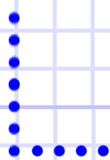
BANKS

AND CANADA'S HOUSING CRISIS



authored by

The Shift

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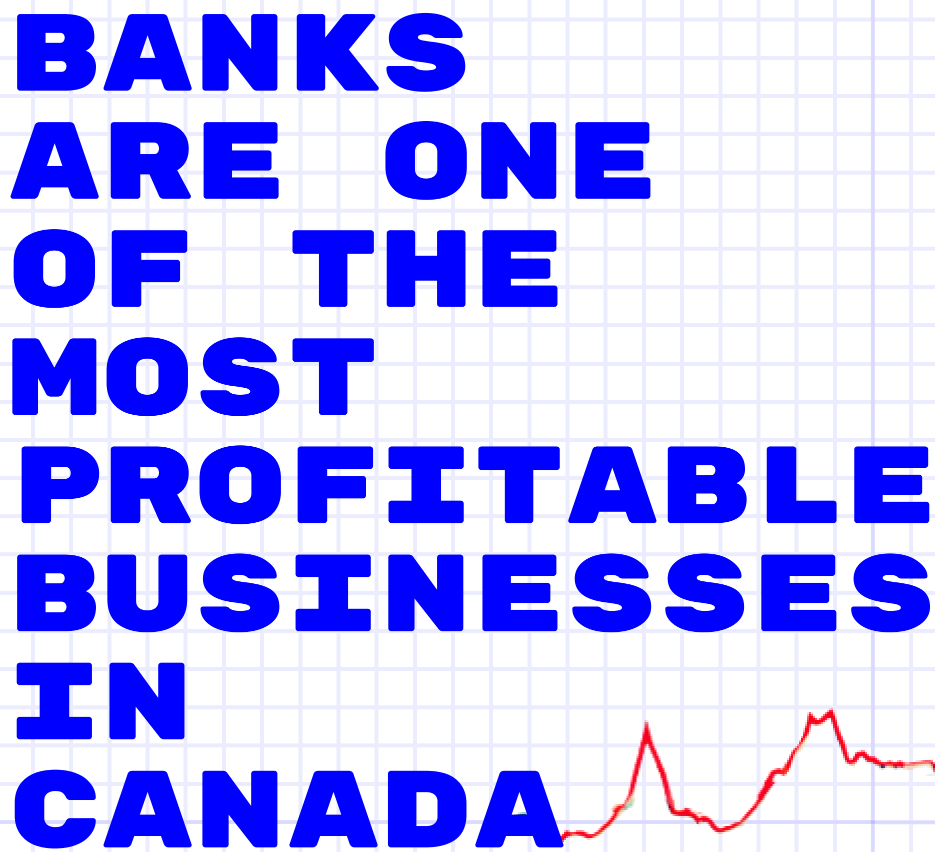
“THE CANADIAN REAL ESTATE MARKET INDEED BENEFITS FROM THE MOST STABLE AND RESPONSIBLE BANKING SYSTEM IN THE WORLD.”

S. Michael Brooks,
Canadian Commercial Real Estate: Theory, Practice, Strategy



and they are integrally tied to housing. The six largest banks in Canada earned close to $60 billion in profits last year (up $1 billion from 2023)[1], with RBC – the 24th largest bank in the world[2] – earning more than $16 billion. Despite their dominance, little attention has been paid to the determinative role they play in the housing system and how their profitability may be tied to housing unaffordability and insecure tenure for tenants across Canada. Little attention has also been paid to the relationship between bank lending policies and investment practices in housing and climate change.

Most people think of banks as places to safely park our earnings and savings and as relatively neutral lending or financing institutions, particularly when we need financial assistance to purchase a home. Others - especially large investors like pension funds – may think of banks as bedrock shares, paying reliable dividends. Less discussed is the relationship between banks and increased housing costs, for both single family homes as well as rental apartments, or the way in which banks' lending practices might precipitate evictions, push up rents, and result in the conversion of affordable rentals to more luxurious accommodations which displace households.

