

ECONOMIC VIEWPOINT

The Outlook for Mortgage Arrears in a Higher-Rate World

By Kari Norman, Senior Economist

HIGHLIGHTS

- ▶ Mortgage arrears—mortgage payments that are at least 90 days overdue—have risen from pandemic-era lows in Canada but remain modest by historical standards, reflecting a normalization rather than a broad deterioration in household finances.
- ▶ The mortgage renewal wall—materially higher borrowing costs at renewal—particularly affects recent homebuyers with larger outstanding balances and investors facing softer rental conditions.
- ▶ Arrears continue to track macroeconomic conditions, with unemployment, interest rates, home price dynamics and inflation playing central roles in shaping borrower stress.
- ▶ Looking ahead, easing renewal pressures and stable labour market conditions are expected to support a stabilization in arrears, with a gradual reduction through 2027 and 2028.

Mortgage arrears—payments that are at least 90 days overdue—have been rising in Canada, drawing attention to household financial stress and raising concerns of broader economic weakness ahead. As interest rates have increased, a wave of mortgage renewals¹ has begun to reset borrowing costs at significantly higher levels—the so-called mortgage renewal wall. Arrears are now adjusting to this higher rate environment. Even so, overall levels of mortgage arrears remain relatively low, raising the key question of whether recent increases reflect a return to more typical conditions or the early stages of broader financial strain. (See box on page 2 for information about arrears and how they may resolve.)

What's Driving Rising Mortgage Arrears

Arrears have increased across Canada since 2022, recently reaching 0.28% of outstanding mortgages (graph 1). While the rise appears notable, it follows an exceptionally low starting point of 0.14% during the pandemic, when temporary income support, payment relief measures and low borrowing costs together helped suppress delinquencies. As borrowers renew at rates above those secured during the pandemic, large payment increases are putting pressure on some households. Even though policy rates have declined from their peaks, because renewals occur gradually, higher debt service costs are still feeding through and contributing to the current uptick in arrears. Current trends

Graph 1
Mortgages in Arrears Are Rising—but Remain Below the Long-Term Average



Canadian Bankers Association and Desjardins Economic Studies

therefore may appear more consistent with a normalization rather than systemic deterioration.

The rise in mortgage arrears reflects several factors. First, many borrowers are hitting the mortgage renewal wall, as mortgages that were originated at pandemic-era interest rates were well below current levels (graph 2 on page 2). Even with some easing in rates from their 2023 peaks, those renewing after 5-year terms are facing materially higher borrowing costs. At the same time, elevated home prices in Ontario and BC have led to larger mortgage balances, amplifying payment increases at renewal.

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BOX
Arrears and How They May Resolve

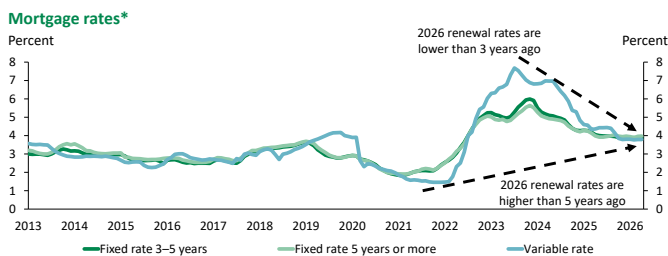
Mortgage arrears occur when a borrower falls behind on scheduled payments and these payments become 90 days or more past due. They represent the endpoint of financial stress rather than its onset. Households typically exhaust a range of mechanisms before missing mortgage payments, including reducing discretionary spending, drawing down savings, increasing household income, using home equity-backed or unsecured credit, selling assets, seeking help from family or requesting payment relief from lenders. Consequently, arrears tend to lag broader changes in economic conditions.

