Guideline

Title	Infosheet - Residential Mortgage Underwriting Practices and Procedures Guideline (B-20)
Category	Sound Business and Financial Practices
Date	January 12, 2023
Sector	Banks Foreign Bank Branches Trust and Loan Companies Life Insurance and Fraternal Companies Property and Casualty Companies

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Sound mortgage underwriting contributes to financial stability

The safety and stability of federally regulated financial institutions (FRFIs) is fundamental to the ongoing health of Canada's financial system. OSFI contributes to public confidence in the Canadian financial system by fulfilling its mandate to protect the interests of depositors and other creditors of financial institutions. It does this through supervising FRFIs and setting standards that improve their resilience, both under normal conditions and in the event of a financial downturn.

OSFI monitors the housing market to better understand risks facing FRFIs. Lenders subject to OSFI supervision hold nearly 80 percent of all residential mortgages issued in Canada, and residential mortgage loans account for almost 30 percent of the total assets held by these lenders. Sound mortgage underwriting practices reduce risks to the financial system and to Canadians who entrust their savings to Canada's financial institutions.

This information sheet is updated periodically to provide information about the effectiveness of Guideline B-20 and statistics on some of the risk areas that OSFI continues to monitor.

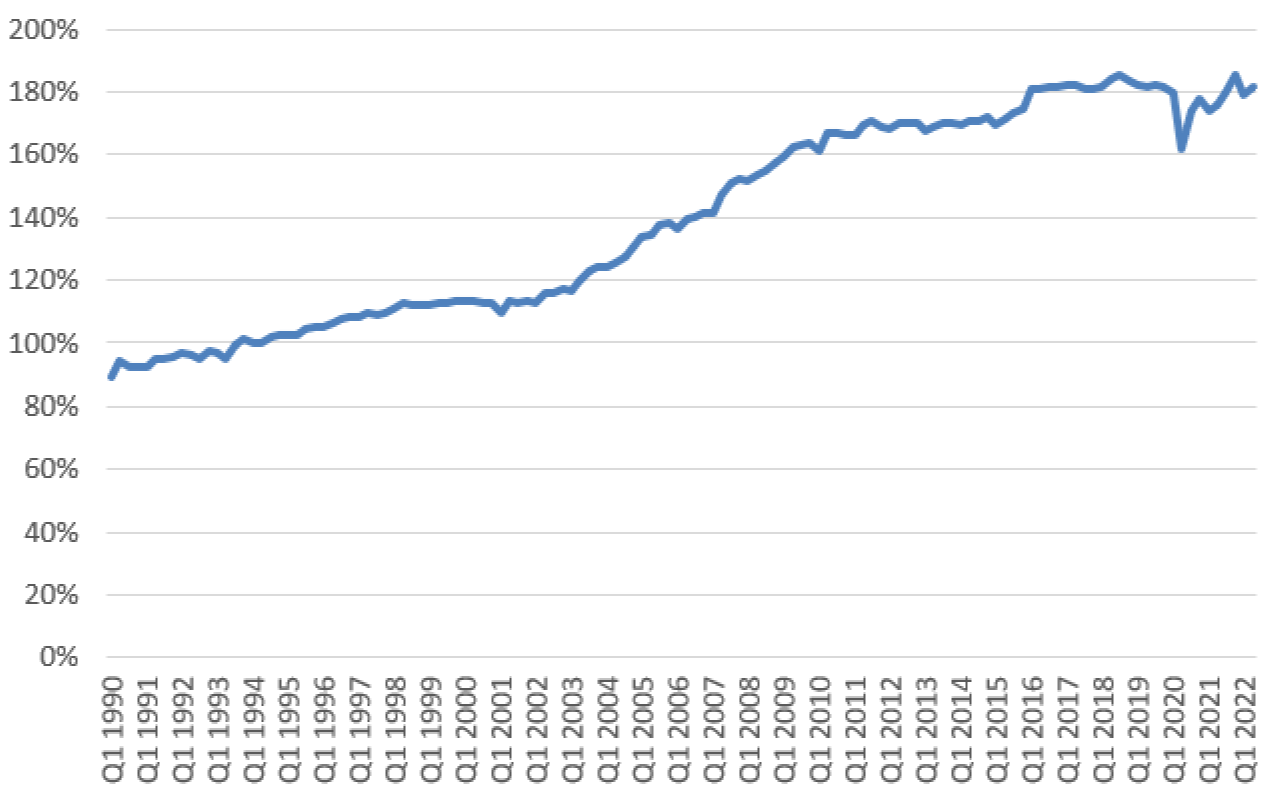
Risks to the financial system and the impact of Guideline B-20

Risks to the financial system

Elevated level of household indebtedness

Over the last few decades, Canadian household debt relative to disposable income has increased and is at a near record high level. (See Chart 1)

Chart 1 - Household debt to disposable income (seasonally adjusted)



Household Debt to Disposable Income (Seasonally Adjusted) - Table

Quarters	%
Q1 1990	89%
Q2 1990	94%
Q3 1990	93%
Q4 1990	93%
Q1 1991	92%
Q2 1991	95%
Q3 1991	95%
Q4 1991	95%
Q1 1992	96%
Q2 1992	96%
Q3 1992	95%
Q4 1992	97%
Q1 1993	97%
Q2 1993	95%
Q3 1993	99%
Q4 1993	101%
Q1 1994	100%
Q2 1994	100%
Q3 1994	102%
Q4 1994	102%
Q1 1995	102%
Q2 1995	103%
Q3 1995	105%

Quarters	%
Q4 1995	105%
Q1 1996	105%
Q2 1996	106%
Q3 1996	108%
Q4 1996	108%
Q1 1997	108%
Q2 1997	110%
Q3 1997	109%
Q4 1997	110%
Q1 1998	111%
Q2 1998	113%
Q3 1998	112%
Q4 1998	112%
Q1 1999	112%
Q2 1999	112%
Q3 1999	113%
Q4 1999	113%
Q1 2000	114%
Q2 2000	113%
Q3 2000	113%
Q4 2000	112%
Q1 2001	109%
Q2 2001	113%

Quarters	%
Q3 2001	113%
Q4 2001	113%
Q1 2002	113%
Q2 2002	116%
Q3 2002	116%
Q4 2002	117%
Q1 2003	116%
Q2 2003	120%
Q3 2003	123%
Q4 2003	124%
Q1 2004	124%
Q2 2004	126%
Q3 2004	128%
Q4 2004	130%
Q1 2005	133%
Q2 2005	134%
Q3 2005	137%
Q4 2005	138%
Q1 2006	136%
Q2 2006	140%
Q3 2006	140%
Q4 2006	141%
Q1 2007	141%

Quarters	%
Q2 2007	147%
Q3 2007	151%
Q4 2007	152%
Q1 2008	152%
Q2 2008	154%
Q3 2008	155%
Q4 2008	157%
Q1 2009	159%
Q2 2009	162%
Q3 2009	163%
Q4 2009	164%
Q1 2010	161%
Q2 2010	167%
Q3 2010	167%
Q4 2010	166%
Q1 2011	166%
Q2 2011	169%
Q3 2011	170%
Q4 2011	169%
Q1 2012	168%
Q2 2012	170%
Q3 2012	170%
Q4 2012	170%

