



## OSFI: Mortgage Arrears Only 0.15% Despite Rate Hikes

### Description

Runaway inflation is tough to contain, but Canadian household finances seem to be more resilient than expected. Peter Routledge, the head of the Office of the Superintendent of Financial Institutions (OSFI), shared data from the Canadian Bankers Association that shows mortgage delinquency is only 0.15%, despite multiple rate hikes.

While Routledge admits his worry about rising borrowing costs and how it would impact on households, he expressed relief over the success of the mortgage stress tests that started a year ago. According to Routledge, the OSFI is constantly looking for ways to add more resilience to the system.

Meanwhile, only energy (+4.11%) and utilities (+0.10%) among the 11 primary sectors advanced on June 28, 2022. The **TSX** didn't close below 19,000, although its two-day winning streak ended. Real estate investment trusts (REITs) succumbed to the pressure in that the majority also declined on Tuesday.

### Margin of safety

The OSFI raised the minimum qualifying rate for uninsured borrowers on June 1, 2021. Canadian borrowers making a down payment on a mortgage by least 20% must prove they can handle payments on a 5.25% interest rate or the contract rate, plus 2%, whichever is higher.

Routledge said, "We did tighten the stress test a little bit a year ago, and I'm glad we did in light of what we saw with interest rates over the last couple of months." He added that the movement in interest rate was unexpected, but it was good nonetheless, because the OSFI had a margin of safety to deal with it.

### Real estate investments

REITs are solid passive-income providers, although the [real estate sector](#) remains in negative territory year to date (-22.84%). The more resilient ones with attractive dividend yields are **Choice Properties** ([TSX:CHP.UN](#)) and **NorthWest Healthcare Properties** ([TSX:NWH.UN](#)).

Choice Properties owns, operates, and develops high-quality commercial and residential properties. At \$13.85 per share, this \$4.54 billion REIT pays a 5.38% dividend. Management said its well positioned for future success due to its business model, stable tenant base, strong balance sheet, and disciplined approach to financial management.

In Q1 2022, net income rose to \$387 million from a \$62.2 million net loss in Q1 2021. Choice Properties's competitive advantage is its diversified portfolio (industrial, residential, retail, and mixed-use properties). Also, necessity-based tenants and logistics providers provide stability to the REIT, as they are less sensitive to economic volatility.

NorthWest Healthcare is the only REIT in the cure sector. The defensive nature and resiliency of its high-quality portfolio showed once in Q1 2022. Net income from the 202 income-producing properties climbed 9.2% year over year to \$77 million.

The \$2.89 billion owner and operator of medical office buildings, hospitals, and clinics. If you invest today, the share price is \$12.09, while the dividend yield is a juicy 6.55%.

## Protection from rising rates

OSFI will tighten the rules on real estate loans such as reverse mortgages and home equity lines of credit. The objective is to protect households further from rising rates. Borrowers with a combined loan higher than 65% of the home's value should take note. A part of your payments will go towards the principal instead of the just interest owed as of late 2023.

### CATEGORY

1. Dividend Stocks
2. Investing

### TICKERS GLOBAL

1. TSX:CHP.UN (Choice Properties Real Estate Investment Trust)
2. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)

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