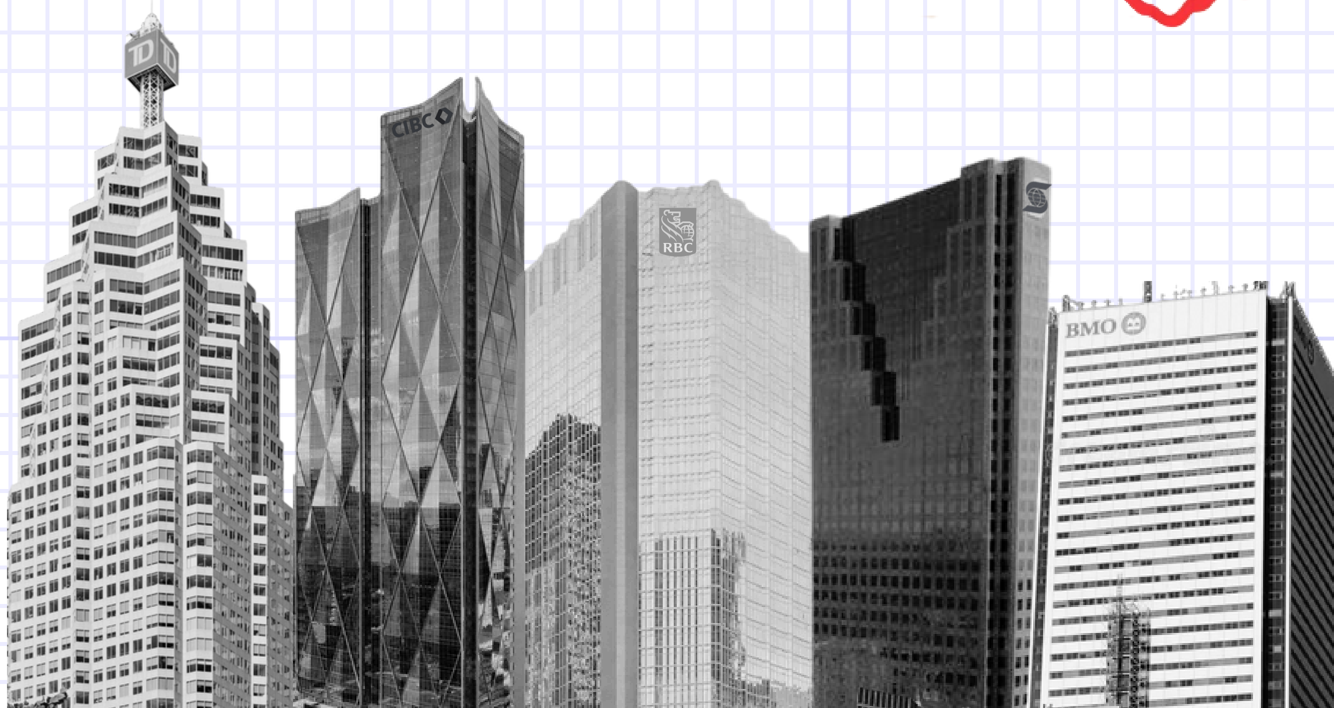
This briefing note punctures the idea that banks are somehow "neutral"[3], and exposes the ways in which what might be perceived as rational profit-making within a regulated industry, actually helps to drive and uphold a housing system that isn't working for middle class and low-income households alike.

Researching the practices of banks and their implications is difficult. Information is not always transparent, and where available it is often difficult to understand without expertise in banking and finance terms and procedures. This paper is based on desk research and many conversations over several years with a variety of housing sector experts. It is intended as an entry level, plain language explainer on banking principles and processes aimed at unveiling basic truths regarding their potential contributions to Canada's housing crisis.