Quarters	%
Q1 2013	167%
Q2 2013	169%
Q3 2013	170%
Q4 2013	170%
Q1 2014	169%
Q2 2014	171%
Q3 2014	171%
Q4 2014	172%
Q1 2015	170%
Q2 2015	171%
Q3 2015	173%
Q4 2015	175%
Q1 2016	181%
Q2 2016	181%
Q3 2016	181%
Q4 2016	181%
Q1 2017	182%
Q2 2017	182%
Q3 2017	181%
Q4 2017	181%
Q1 2018	182%
Q2 2018	184%
Q3 2018	185%

Quarters	%
Q4 2018	183%
Q1 2019	182%
Q2 2019	181%
Q3 2019	182%
Q4 2019	181%
Q1 2020	180%
Q2 2020	162%
Q3 2020	174%
Q4 2020	178%
Q1 2021	174%
Q2 2021	176%
Q3 2021	180%
Q4 2021	185%
Q1 2022	179%
Q2 2022	182%

Source: Statistics Canada

More recently, overnight rates and effective interest rates have increased significantly. (See Chart 2)

Chart 2 - Canada mortgage & housing corporation (5-year conventional mortgage lending rate)

Canada Mortgage & Housing Corporation (5-Year Conventional Mortgage Lending Rate) - Table

Filing month	Canada Mortgage & Housing Corporation (5-Year Conventional Mortgage Lending Rate)
Jan-15	4.0%
Feb-15	3.9%
Mar-15	3.8%
Apr-15	3.8%
May-15	3.7%
Jun-15	3.7%
Jul-15	3.7%
Aug-15	3.7%
Sep-15	3.7%
Oct-15	3.7%
Nov-15	3.7%
Dec-15	3.8%
Jan-16	3.8%
Feb-16	3.8%
Mar-16	3.7%
Apr-16	3.7%
May-16	3.7%
Jun-16	3.7%
Jul-16	3.7%
Aug-16	3.7%
Sep-16	3.7%
Oct-16	3.7%

Filing month	Canada Mortgage & Housing Corporation (5-Year Conventional Mortgage Lending Rate)
Nov-16	3.7%
Dec-16	3.7%
Jan-17	3.7%
Feb-17	3.8%
Mar-17	3.7%
Apr-17	3.6%
May-17	3.6%
Jun-17	3.6%
Jul-17	3.7%
Aug-17	3.8%
Sep-17	3.9%
Oct-17	4.0%
Nov-17	4.0%
Dec-17	4.1%
Jan-18	4.1%
Feb-18	4.3%
Mar-18	4.3%
Apr-18	4.3%
May-18	4.4%
Jun-18	4.3%
Jul-18	4.4%
Aug-18	4.4%
Sep-18	4.4%

Filing month	Canada Mortgage & Housing Corporation (5-Year Conventional Mortgage Lending Rate)
Oct-18	4.5%
Nov-18	4.4%
Dec-18	4.6%
Jan-19	4.6%
Feb-19	4.5%
Mar-19	4.4%
Apr-19	4.3%
May-19	4.3%
Jun-19	4.2%
Jul-19	4.1%
Aug-19	4.1%
Sep-19	4.1%
Oct-19	4.1%
Nov-19	4.1%
Dec-19	4.1%
Jan-20	4.1%
Feb-20	4.1%
Mar-20	3.9%
Apr-20	4.0%
May-20	3.9%
Jun-20	3.8%
Jul-20	3.6%
Aug-20	3.6%

Filing month	Canada Mortgage & Housing Corporation (5-Year Conventional Mortgage Lending Rate)
Sep-20	3.5%
Oct-20	3.5%
Nov-20	3.4%
Dec-20	3.3%
Jan-21	3.3%
Feb-21	3.3%
Mar-21	3.3%
Apr-21	3.3%
May-21	3.3%
Jun-21	3.3%
Jul-21	3.2%
Aug-21	3.2%
Sep-21	3.2%
Oct-21	3.3%
Nov-21	3.4%
Dec-21	3.5%
Jan-22	3.4%
Feb-22	3.6%
Mar-22	3.8%
Apr-22	4.2%
May-22	4.6%
Jun-22	5.1%
Jul-22	5.5%

Filing month	Canada Mortgage & Housing Corporation (5-Year Conventional Mortgage Lending Rate)
Aug-22	5.6%

Source: Statistics Canada

The combination of record high debt levels, inflation, and the possibility of continued increases in interest rates could lead to a reduction in the ability of borrowers to service their debt. As a larger share of their income is used to service existing debts, new and existing mortgage borrowers may respond to higher debt servicing costs in a number of ways.

Existing borrowers

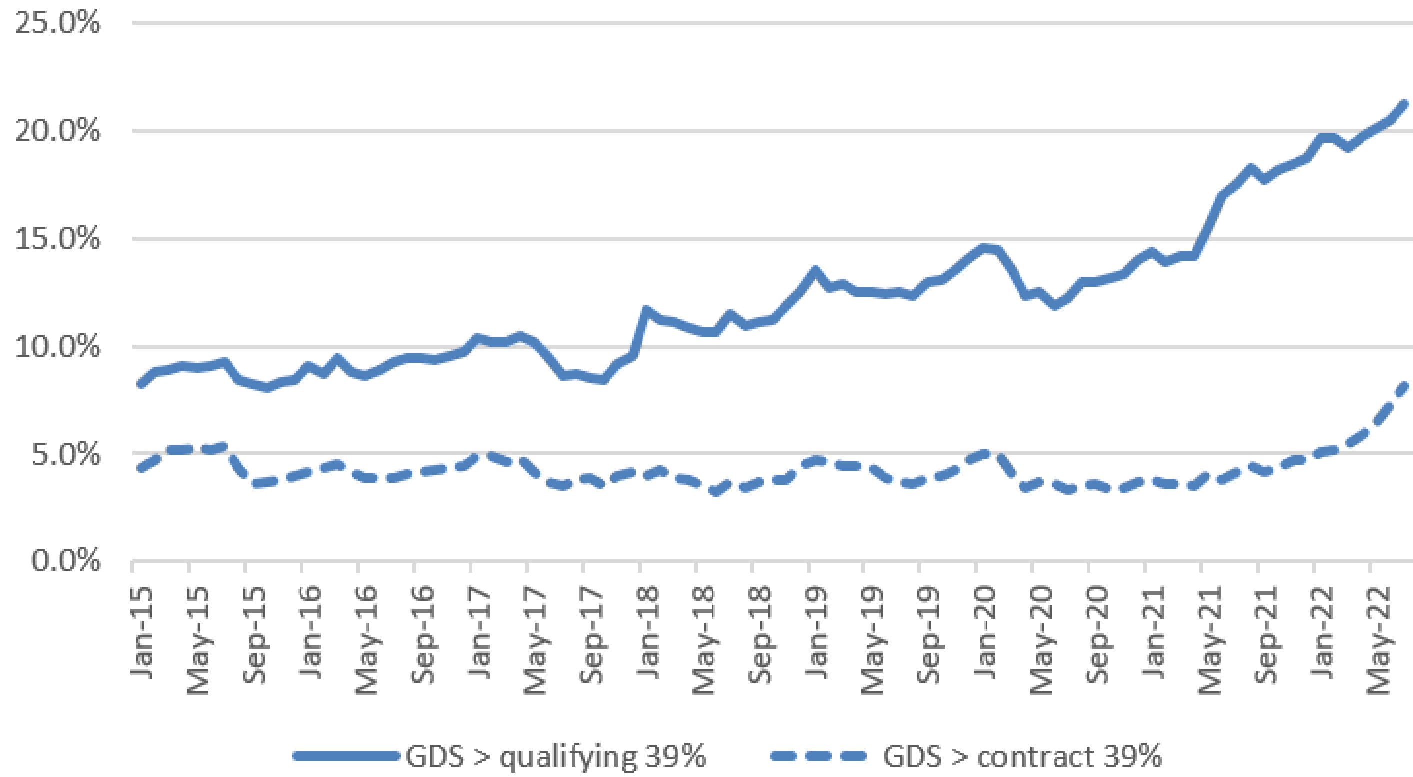
- Reduce savings and spending in other areas
- Refinance and extend amortization
- Reduce debt servicing costs

