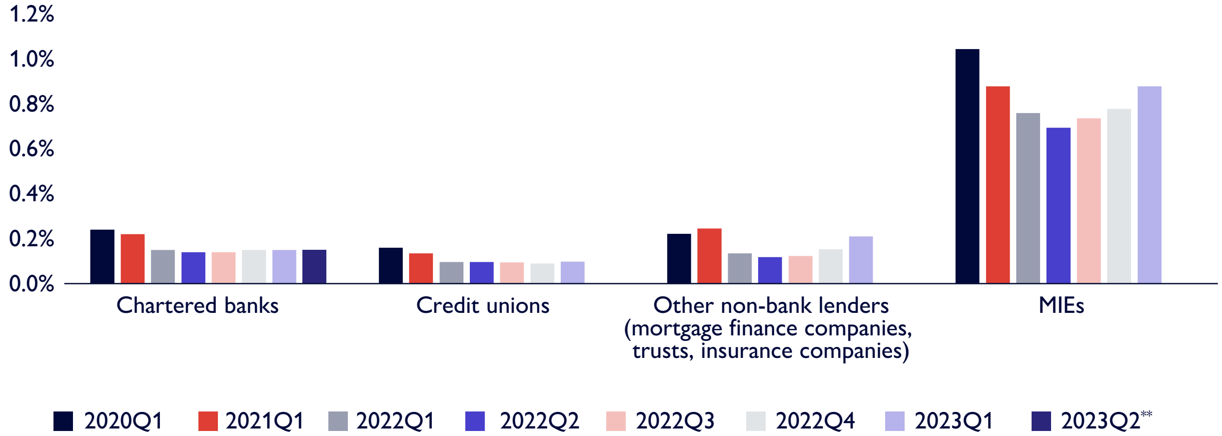
  Debt-to-capital ratios may be increasing because of the shift in investor appetite mentioned above. Despite this, the average LTV ratio on newly originated mortgages remains stable. Additionally, delinquency rates are low (though increasing), and there are few foreclosures when compared to pre-pandemic levels.

Table 3: Insights into mortgage investment entities indicate a slight increase in their risk profile

	Q3-2021	Q4-2021	Q1-2022	Q2-2022	Q3-2022	Q4-2022	Q1-2023
Assets under managment (AUM) of top 25 MICs, in millions of $	8,413	9,188	9,862	10,168	10,489	10,427	10,564
Average lending rate to single-family	8.1%	8.0%	7.9%	8.0%	8.4%	8.5%	9.0%
Average share of first mortgages	83.7%	83.6%	84.8%	83.9%	83.9%	81.2%	80.9%
Average loan-to-value (LTV) ratio	57.4%	58.5%	58.3%	58.0%	58.0%	58.5%	58.6%
Debt to capital ratio	17.3%	20.2%	22.5%	25.3%	25.1%	25.7%	24.1%
Delinquency of 60 or more days	2.90%	2.59%	2.11%	1.34%	1.50%	1.65%	1.95%
Foreclosure rate	2.21%	1.34%	1.08%	1.00%	1.28%	1.38%	1.58%
Geographical distribution	**Q3-2021**	**Q4-2021**	**Q1-2022**	**Q2-2022**	**Q3-2022**	**Q4-2023**	**Q1-2023**
British Columbia	39.1%	43.5%	41.7%	41.7%	41.1%	41.2%	40.8%
Alberta	7.4%	6.7%	6.3%	6.3%	6.4%	5.9%	5.9%
Ontario	47.9%	42.8%	43.4%	43.9%	44.1%	44.9%	45.6%
Québec	4.1%	4.6%	5.9%	6.7%	6.7%	5.0%	6.3%
Others	1.6%	2.5%	2.6%	1.4%	1.7%	3.0%	1.5%

Sources: Mortgage Investment Corporations (MIC) Survey, Fundamentals Research Corp, first quarter of 2023

Figure 6: Mortgages in arrears (delinquent for 90 or more days) increase for mortgage investment entities (MIEs)* and other non-bank lenders



*Mortgage investment entity: A non-bank mortgage lender type that generally provides short-term loans with higher interest rates to borrowers who don't qualify with traditional lenders. Mortgage investment entities include mortgage investment corporations and other private lenders.

**2023Q2 data from for non-bank mortgage lenders was not available in time for publication.

Sources: Statistics Canada's Survey of Non-Bank Mortgage Lenders; Canadian Bankers Association

While mortgage arrears increased for MIEs and other non-bank lenders, they remained stable for credit unions and chartered banks. Mortgage arrears rates remain consistent with pre-pandemic levels; however, repeated increases in recent quarters suggest continuous monitoring is necessary.