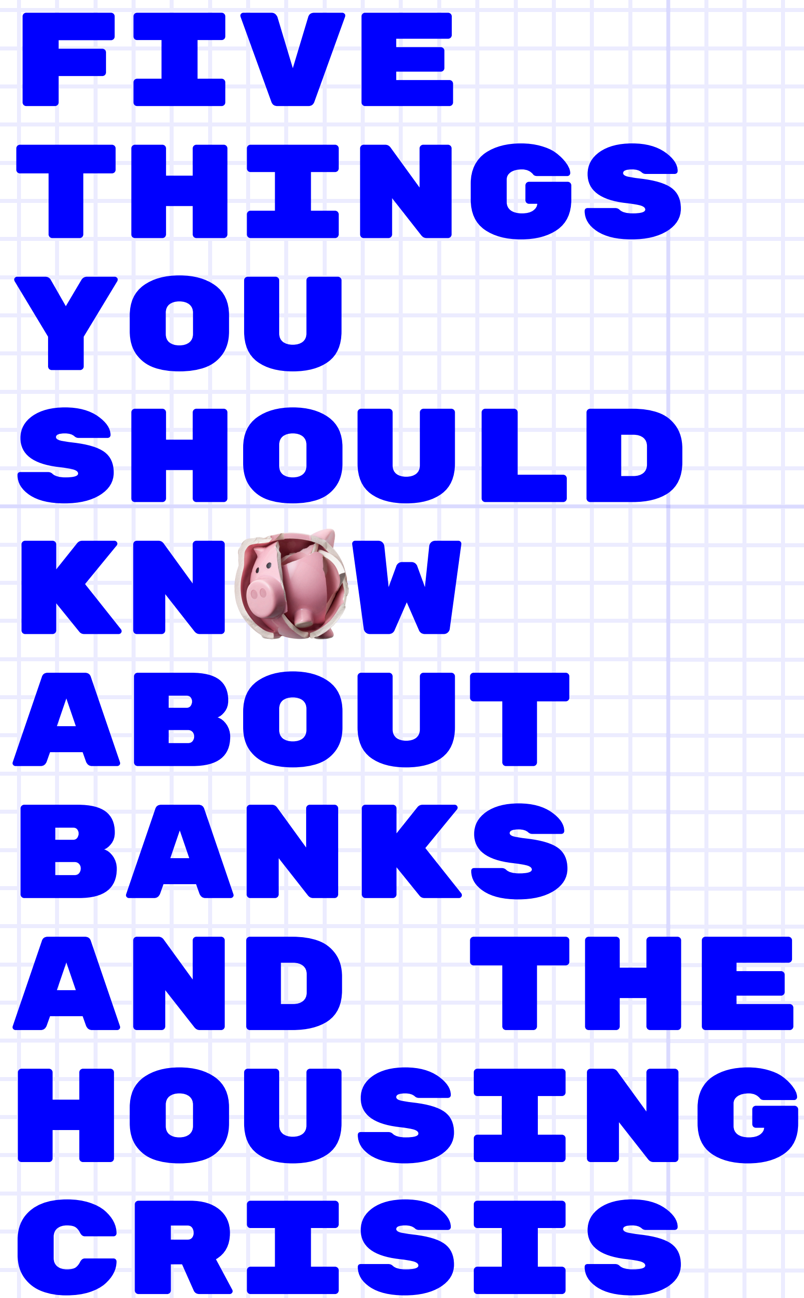
Though not its primary focus, this paper also exposes the interdependence and indivisibility of banks, governments (fiscal and housing policy), Canada Mortgage and Housing Corporation (CMHC) and institutional investors. Theirs is a relatively insular and mutually reinforcing relationship creating a housing ecosystem whose goals are not always aligned with ensuring adequate, affordable, secure and sustainable housing for everyone in Canada.

An exploration into banks' practices is an important inquiry. The housing market is working for too few people, and certainly not those most in need. House prices and rents are too high, evictions and displacement too commonplace, and homelessness is rising at a rapid rate. Many are being denied the fundamental right to housing, enshrined in the National Housing Strategy Act. It is impossible to understand and address Canada's housing crisis without an appreciation of the role of banks in the housing ecosystem; a role that is interdependent with government fiscal and housing policy and institutional and individual investment in housing.

Banks, like all businesses in Canada, have a responsibility to uphold human rights. As this report reveals, they are failing to do so.