New borrowers

- Buy less expensive dwelling
- Increase down payment
- Delay purchase of dwelling

The debt service ratio measures the share of average borrowers' incomes that must go towards servicing their debt obligations through interest (and depending on the version of the metric, may also include principal payments). The share of high gross debt service (GDS) lending has risen over time. (See Chart 3)

Chart 3 - Proportion of uninsured mortgages with GDS > 39%



Proportion of Uninsured Mortgages with GDS > 39% - Table

Filing month	GDS > qualifying 39%	GDS > contract 39%
Jan-15	8.2%	4.4%
Feb-15	8.8%	4.7%
Mar-15	8.9%	5.2%
Apr-15	9.1%	5.2%
May-15	9.0%	5.2%
Jun-15	9.0%	5.2%
Jul-15	9.3%	5.4%
Aug-15	8.4%	4.4%
Sep-15	8.2%	3.6%
Oct-15	8.0%	3.7%
Nov-15	8.4%	3.8%
Dec-15	8.4%	4.0%
Jan-16	9.1%	4.2%
Feb-16	8.7%	4.4%
Mar-16	9.4%	4.5%
Apr-16	8.8%	4.2%
May-16	8.6%	3.8%
Jun-16	8.9%	3.9%
Jul-16	9.3%	3.9%
Aug-16	9.5%	4.1%
Sep-16	9.4%	4.2%
Oct-16	9.4%	4.2%
Nov-16	9.6%	4.4%

Filing month	GDS > qualifying 39%	GDS > contract 39%
Dec-16	9.8%	4.5%
Jan-17	10.4%	4.9%
Feb-17	10.2%	4.9%
Mar-17	10.2%	4.7%
Apr-17	10.5%	4.8%
May-17	10.2%	4.2%
Jun-17	9.6%	3.7%
Jul-17	8.6%	3.5%
Aug-17	8.8%	3.8%
Sep-17	8.6%	3.9%
Oct-17	8.4%	3.5%
Nov-17	9.2%	4.0%
Dec-17	9.5%	4.2%
Jan-18	11.7%	3.9%
Feb-18	11.2%	4.3%
Mar-18	11.1%	3.9%
Apr-18	10.9%	3.8%
May-18	10.6%	3.5%
Jun-18	10.6%	3.2%
Jul-18	11.5%	3.7%
Aug-18	10.9%	3.4%
Sep-18	11.1%	3.7%
Oct-18	11.2%	3.8%

Filing month	GDS > qualifying 39%	GDS > contract 39%
Nov-18	11.9%	3.8%
Dec-18	12.5%	4.4%
Jan-19	13.6%	4.7%
Feb-19	12.7%	4.6%
Mar-19	12.9%	4.5%
Apr-19	12.5%	4.5%
May-19	12.6%	4.3%
Jun-19	12.4%	3.9%
Jul-19	12.5%	3.7%
Aug-19	12.3%	3.6%
Sep-19	13.0%	3.8%
Oct-19	13.1%	4.0%
Nov-19	13.5%	4.2%
Dec-19	14.1%	4.7%
Jan-20	14.6%	5.0%
Feb-20	14.4%	5.0%
Mar-20	13.5%	4.1%
Apr-20	12.4%	3.4%
May-20	12.5%	3.7%
Jun-20	11.8%	3.6%
Jul-20	12.2%	3.3%
Aug-20	13.0%	3.5%
Sep-20	13.0%	3.6%

Filing month	GDS > qualifying 39%	GDS > contract 39%
Oct-20	13.2%	3.3%
Nov-20	13.4%	3.4%
Dec-20	14.0%	3.7%
Jan-21	14.4%	3.8%
Feb-21	13.9%	3.6%
Mar-21	14.2%	3.6%
Apr-21	14.2%	3.5%
May-21	15.5%	4.1%
Jun-21	17.0%	3.7%
Jul-21	17.5%	4.1%
Aug-21	18.3%	4.4%
Sep-21	17.7%	4.2%
Oct-21	18.2%	4.4%
Nov-21	18.4%	4.7%
Dec-21	18.7%	4.7%
Jan-22	19.7%	5.1%
Feb-22	19.7%	5.2%
Mar-22	19.2%	5.5%
Apr-22	19.8%	5.9%
May-22	20.1%	6.5%
Jun-22	20.5%	7.3%
Jul-22	21.3%	8.2%

Source: FRFI filings to OSFI [1], [2]

Higher debt service ratios have the most direct impact on FRFIs, as they lead to higher default probabilities and potential losses at these lenders. One of the key strategies FRFIs and borrowers have been using to offset the impact of interest rate increases on debt service ratios is to extend the amortization periods of mortgage originations. (See Chart 4)

Chart 4 - Average amortization length of uninsured mortgage originations

The referenced media source is missing and needs to be re-embedded.