Entering arrears does not necessarily lead to a forced sale of the home. For example, Ontario had nearly 60k mortgages in arrears last year, yet [Teranet](#) reported fewer than 3k properties changed hands under power of sale. Many cases are resolved through arrangements between borrowers and lenders aimed at restoring payment stability. These may include:

- ▶ Temporary repayment plans to catch up on missed payments
- ▶ Capitalization of missed payments into the mortgage balance
- ▶ Extension of the amortization period in order to lower monthly payments
- ▶ Modification of loan terms, such as adding a co-borrower or guarantor
- ▶ Voluntary sale of the property by the owner

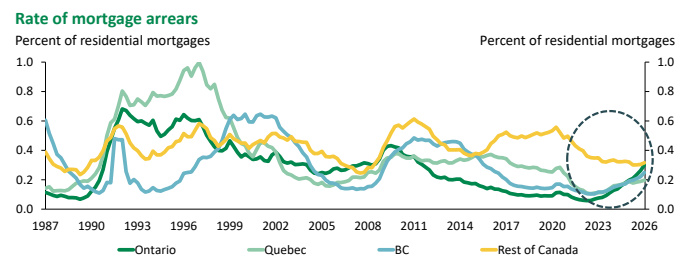
Only a minority of arrears cases proceed to enforcement, typically after other resolution options have been exhausted. In Ontario and most Atlantic provinces, lenders typically use a power of sale process, where the homeowner retains title until the property is sold. In Western Canada, a judicial sale is a court-supervised process that typically results in the sale of the property to a third party rather than the lender taking ownership. Quebec operates a similar court-supervised framework, with more prescribed steps and timelines under civil law. Across jurisdictions, lenders generally have a duty (explicitly or via court oversight) to obtain fair market value, especially in the case of power of sale, with any remaining proceeds after repayment of the mortgage returned to the borrower ([WealthNorth, 2026](#)).

Graph 2
Mortgage Rates Are Higher for Those Renewing 5-Year Terms



* Funds advanced on insured residential mortgages.
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Graph 3
Mortgage Arrears in Ontario Have Risen Dramatically



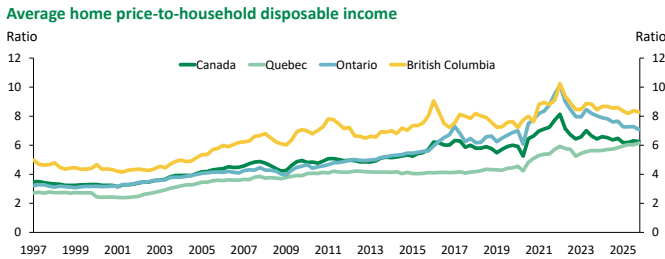
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Ontario has seen the sharpest jump in the rate of arrears, moving from the lowest in Canada to above the national average (graph 3).

Second, although average rates of mortgage arrears have risen overall, underlying risks aren't evenly distributed across borrowers. Home prices surged during the pandemic, driven by exceptionally low borrowing costs and shifting housing preferences during lockdowns. Buyers during this

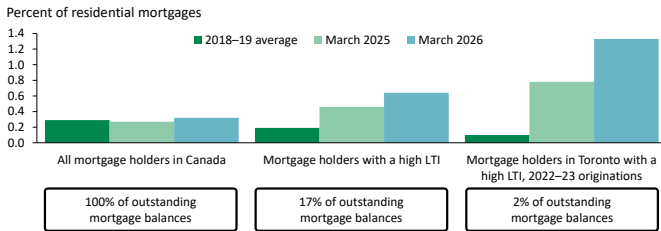
period—particularly in Ontario and BC—faced rapidly rising price-to-income ratios (graph 4 on page 3). As more recent entrants, they've had less time to pay down principal balances and therefore tend to carry larger outstanding mortgage balances than pre-pandemic buyers. As a result, many are more exposed to payment shocks as their mortgages renew at higher interest rates. Consistent with this, the rate of mortgage arrears has risen more quickly among borrowers with higher loan balances relative to their income (graph 5 on page 3).

Graph 4
Home Price-to-Income Ratios Jumped Quickly During the Pandemic



Statistics Canada, Canadian Real Estate Association and Desjardins Economic Studies

Graph 5
Mortgage Arrears Rates Remain Low but Have Increased for Those with Large Balances Relative to Income

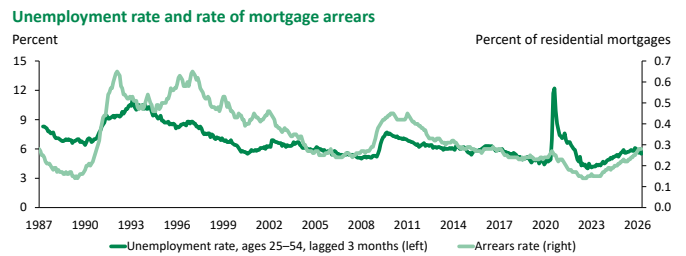


LTI: Loan-to-income ratio. A high LTI is defined as over 450%.
Bank of Canada and Desjardins Economic Studies