FIVE THINGS YOU SHOULD KNOW ABOUT BANKS AND THE HOUSING CRISIS



1. Mortgage Lending Increases House Prices (And Makes Banks a Lot of Money)

Approximately 80% of home mortgages in Canada are secured through one of the major banks. Mortgage debt amounts to approximately $2.2 trillion.[4]

Major mortgage lenders in Canada include RBC (21.7%), Scotiabank (14.5%), TD (13.4%,), CIBC (13.2%), BMO (7.6%), and Desjardins (6.2%).[5]

Mortgage loans represent 70% of all lending by banks in Canada, a shift from pre-1990s when lending was predominantly for the production and consumption of goods.[6] Since then, housing has become a good, a dominant vehicle for investment, and an asset class. As a result, mortgages now make up about 50% of Canada's banking system's assets.[7] Banks thus have a pecuniary and operational interest in financing housing.

Research by economists[8] and scholars, including at the OECD and the IMF[9], shows that an increase in household credit through mortgages correlates with an increase in house prices. This effect is particularly pronounced when mortgage credit, and substantial loans, are relatively accessible.

Why is this so?

- When existing buyers can access more, or cheaper, credit, they can make larger offers on properties. It is common to hear that a house sold "above asking". Asking prices are often slightly deflated and then used to fuel bidding wars, resulting in a manipulation of the market and the creation of inflated "market value". This was evident from the effects of the COVID-19 pandemic wherein house prices skyrocketed due to low interest rates making cheap mortgage debt widely available. Yet even with record increases in the Bank of Canada's interest rate, up to 5% in late 2023, year-on-year house prices only saw much more marginal decreases of up to 1.6% as of late 2024.[10]

- When house prices go up, buyers access even bigger loans and thus can still afford to buy, so they keep purchasing despite inflated costs. This stops the usual market balance where high prices would

normally reduce demand and prevent further price increases. To provide an analogy, when cauliflower or almonds go up in price because of weather events, most households would forego those products or decrease the amount they purchase. When house prices go up, however, households are told by financial institutions and government policy they can still “afford” the home through the availability low interest loans, or longer amortization periods. This keeps house prices high.

- The housing market uses comparable sales to determine property values.[11] When some transactions occur at higher prices due to expanded credit, value expectations are reset across the market, even for transactions not directly involving increased borrowing.

APPROXIMATELY 80% OF HOME MORTGAGES IN CANADA ARE SECURED THROUGH ONE OF THE MAJOR BANKS

- Low interest rates and access to mortgage debt tends to increase the number of people able and wanting to buy. This drives up prices. Sellers may also price properties higher or become more resistant to lower offers, if they know that buyers have greater access to credit.

- Land is a finite resource. For housing to be desirable and practical, it must be built on land with access to essential services like transportation, jobs, healthcare, and schools. Unlike mass-produced goods such as computers, the supply of suitable land for housing cannot be easily expanded. This inherent limitation,combined with housing being a necessity, means that when more people can afford to buy through increased borrowing capacity, prices rise—ultimately worsening affordability for many.[12]

- Favourable lending conditions encourages investment in housing. Those who can leverage credit may buy multiple properties creating price pressure without increasing the number of unique buyers. House prices are then driven up by “exuberance” and “optimistic market psychology” rather than fundamentals.[13]

- It should also be noted that a poorly regulated rental market – for example with vacancy decontrol, own-use evictions or evictions for renovations, limited or no rent caps, and above guideline rent increases that are easily secured – provides an important incentive for renters to move to homeownership. Renters compare the lack of security and cost of renting with monthly mortgage payments, without being aware of the financial implications of long-term high debt load that occurs with a mortgage loan.

This relationship between mortgage credit and house prices creates a positive feedback cycle;[14] as more mortgage credit is made available, house prices increase, which then leads to growth in credit/lending (often facilitated by government policy) and increased indebtedness of households across the country – a potentially endless cycle, until it collapses, which invites in highly capitalized buyers.

Increased house prices and concomitant increases in household indebtedness can also lead to a greater risk of foreclosure, especially if interest rates suddenly rise. Foreclosures result in more demand on the rental housing sector, where affordable units are scarce. This can then put upward pressure on rental prices.