Average Amortization Length of Uninsured Mortgage Originations - Table

Filing month	Average Amortization Length in Years (LHS)	Proportion > 25 Years (RHS)
Jan-15	24.3	58.07%
Feb-15	24.0	55.87%
Mar-15	24.1	56.63%
Apr-15	24.1	56.85%
May-15	23.7	55.96%
Jun-15	24.1	57.89%
Jul-15	24.1	58.89%
Aug-15	24.8	61.15%
Sep-15	24.6	60.71%
Oct-15	24.7	60.77%
Nov-15	24.8	61.89%
Dec-15	24.7	61.80%
Jan-16	25.0	63.76%
Feb-16	24.6	62.48%
Mar-16	24.7	62.97%
Apr-16	24.8	63.33%
May-16	24.9	63.36%
Jun-16	25.1	64.92%
Jul-16	25.2	65.35%
Aug-16	25.2	65.73%
Sep-16	25.2	65.57%
Oct-16	25.2	66.35%
Nov-16	25.4	66.59%

Filing month	Average Amortization Length in Years (LHS)	Proportion > 25 Years (RHS)
Dec-16	25.2	64.86%
Jan-17	25.4	62.82%
Feb-17	24.4	55.23%
Mar-17	24.2	52.75%
Apr-17	24.4	51.18%
May-17	24.6	50.77%
Jun-17	24.6	50.51%
Jul-17	24.5	53.07%
Aug-17	24.5	50.51%
Sep-17	24.4	51.36%
Oct-17	24.4	50.50%
Nov-17	24.6	51.31%
Dec-17	24.8	52.95%
Jan-18	24.7	55.70%
Feb-18	24.3	49.98%
Mar-18	24.3	48.72%
Apr-18	24.2	47.89%
May-18	24.2	46.02%
Jun-18	24.2	44.50%
Jul-18	24.3	51.02%
Aug-18	24.3	46.79%
Sep-18	24.3	46.69%
Oct-18	24.5	52.83%

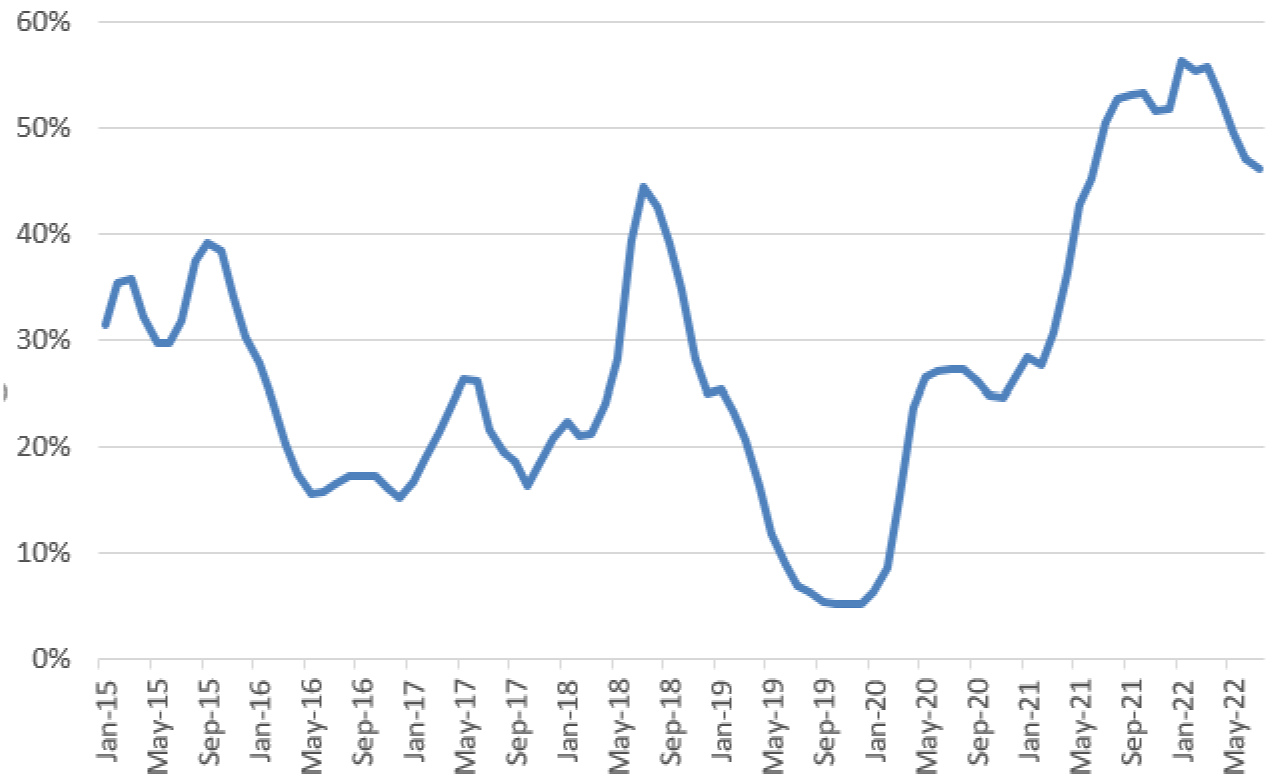
Filing month	Average Amortization Length in Years (LHS)	Proportion > 25 Years (RHS)
Nov-18	24.5	50.88%
Dec-18	24.6	49.96%
Jan-19	24.8	51.24%
Feb-19	24.6	50.89%
Mar-19	24.6	51.64%
Apr-19	24.5	49.72%
May-19	24.5	48.84%
Jun-19	24.5	47.15%
Jul-19	24.4	48.97%
Aug-19	24.7	50.36%
Sep-19	24.6	49.87%
Oct-19	24.8	51.79%
Nov-19	24.8	52.00%
Dec-19	24.8	50.95%
Jan-20	24.8	51.19%
Feb-20	24.6	51.21%
Mar-20	24.5	47.70%
Apr-20	24.7	49.47%
May-20	24.5	49.04%
Jun-20	24.4	47.73%
Jul-20	24.6	47.95%
Aug-20	24.7	50.09%
Sep-20	24.8	50.52%

Filing month	Average Amortization Length in Years (LHS)	Proportion > 25 Years (RHS)
Oct-20	25.0	51.61%
Nov-20	25.0	52.18%
Dec-20	25.1	51.65%
Jan-21	25.0	52.43%
Feb-21	25.0	51.87%
Mar-21	25.1	52.14%
Apr-21	25.2	52.55%
May-21	25.4	54.40%
Jun-21	25.4	53.90%
Jul-21	25.5	56.55%
Aug-21	25.5	57.12%
Sep-21	25.5	57.18%
Oct-21	25.6	58.54%
Nov-21	25.6	58.15%
Dec-21	25.6	59.55%
Jan-22	26.0	63.23%
Feb-22	25.8	62.89%
Mar-22	25.9	67.10%
Apr-22	26.3	70.05%
May-22	25.9	65.25%
Jun-22	26.0	65.68%
Jul-22	26.8	66.92%

Source: FRFI filings to OSFI [1]

Due to the recent and further expected rate increases, for the first time in years, consumers renewing their mortgages are facing materially higher interest rates than the rates on their expiring loans. Particularly at risk are borrowers with variable-rate mortgages and loans that are coming up for renewal. In addition to the rate shock felt by borrowers who are renewing 5-year term mortgages, the impact of rising rates may be felt earlier on some variable rate mortgages, the proportion of which has increased during the pandemic. (See Chart 5)