Macroeconomic Conditions Have Had Mixed Impacts on Household Stress

Arrears aren't just influenced by the mortgage renewal wall—they're also tied to broader macroeconomic conditions, a relationship highlighted in recent [Bank of Canada \(BoC\)](#) research and confirmed by our own analysis. Most notably, arrears have historically moved closely with unemployment rates, reflecting the central role of job loss in driving financial stress (graph 7). While labour market conditions have softened from the exceptionally tight levels of 2022, the unemployment rate remains low by historical standards. However, longer job search durations suggest some households remain vulnerable.

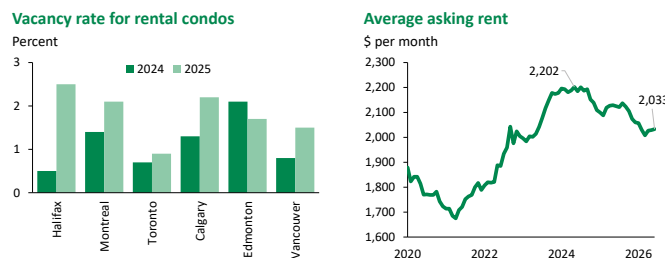
Graph 7
Job Loss Is One of the Strongest Predictors of Future Mortgage Arrears



Statistics Canada, Canadian Bankers Association and Desjardins Economic Studies

Finally, investor-owned properties may also face elevated financial pressure, as rental demand and asking rents have softened alongside changes in federal immigration policy (graph 6). In this environment, weaker rental income relative to carrying costs may increase the likelihood that some investors sell properties, particularly in markets that previously attracted stronger newcomer demand.

Graph 6
Rental Market Conditions Have Softened



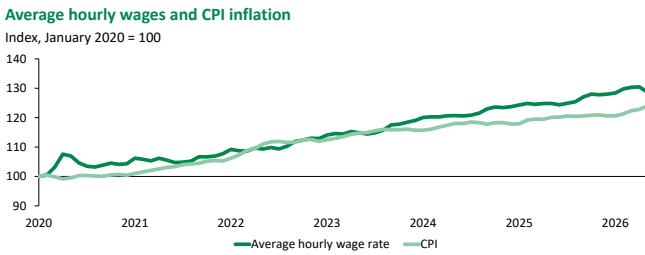
Canada Mortgage and Housing Corporation, Rentals.ca and Desjardins Economic Studies

Home price growth has historically helped reduce arrears by increasing home equity, which acts as a financial buffer. While national prices have declined from their 2022 peaks, most homeowners retain meaningful equity cushions. At origination, the average loan-to-value ratio was around 70% to 75% over the past five years ([Bank of Canada, 2026](#)), while subsequent price gains and principal repayments have increased equity for many borrowers. This has supported resilience by providing refinancing flexibility or the option to sell without incurring losses.

Periods of higher inflation have also tended to coincide with lower rates of arrears, in part because inflation erodes the real value of outstanding debt. While post-pandemic inflation has increased cost of living pressures, stronger nominal income growth—including wages that have outpaced inflation since the start of the pandemic—has helped to offset some of these effects (graph 8 on page 4).

Taken together, these factors suggest that while mortgage stress is clearly elevated for a small share of households, as evidenced by the rising rate of arrears, current conditions don't support a narrative of widespread mortgage distress.