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Alternative text and data for figures

Figure 1: Borrowers have started to prefer fixed-rate mortgages with terms between 3 and 5 years. Fixed-rate mortgages with terms between 1 and 3 years, meanwhile, are losing popularity.

Date	Share fixed-rate, 5 years or longer	Share fixed-rate, 3 years to less than 5 years	Share fixed-rate, 1 year to less than 3 years	Share fixed-rate, less than 1 year	Share variable-rate
Jan. 20	46%	27%	15%	6%	7%
Feb. 20	45%	26%	16%	5%	8%
Mar. 20	45%	23%	12%	6%	15%
Apr. 20	43%	19%	11%	5%	24%
May. 20	42%	18%	11%	4%	25%
Jun. 20	45%	17%	10%	4%	24%
Jul. 20	45%	16%	9%	4%	26%
Aug. 20	47%	15%	8%	4%	26%
Sep. 20	49%	16%	8%	3%	24%
Oct. 20	49%	17%	7%	3%	23%
Nov. 20	47%	19%	7%	3%	23%
Dec. 20	44%	22%	7%	3%	24%
Jan. 21	40%	26%	7%	3%	25%
Feb. 21	41%	25%	6%	3%	26%
Mar. 21	42%	22%	6%	2%	28%
Apr. 21	36%	19%	7%	2%	37%
May. 21	31%	17%	7%	3%	43%
Jun. 21	30%	15%	7%	2%	46%
Jul. 21	24%	15%	8%	3%	51%
Aug. 21	20%	14%	8%	3%	55%
Sep. 21	20%	14%	9%	3%	55%
Oct. 21	23%	12%	8%	3%	54%
Nov. 21	24%	12%	8%	3%	53%
Dec. 21	23%	11%	9%	3%	55%
Jan. 22	21%	10%	9%	3%	57%
Feb. 22	22%	12%	9%	2%	56%
Mar. 22	21%	12%	9%	2%	56%
Apr. 22	22%	11%	10%	3%	54%
May. 22	23%	12%	11%	3%	52%
Jun. 22	23%	13%	12%	3%	50%
Jul. 22	22%	13%	14%	3%	48%
Aug. 22	18%	14%	19%	4%	45%
Sep. 22	16%	17%	24%	5%	39%
Oct. 22	16%	22%	28%	5%	29%

Date	Share fixed-rate, 5 years or longer	Share fixed-rate, 3 years to less than 5 years	Share fixed-rate, 1 year to less than 3 years	Share fixed-rate, less than 1 year	Share variable-rate
Nov. 22	16%	26%	32%	5%	23%
Dec. 22	14%	25%	34%	5%	22%
Jan. 23	13%	28%	36%	6%	17%
Feb. 23	14%	33%	36%	6%	11%
Mar. 23	13%	38%	34%	6%	9%
Apr. 23	12%	41%	33%	6%	8%
May. 23	12%	45%	29%	6%	7%
Jun. 23	12%	52%	25%	6%	6%
Jul. 23	15%	53%	22%	5%	5%
Aug. 23	17%	51%	21%	5%	6%

Sources: Statistics Canada. Table 10-10-0006-01 Funds advanced, outstanding balances, and interest rates for new and existing lending, Bank of Canada; CMHC calculations. August 2023

Figure 2: Alternative lenders increase their market shares in the first quarter of 2023

Market Share of Outstanding Mortgages

Outstanding	2023-Q1	2022-Q1	2021-Q1
Credit unions	13.1%	13.2%	13.4%
Mortgage investment entities	1.1%	1.1%	1.1%
Other non-bank mortgage lenders	4.6%	4.6%	5.0%
Big 6 banks	73.1%	73.1%	72.5%
Other chartered banks	5.8%	5.8%	5.8%
Non-bank, OSFI-regulated	2.2%	2.1%	2.1%

Market Share of Newly Extended Mortages

Extended	2023-Q1	2022-Q1	2021-Q1
Credit unions	16.1%	15.7%	15.0%
Mortgage investment entities	8.0%	5.2%	5.3%
Other non-bank mortgage lenders	11.5%	9.5%	9.6%
Big 6 banks	53.8%	59.7%	62.0%
Other chartered banks	6.8%	6.1%	5.2%
Non-bank, OSFI-regulated	3.8%	3.9%	2.9%

Sources: Survey of Non-Bank Mortgage Lenders, CMHC NHA MBS mortgage reporting, CMHC calculations, first quarter of 2023