Chart 5 - Proportion of newly originated uninsured variable rate mortgages



Proportion of Newly Originated Uninsured Variable Rate Mortgages - Table

Filing month	Uninsured Variable proportion (by loan count)
Jan-15	31.35%
Feb-15	35.44%
Mar-15	35.68%
Apr-15	32.12%
May-15	29.73%
Jun-15	29.63%
Jul-15	31.83%
Aug-15	37.48%
Sep-15	39.17%
Oct-15	38.41%
Nov-15	34.08%
Dec-15	30.23%
Jan-16	27.88%
Feb-16	24.62%
Mar-16	20.30%
Apr-16	17.42%
May-16	15.62%
Jun-16	15.77%
Jul-16	16.45%
Aug-16	17.22%
Sep-16	17.30%
Oct-16	17.23%

Filing month	Uninsured Variable proportion (by loan count)
Nov-16	16.09%
Dec-16	15.15%
Jan-17	16.72%
Feb-17	19.00%
Mar-17	21.45%
Apr-17	23.79%
May-17	26.23%
Jun-17	26.19%
Jul-17	21.59%
Aug-17	19.52%
Sep-17	18.61%
Oct-17	16.28%
Nov-17	18.77%
Dec-17	20.84%
Jan-18	22.27%
Feb-18	21.00%
Mar-18	21.21%
Apr-18	24.05%
May-18	28.28%
Jun-18	39.31%
Jul-18	44.36%
Aug-18	42.44%
Sep-18	39.18%

Filing month	Uninsured Variable proportion (by loan count)
Oct-18	34.72%
Nov-18	28.26%
Dec-18	24.93%
Jan-19	25.40%
Feb-19	23.38%
Mar-19	20.66%
Apr-19	16.33%
May-19	11.75%
Jun-19	8.96%
Jul-19	6.92%
Aug-19	6.35%
Sep-19	5.43%
Oct-19	5.25%
Nov-19	5.20%
Dec-19	5.32%
Jan-20	6.42%
Feb-20	8.54%
Mar-20	15.15%
Apr-20	23.68%
May-20	26.51%
Jun-20	27.12%
Jul-20	27.31%
Aug-20	27.29%

Filing month	Uninsured Variable proportion (by loan count)
Sep-20	26.11%
Oct-20	24.81%
Nov-20	24.54%
Dec-20	26.51%
Jan-21	28.46%
Feb-21	27.65%
Mar-21	30.71%
Apr-21	36.20%
May-21	42.77%
Jun-21	45.21%
Jul-21	50.38%
Aug-21	52.69%
Sep-21	53.08%
Oct-21	53.18%
Nov-21	51.49%
Dec-21	51.77%
Jan-22	56.19%
Feb-22	55.40%
Mar-22	55.72%
Apr-22	53.10%
May-22	49.50%
Jun-22	47.00%
Jul-22	46.15%

Source: FRFI filings to OSFI 1

Potential losses at financial institutions

FRFIs need to ensure that they are prepared to handle the potential implications of lower housing prices and higher interest rates. In particular, the level of loss experienced by lenders not only depends on the likelihood of a default, but also how much of the loan the banks would lose in case of a default.

All uninsured mortgages are required to have at least a 20% down payment, which acts as a buffer in case of a downturn, while in the case of insured mortgages, mortgage insurers would be responsible for losses associated with defaulted properties. As market prices decline, the borrower's equity is first impacted and once that is exhausted, the financial institutions would start observing actual losses in the case of borrower defaults. This buffer also accounts for the fact that foreclosed properties tend to be sold at a discount and that lenders have various costs associated with maintaining the properties and selling them. As such, any price corrections can quickly have an impact by increasing lenders' losses.

Impact of Guideline B-20

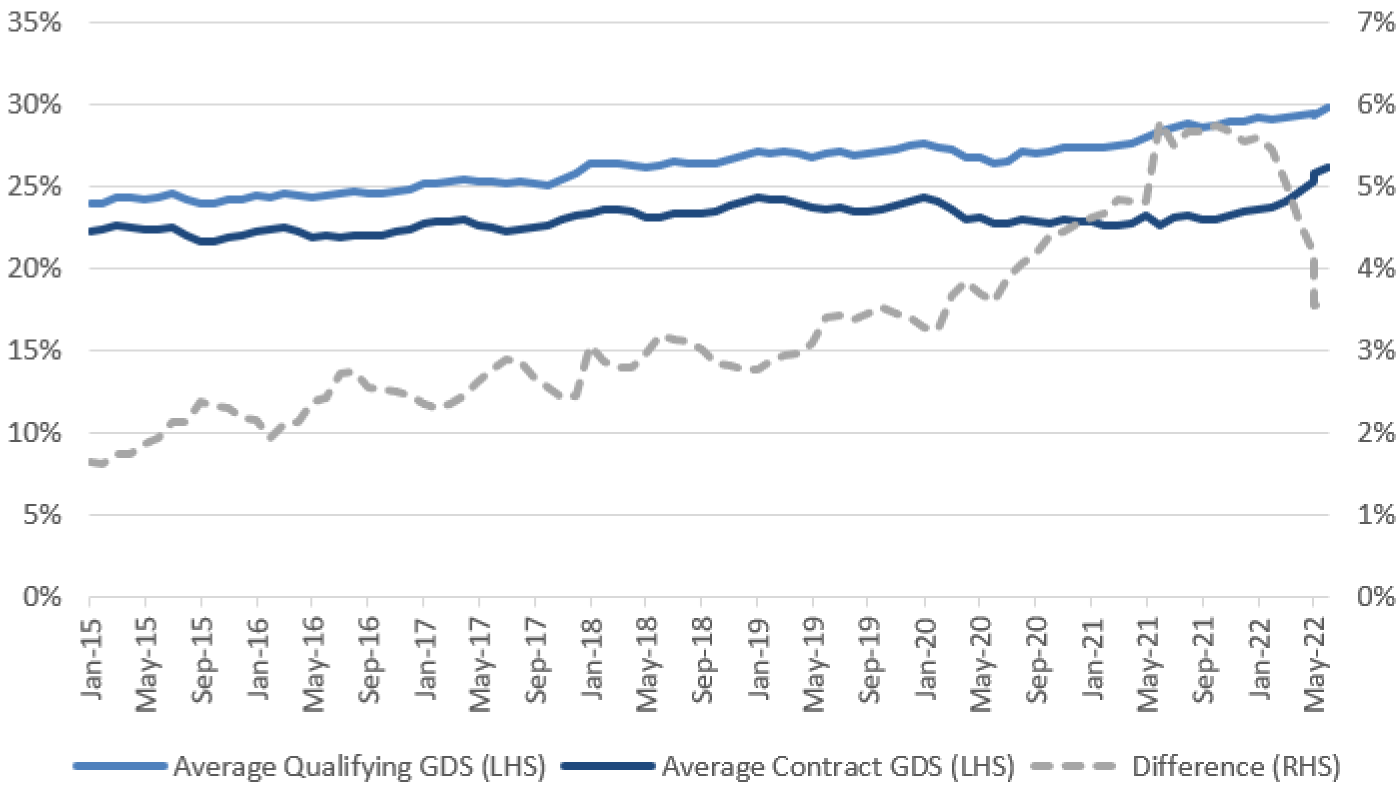
Elevated level of household indebtedness

Following revisions to Guideline B-20 in 2018, lenders made changes that reduced the proportion of mortgages approved for the most highly indebted borrowers. These revisions included an updated minimum qualifying rate (MQR) "stress test", that expects lenders to confirm borrowers' ability to absorb unexpected changes in interest rates or income. As of June 1, 2021, the qualifying rate for all uninsured mortgages is the greater of the mortgage contractual rate plus 2% or 5.25%. The Minister of Finance implemented the same test for insured mortgages.