Graph 8
Wage Growth Has Outpaced Inflation Since the Start of the Pandemic

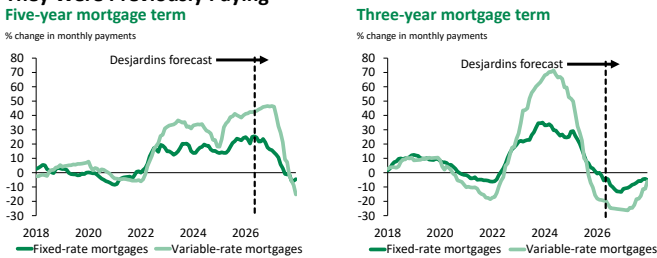


CPI: Consumer Price Index
 Statistics Canada and Desjardins Economic Studies

The Outlook for Mortgage Arrears Appears to Be Stabilizing

Looking ahead, several factors are likely to contribute to a stabilization in mortgage arrears. Borrowers who locked in ultra-low 5-year fixed rates in 2020 and early 2021 have largely already renewed. Those yet to renew originated at rates that were already starting to inch up in advance of the first rate increase by the BoC, which occurred in early 2022. Assuming that homeowners typically renew for the same type and term length and that they didn't make any pre-payments on their mortgages, the renewal shock on 5-year fixed-rate mortgages has levelled out and is expected to taper off through 2027 (graph 9, left).

Graph 9
Three-Year Mortgage Holders Are Likely Already Renewing for Less than They Were Previously Paying



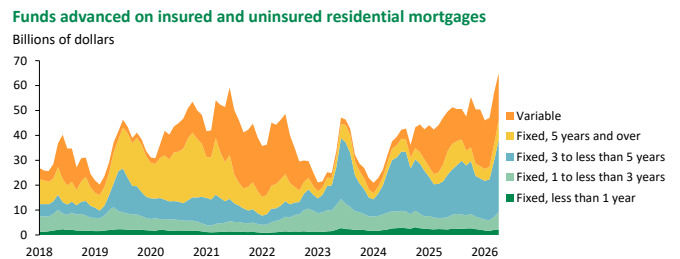
Note: Assumes that mortgages are renewed for the same type and term length and that no pre-payments were made over the course of the mortgage.
 Bank of Canada and Desjardins Economic Studies

Five-year variable-rate borrowers with fixed payments may face steeper adjustments, particularly where negative amortization occurred (i.e., where monthly mortgage payments were below the interest incurred on the loan, with the difference added to the loan outstanding). In practice, it's likely that many of these borrowers have made pre-payments either voluntarily or as requested by their lender to mitigate this risk.

Meanwhile, borrowers who took out shorter-term fixed- or variable-rate mortgages at peak rates in 2023 are likely to see significant payment relief upon renewal (graph 9, right).

The mortgage stress test also provides an important buffer, as most borrowers qualified at rates well above those they are now facing. In addition, a shift away from 5-year fixed rates starting in mid-2021 means that a larger share of borrowers will renew into lower-rate environments over the next two years. Borrower preferences initially shifted toward variable rates, followed by a move toward 3-year fixed-rate mortgages around 2023 (graph 10). At the same time, weaker housing market conditions during the period of elevated borrowing rates, compounded by trade-related uncertainty more recently, have reduced demand for new mortgages, further limiting the scale of renewal-related pressures.

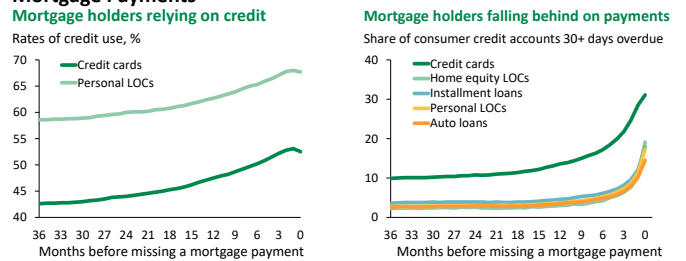
Graph 10
Canada Is Nearing the End of the Mortgage Renewal Wall



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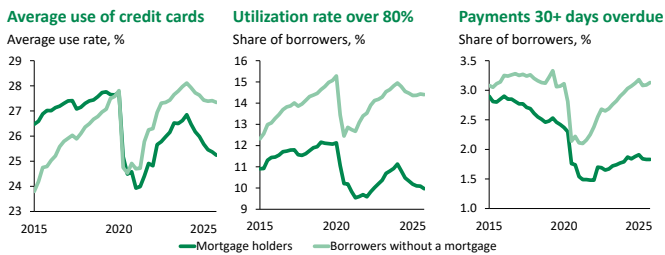
Leading indicators of credit stress also point to stabilization. [Bank of Canada](#) analysis shows that households typically increase credit utilization and miss payments on other forms of credit before entering mortgage arrears (graph 11). By late 2025, mortgage holders had begun reducing credit card utilization, while the share of borrowers missing payments had plateaued—suggesting that household financial stress may have peaked (graph 12 on page 5).