Figure 3: Mortgage delinquency rate by mortgage value at origination

Based on the number of accounts 90 days or more past due — seasonally adjusted

Quarter	Less than $200k	$200k to less than $400k	$400k to less than $600k	$600k to less than $850k	$850k and more
2019Q2	0.34	0.25	0.20	0.21	0.21
2019Q3	0.34	0.25	0.20	0.21	0.24
2019Q4	0.33	0.24	0.19	0.21	0.24
2020Q1	0.33	0.24	0.18	0.22	0.24
2020Q2	0.34	0.25	0.18	0.20	0.25
2020Q3	0.35	0.24	0.18	0.19	0.27
2020Q4	0.30	0.20	0.15	0.14	0.22
2021Q1	0.29	0.20	0.16	0.15	0.22
2021Q2	0.27	0.18	0.13	0.12	0.19
2021Q3	0.25	0.17	0.12	0.11	0.15
2021Q4	0.23	0.16	0.11	0.10	0.12
2022Q1	0.22	0.15	0.10	0.08	0.10
2022Q2	0.20	0.14	0.09	0.07	0.08
2022Q3	0.19	0.13	0.08	0.07	0.08
2022Q4	0.19	0.13	0.08	0.07	0.09
2023Q1	0.19	0.14	0.09	0.08	0.10
2023Q2	0.19	0.14	0.10	0.09	0.13

Source: Equifax and CMHC calculations, 2023Q2

Figure 4: While overall mortgages in arrears are stabilizing at historically low levels, arrears of other credit products suggest that an increasing share of Canadians are struggling with their debt payments

Share of the number of accounts 90 or more days past due over the previous 3 months

Quarter	Mortgages	HELOCs	Credit cards	Auto loans	LOCs
2019Q1	0.29	0.16	1.58	1.83	0.63
2019Q2	0.29	0.17	1.59	1.88	0.64
2019Q3	0.28	0.17	1.58	1.86	0.65
2019Q4	0.28	0.17	1.62	1.99	0.64
2020Q1	0.28	0.17	1.70	2.14	0.65
2020Q2	0.28	0.18	1.62	2.09	0.66
2020Q3	0.28	0.17	1.35	1.89	0.62
2020Q4	0.24	0.15	1.18	1.70	0.55
2021Q1	0.24	0.14	1.14	1.79	0.50
2021Q2	0.21	0.12	1.05	1.69	0.46
2021Q3	0.19	0.11	0.99	1.66	0.44
2021Q4	0.18	0.11	1.03	1.73	0.41

Quarter	Mortgages	HELOCs	Credit cards	Auto loans	LOCs
2022Q1	0.17	0.10	1.13	1.83	0.41
2022Q2	0.15	0.10	1.20	1.88	0.41
2022Q3	0.14	0.10	1.29	1.97	0.43
2022Q4	0.14	0.11	1.36	2.02	0.46
2023Q1	0.15	0.13	1.44	2.11	0.52
2023Q2	0.15	0.14	1.44	2.10	0.57

Sources: Equifax and CMHC calculations, 2023Q2

Figure 5: Mortgages for the purchase of property and refinances saw significant drops from the first half of 2022 to the first half of 2023 (in billions of dollars)

Type		2021 Q1 & Q2	2022 Q1 & Q2	2023 Q1 & Q2
Purchase of property	Insured	26	22	16
	Uninsured	103	100	53
Same-lender refinances	Insured	2	1	1
	Uninsured	55	48	32
Same-lender renewals	Insured	39	22	19
	Uninsured	64	51	50
Other renewals and refinances	Insured	2	1	1
	Uninsured	20	19	8

Source: CMHC residential mortgage data reporting of NHA MBS issuers; CMHC calculations. 2023Q2

Figure 6: Mortgages in arrears (delinquent for 90 or more days) increase for mortgage investment entities (MIEs)* and other non-bank lenders

Quarter	Chartered banks	Credit unions	Other non-bank lenders (mortgage finance companies, trusts, insurance companies)	MIEs
2020Q1	0.24%	0.16%	0.22%	1.04%
2021Q1	0.22%	0.13%	0.25%	0.88%
2022Q1	0.15%	0.10%	0.13%	0.76%
2022Q2	0.14%	0.10%	0.12%	0.69%
2022Q3	0.14%	0.09%	0.12%	0.74%
2022Q4	0.15%	0.09%	0.15%	0.78%
2023Q1	0.15%	0.10%	0.21%	0.88%
2023Q2**	0.15%	-	-	-

*Mortgage investment entity: A non-bank mortgage lender type that generally provides short-term loans with higher interest rates to borrowers who don't qualify with traditional lenders. Mortgage investment entities include mortgage investment corporations and other private lenders.

**2023Q2 data from for non-bank mortgage lenders was not available in time for publication.

Sources: Statistics Canada's Survey of Non-Bank Mortgage Lenders; Canadian Bankers Association