The MQR has provided a margin of safety, in that it has created room to absorb some of the impact of the recent increases in mortgage interest rates. The MQR prevented borrowers from overstretching themselves, thus ensuring that a larger number of borrowers could keep making payments even as interest rates rise. Recent increases in mortgage interest rates have already eroded a significant portion of the debt service capacity provided for by the qualifying rate buffer.

Contractual GDS ratios have remained largely stable, until recently, while qualifying GDS ratios have risen over time. This suggests that the MQR established a reliable buffer over actual mortgage rates in FRFI underwriting practices. (See Chart 6)

Chart 6 - Uninsured mortgage originations - Average qualifying and contract GDS



Uninsured Mortgage Originations - Average Qualifying and Contract GDS - Table

Filing month	Average Qualifying GDS (LHS)	Average Contract GDS (LHS)	Difference (RHS)
Jan-15	24%	22%	2%
Feb-15	24%	22%	2%
Mar-15	24%	23%	2%
Apr-15	24%	23%	2%
May-15	24%	22%	2%
Jun-15	24%	22%	2%
Jul-15	25%	22%	2%
Aug-15	24%	22%	2%
Sep-15	24%	22%	2%
Oct-15	24%	22%	2%
Nov-15	24%	22%	2%
Dec-15	24%	22%	2%
Jan-16	24%	22%	2%
Feb-16	24%	22%	2%
Mar-16	25%	22%	2%
Apr-16	24%	22%	2%
May-16	24%	22%	2%
Jun-16	24%	22%	2%
Jul-16	25%	22%	3%
Aug-16	25%	22%	3%
Sep-16	25%	22%	3%
Oct-16	25%	22%	3%

Filing month	Average Qualifying GDS (LHS)	Average Contract GDS (LHS)	Difference (RHS)
Nov-16	25%	22%	2%
Dec-16	25%	22%	2%
Jan-17	25%	23%	2%
Feb-17	25%	23%	2%
Mar-17	25%	23%	2%
Apr-17	25%	23%	2%
May-17	25%	23%	3%
Jun-17	25%	23%	3%
Jul-17	25%	22%	3%
Aug-17	25%	22%	3%
Sep-17	25%	22%	3%
Oct-17	25%	23%	3%
Nov-17	25%	23%	2%
Dec-17	26%	23%	2%
Jan-18	26%	23%	3%
Feb-18	26%	24%	3%
Mar-18	26%	24%	3%
Apr-18	26%	23%	3%
May-18	26%	23%	3%
Jun-18	26%	23%	3%
Jul-18	26%	23%	3%
Aug-18	26%	23%	3%
Sep-18	26%	23%	3%

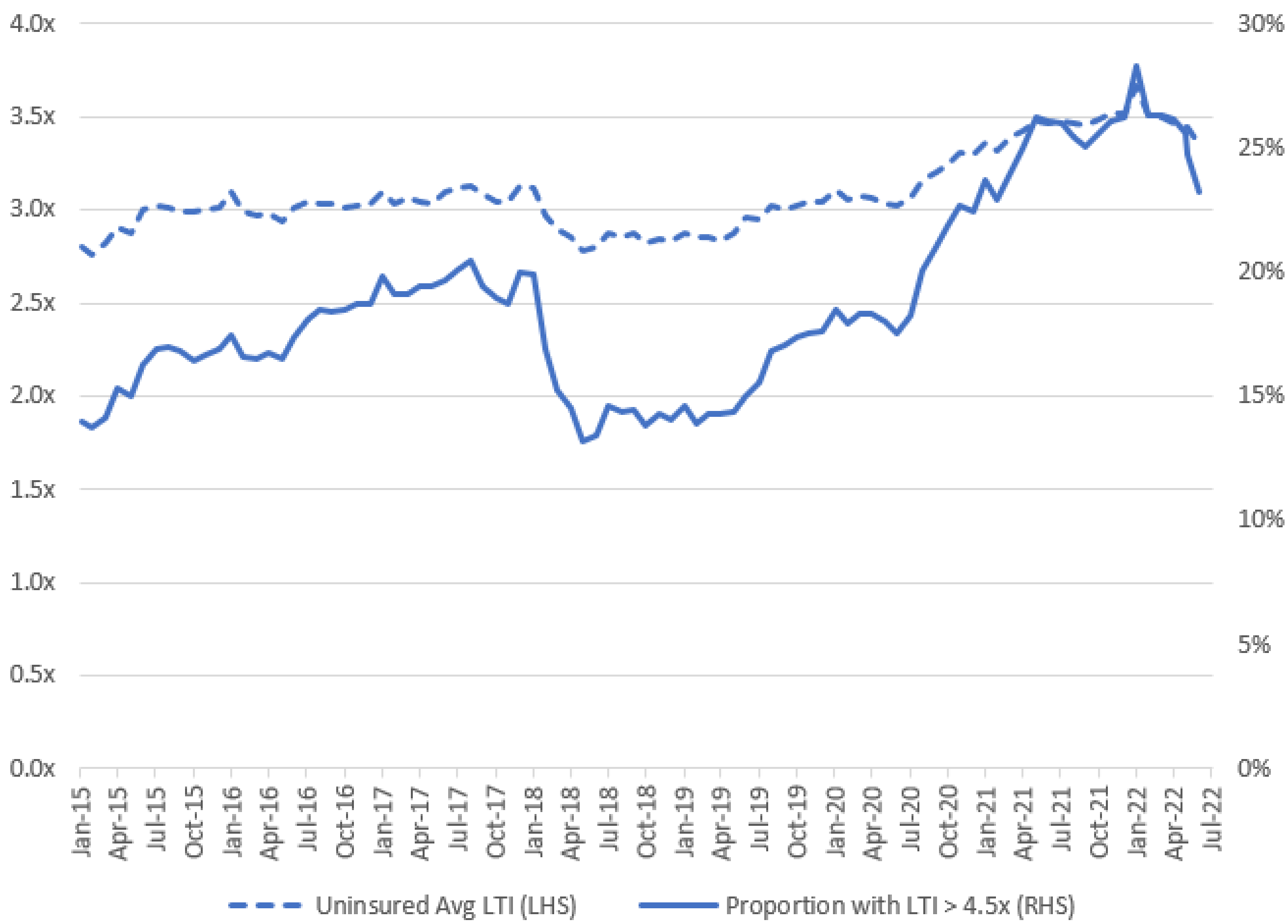
Filing month	Average Qualifying GDS (LHS)	Average Contract GDS (LHS)	Difference (RHS)
Oct-18	26%	23%	3%
Nov-18	27%	24%	3%
Dec-18	27%	24%	3%
Jan-19	27%	24%	3%
Feb-19	27%	24%	3%
Mar-19	27%	24%	3%
Apr-19	27%	24%	3%
May-19	27%	24%	3%
Jun-19	27%	24%	3%
Jul-19	27%	24%	3%
Aug-19	27%	24%	3%
Sep-19	27%	24%	3%
Oct-19	27%	24%	4%
Nov-19	27%	24%	3%
Dec-19	27%	24%	3%
Jan-20	28%	24%	3%
Feb-20	27%	24%	3%
Mar-20	27%	24%	4%
Apr-20	27%	23%	4%
May-20	27%	23%	4%
Jun-20	26%	23%	4%
Jul-20	27%	23%	4%
Aug-20	27%	23%	4%