Graph 11
Late Payments and Greater Reliance on Credit Often Precede Missed Mortgage Payments



LOCs: Lines of credit
 Note: This analysis was based on 9 million Canadian mortgage holders between 2015 and 2024.
 Bank of Canada, TransUnion Canada and Desjardins Economic Studies

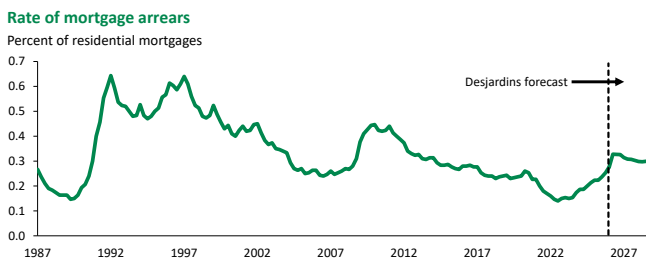
Graph 12
Signs of Credit Card Stress Are Abating Among Mortgage Holders



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From a macroeconomic perspective, conditions remain supportive. Our [outlook](#) is for stable labour markets, with modest improvements in unemployment rates in some regions, notably [Ontario](#). Inflation has also moderated, easing pressure on household budgets, while income growth remains solid. Average home prices are expected to rise modestly, providing homeowners with additional equity. Based on these factors, and drawing on an approach similar to that used by the [BoC](#), we expect arrears growth to moderate in the near term before plateauing and gradually starting to decline in 2027 and 2028 (graph 13).

Graph 13
Mortgage Arrears Are Expected to Plateau and Gradually Decline



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A sharp rise in risks related to mortgage arrears could lead lenders to tighten credit conditions, limiting access to financing for some buyers. At the same time, weaker rental market conditions and investor sentiment could increase listings, particularly in investor-heavy segments such as condominiums. If these forces were to coincide, rising inventories and softer demand could place downward pressure on home prices. At present, however, there is little evidence of such a feedback loop at the national level.

Conclusion

Mortgage arrears have risen from pandemic-era lows, particularly in Ontario, reflecting the combined effects of higher interest rates, additional affordability challenges and a modest softening in labour market conditions. However, arrears remain low by historical standards, and most households have adjusted to higher borrowing costs.

As the peak of 5-year mortgage renewals passes, upward pressure on payments is expected to ease. Meanwhile, borrowers renewing shorter-term mortgages taken out at higher rates are already benefitting from lower borrowing costs. Consistent with the historical links between mortgage arrears and macroeconomic conditions—including unemployment, inflation and home prices—the current environment points to a stabilization in arrears rather than an escalation. While downside risks remain, the most likely path forward based on our most recent forecast is one in which arrears continue to normalize in the near term before plateauing and gradually declining through 2027 and 2028.

Downside Risks Could Alter the Path for Mortgage Arrears

Although the outlook for mortgage arrears is positive, several risks could result in a less favourable outcome. A resurgence in inflation could lead to higher interest rates, increasing borrowing costs and eroding affordability before incomes have time to catch up. At the same time, weaker growth—potentially linked to trade disruptions such as uncertainty around the [Canada–United States–Mexico Agreement \(CUSMA\)](#) review—could raise unemployment and place additional pressure on mortgage holders. This was illustrated by the [Bank of Canada \(2026\)](#) in its recent forecast scenarios for mortgage arrears.

Notes

1. Renewal refers to updating the terms of an existing mortgage—often with the same lender—when the current contract term ends. This typically involves a new interest rate and payment, with little or no change to the outstanding loan balance. It generally doesn't require income re-verification or requalification under the mortgage stress test.

Refinancing replaces the existing mortgage with a new loan, allowing borrowers to adjust the loan amount, extend the amortization period or access home equity. While refinancing can lower monthly payments relative to renewing when facing higher interest rates, it typically requires a full credit assessment and stress test qualification.

Restructuring involves modifying the terms of an existing loan in response to financial difficulty and can occur at any point during the mortgage term. This may include extending the amortization period, adjusting payment terms or capitalizing missed payments, and generally occurs without standard requalification.

Based on information from the [Financial Consumer Agency of Canada](#) and standard industry practice.