Filing month	Average Qualifying GDS (LHS)	Average Contract GDS (LHS)	Difference (RHS)
Sep-20	27%	23%	4%
Oct-20	27%	23%	4%
Nov-20	27%	23%	4%
Dec-20	27%	23%	5%
Jan-21	27%	23%	5%
Feb-21	27%	23%	5%
Mar-21	27%	23%	5%
Apr-21	28%	23%	5%
May-21	28%	23%	4.8%
Jun-21	28%	23%	5.8%
Jul-21	29%	23%	5.5%
Aug-21	29%	23%	5.7%
Sep-21	29%	23%	5.7%
Oct-21	29%	23%	5.7%
Nov-21	29%	23%	5.7%
Dec-21	29%	23%	5.5%
Jan-22	29%	24%	5.6%
Feb-22	29%	24%	5.4%
Mar-22	29%	24%	5.0%
Apr-22	29%	25%	4.5%
May-22	29%	25%	4.2%
Jun-22	29%	26%	3.6%
Jul-22	30%	26%	3.6%

Source: FRFI filings to OSFI [1]

The MQR has had a meaningful impact on reducing high loan-to-income (LTI) borrowing following the January 2018 revisions to Guideline B-20. At the same time, there has been a build-up in the proportion of new uninsured mortgage originations with an LTI > 4.5x, which doubled from mid-2018 to early 2022. The extremely low interest rates reduced debt service costs substantially, allowing borrowers to take on additional leverage. As rates rise, the ability to service the increased leverage is reduced. (See Chart 7)

Chart 7 - Average LTI and proportion of uninsured mortgage originations with LTI > 4.5x



Average LTI and Proportion of Uninsured Mortgage Originations with LTI > 4.5x - Table

Filing month	Uninsured Avg LTI (LHS)	Proportion with LTI > 4.5x (RHS)
Jan-15	2.80	13.96%
Feb-15	2.76	13.73%
Mar-15	2.82	14.12%
Apr-15	2.90	15.27%
May-15	2.88	15.03%
Jun-15	3.00	16.25%
Jul-15	3.02	16.91%
Aug-15	3.02	16.99%
Sep-15	3.00	16.82%
Oct-15	2.99	16.45%
Nov-15	3.01	16.64%
Dec-15	3.01	16.89%
Jan-16	3.10	17.45%
Feb-16	2.99	16.59%
Mar-16	2.97	16.53%
Apr-16	2.98	16.74%
May-16	2.94	16.53%
Jun-16	3.01	17.35%
Jul-16	3.05	18.04%
Aug-16	3.04	18.49%
Sep-16	3.03	18.37%
Oct-16	3.01	18.46%
Nov-16	3.03	18.69%

Filing month	Uninsured Avg LTI (LHS)	Proportion with LTI > 4.5x (RHS)
Dec-16	3.03	18.68%
Jan-17	3.10	19.85%
Feb-17	3.04	19.12%
Mar-17	3.06	19.09%
Apr-17	3.05	19.39%
May-17	3.04	19.42%
Jun-17	3.09	19.66%
Jul-17	3.12	20.07%
Aug-17	3.13	20.47%
Sep-17	3.09	19.43%
Oct-17	3.04	18.94%
Nov-17	3.05	18.72%
Dec-17	3.13	19.95%
Jan-18	3.12	19.93%
Feb-18	2.96	16.90%
Mar-18	2.90	15.24%
Apr-18	2.86	14.53%
May-18	2.78	13.17%
Jun-18	2.80	13.44%
Jul-18	2.87	14.56%
Aug-18	2.86	14.35%
Sep-18	2.88	14.43%
Oct-18	2.83	13.84%

Filing month	Uninsured Avg LTI (LHS)	Proportion with LTI > 4.5x (RHS)
Nov-18	2.84	14.26%
Dec-18	2.83	14.08%
Jan-19	2.88	14.58%
Feb-19	2.85	13.87%
Mar-19	2.85	14.29%
Apr-19	2.84	14.24%
May-19	2.87	14.38%
Jun-19	2.96	15.00%
Jul-19	2.95	15.53%
Aug-19	3.02	16.83%
Sep-19	3.00	17.05%
Oct-19	3.03	17.33%
Nov-19	3.05	17.55%
Dec-19	3.04	17.60%
Jan-20	3.11	18.48%
Feb-20	3.05	17.92%
Mar-20	3.07	18.35%
Apr-20	3.07	18.33%
May-20	3.03	18.01%
Jun-20	3.02	17.52%
Jul-20	3.06	18.25%
Aug-20	3.16	20.02%
Sep-20	3.20	21.04%

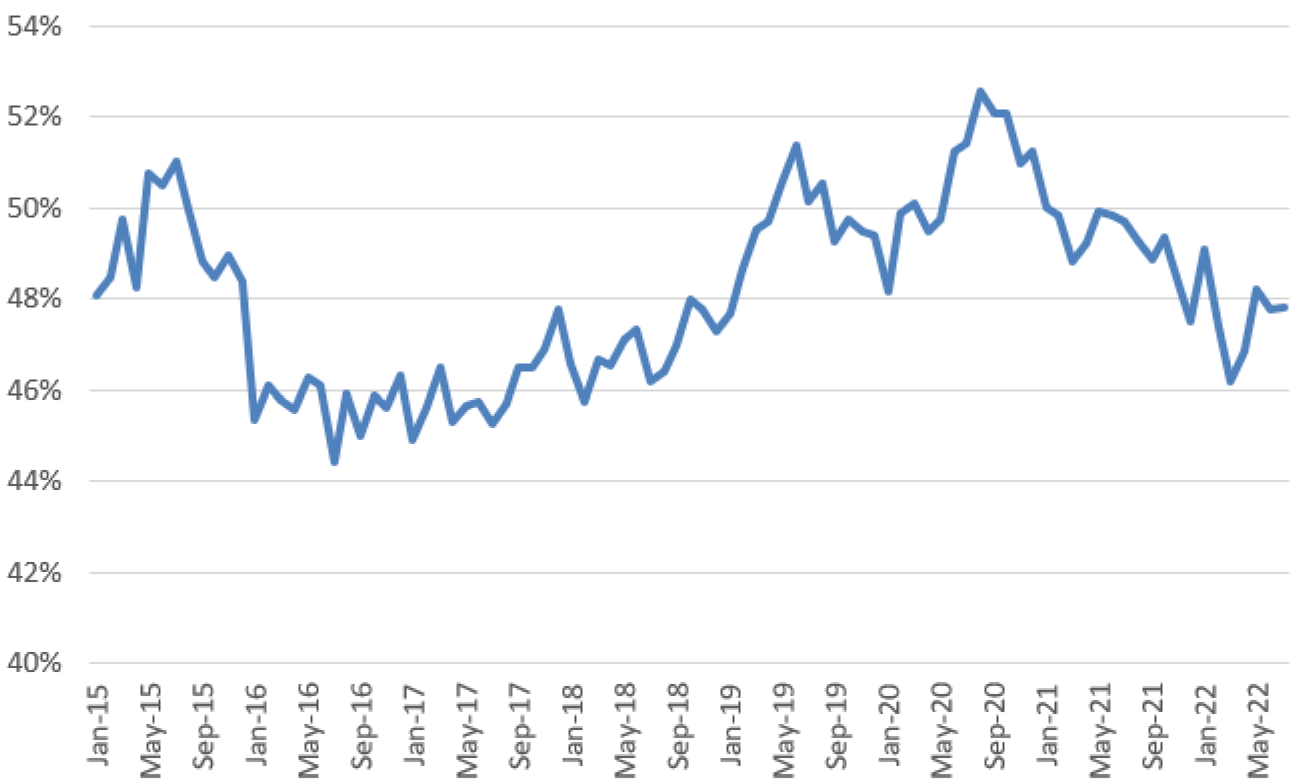
Filing month	Uninsured Avg LTI (LHS)	Proportion with LTI > 4.5x (RHS)
Oct-20	3.24	21.91%
Nov-20	3.30	22.64%
Dec-20	3.30	22.45%
Jan-21	3.36	23.66%
Feb-21	3.31	22.94%
Mar-21	3.39	24.02%
Apr-21	3.42	24.94%
May-21	3.48	26.24%
Jun-21	3.47	26.08%
Jul-21	3.47	25.96%
Aug-21	3.47	25.41%
Sep-21	3.45	25.01%
Oct-21	3.48	25.62%
Nov-21	3.52	26.09%
Dec-21	3.52	26.26%
Jan-22	3.67	28.30%
Feb-22	3.51	26.28%
Mar-22	3.50	26.32%
Apr-22	3.47	26.12%
May-22	3.44	25.57%
Jun-22	3.44	24.74%
Jul-22	3.34	23.19%

Source: FRFI filings to OSFI [1]

Potential losses at financial institutions

Mortgages with loan-to-value (LTV) ratios in excess of 75% are considered relatively high ratio mortgages, meaning there is less equity at origination and thus, higher risk. The proportion of newly underwritten uninsured mortgages with LTV ratios in excess of 75% has been decreasing over the past year, and remains below its historic peak levels (see Chart 8).

Chart 8 - Proportion of uninsured mortgage originations with LTV > 75% by loan amount



Proportion of Uninsured Mortgage Originations with LTV > 75% by Loan Amount - Table

Filing	%
Jan-15	48.1%
Feb-15	48.5%
Mar-15	49.7%
Apr-15	48.3%
May-15	50.7%
Jun-15	50.5%
Jul-15	51.0%
Aug-15	50.0%
Sep-15	48.8%
Oct-15	48.5%
Nov-15	49.0%
Dec-15	48.4%
Jan-16	45.4%
Feb-16	46.1%
Mar-16	45.8%
Apr-16	45.6%
May-16	46.3%
Jun-16	46.1%
Jul-16	44.4%
Aug-16	45.9%
Sep-16	45.0%
Oct-16	45.9%
Nov-16	45.6%

Filing	%
Dec-16	46.3%
Jan-17	44.9%
Feb-17	45.6%
Mar-17	46.5%
Apr-17	45.3%
May-17	45.7%
Jun-17	45.7%
Jul-17	45.2%
Aug-17	45.7%
Sep-17	46.5%
Oct-17	46.5%
Nov-17	46.9%
Dec-17	47.8%
Jan-18	46.6%
Feb-18	45.7%
Mar-18	46.7%
Apr-18	46.5%
May-18	47.1%
Jun-18	47.3%
Jul-18	46.2%
Aug-18	46.4%
Sep-18	47.0%
Oct-18	48.0%

Filing	%
Nov-18	47.8%
Dec-18	47.3%
Jan-19	47.7%
Feb-19	48.6%
Mar-19	49.5%
Apr-19	49.7%
May-19	50.6%
Jun-19	51.3%
Jul-19	50.1%
Aug-19	50.6%
Sep-19	49.3%
Oct-19	49.8%
Nov-19	49.5%
Dec-19	49.4%
Jan-20	48.2%
Feb-20	49.9%
Mar-20	50.1%
Apr-20	49.5%
May-20	49.7%
Jun-20	51.2%
Jul-20	51.4%
Aug-20	52.5%
Sep-20	52.1%

Filing	%
Oct-20	52.1%
Nov-20	51.0%
Dec-20	51.2%
Jan-21	50.0%
Feb-21	49.8%
Mar-21	48.8%
Apr-21	49.2%
May-21	49.9%
Jun-21	49.8%
Jul-21	49.7%
Aug-21	49.3%
Sep-21	48.9%
Oct-21	49.3%
Nov-21	48.3%
Dec-21	47.5%
Jan-22	49.1%
Feb-22	47.4%
Mar-22	46.2%
Apr-22	46.8%
May-22	48.2%
Jun-22	47.8%
Jul-22	47.8%

Source: FRFI filings to OSFI [1]

Summary

OSFI's actions are aimed at addressing the health of the federally regulated financial institutions active in lending, including in the residential real estate market.

In a rising rate environment, the debt service burden rises as consumers pay more interest, which can have a meaningful impact, especially on households that are already financially stretched. In turn, this can lead to higher default rates.

The MQR has provided a margin of safety that improves borrowers' ability to absorb unexpected changes in interest rates or income. The MQR prevented borrowers from stretching their borrowing capacity to its maximum, thus ensuring that a larger number of borrowers could keep making payments even as interest rates rise. Recent increases in mortgage interest rates have already eroded a significant portion of the debt service capacity provided for by the qualifying rate buffer, and debt service ratios are still increasing.

Financial institutions may experience losses on their residential real estate loans in the case of borrower defaults if the value of the homeowners' equity substantially erodes. This type of a situation has not been observed in Canada for decades due to the stability of the housing market but can happen in the case of a prolonged housing market correction.

OSFI will take action to continue to assess FRFIs' readiness to manage borrower challenges in their mortgage portfolios and higher potential losses in light of their existing provisioning levels and capital positions.

Footnotes

1 This chart includes uninsured mortgage data from 20 federally regulated mortgage lenders. These lenders hold more than 99 per cent (by $) of all mortgages subject to OSFI regulation and supervision.

2 Contract GDS is calculated using the contract interest rate at the time of funding.