Concern is growing that an increasing number of households in Canada will face foreclosure in the coming year. As it stands, 1.2 million mortgages are up for renewal across Canada in 2025, 85% of which will see an increase in their interest rate and thus monthly payments.[15]

Foreclosures have the greatest impact on individual households. Lower-income households are particularly vulnerable, especially those who cannot afford a deposit of 20% or more and consequently pay substantial amounts for mortgage insurance through the Canada Mortgage and Housing Corporation (CMHC). Mortgage insurance safeguards the lender (the bank) in the event of borrower default on a loan. While this mechanism stabilizes banks and supports Canada's economy, it does not offer protection to the borrower.

The provision of mortgages is not a benign activity supporting homeownership in Canada. It appears to influence housing markets and is resulting in unaffordability and insecurity for many households, contrary to the human right to adequate housing. Additionally, mortgage lending significantly benefits the banking sector, enabling them to accumulate more resources for further lending, despite the associated adverse impacts.

2. Homeownership Is Supposed To Make You Wealthier, But It May Make You Poorer

Since World War II, for many in Canada, homeownership has provided financial security and acts as an alternative pension fund upon retirement. For many other households, mortgage indebtedness makes them poorer, while enriching banks and institutional investors.

As it stands Canada's mortgage debt reached $2.2 trillion as of July

2024, representing about 85% of our GDP which is one of the highest mortgage debt-to-GDP ratios among developed economies.[16] This demonstrates the extent to which Canada's economy is dependent on housing and bank lending.

As house prices increase, while wages remain relatively stagnant, the size of a mortgage required to purchase a home continues to increase relative to income.

One solution to this unaffordability crisis could be for governments to take measures that lower house prices which would ensure a greater percentage of households could afford homeownership.[17] This is not the approach that has been taken.

Instead, Governments in Canada consistently take decisions to increase accessibility of homeownership (mostly through short term programs) rather than address affordability, setting policies and working with banks to ensure households have access to larger mortgages. For example, in September 2024, the Government of Canada announced it was increasing the $1 million price cap for high loan-to-value mortgages to $1.5 million, effective December 15, 2024. This policy change is aimed at first time home buyers who do not have the resources to make a 20% downpayment and thus require mortgage insurance. So, for example, a house priced at 1.2 million dollars (the median price of a home in Toronto in 2024) now requires a purchaser to put down just $95,000, rather than the $240,000 that was required before the policy change.[18] The government referred to this plan as one that will ensure every generation of Canadians can "get ahead", "where their hard work They referred to this plan – pays off, and where they can buy a home".[19]

Not only does such a high loan-to-value mortgage policy help to inflate the price of homes as discussed in point 1 above, it also means that many buyers will be paying a large percentage of their income on debt-servicing, especially when interest rates are high, making them significantly indebted.

After the Global Financial Crisis in 2008-2009, the Bank for International Settlements (BIS)[20] established an international regulatory framework for commercial banks. This set of rules, known as Basel III, created a stricter framework for the solvency of banks and the granting of mortgages.

As discussed in the next section, banks commonly finance their real estate operations through the issuance of mortgage-backed securities (MBSs). The BIS has established under Basel III that to be eligible for risk weight discounts, residential real estate must meet a loan-to-

value ratio of 80% or lower. As such, Basel III established a standard down payment for mortgages of 20% LTV across the world since the Global Financial Crisis. However, some countries such as Canada have dodged Basel III down payment requirements by having CMHC issue mortgage loan insurance when a borrower cannot meet the standard 20% LTV down payment[21]. Other commonwealth countries such as Australia, New Zealand and UK have implemented similar programs.

Allowing high loan-to-value ratios is one of the key methods by which governments in Canada ostensibly address the unaffordability of homes.

Evidence shows, however, that it is a significant contributor to what can be crippling household indebtedness. IMF data reveals that countries that allow smaller downpayments than 20% have very high household debt with Canada ranked third in the world with the value of household debt representing 102% of our GDP.[22]

Another way in which policy is used to mitigate monthly household expenses, is through the extension of amortization periods from 25 years to 30 years.[23] These longer amortization periods are now also

"IN 2022 THE LARGE BANKS REPORTED THAT APPROXIMATELY 30% OF THEIR RESIDENTIAL MORTGAGES HAD AMORTIZATION PERIODS LONGER THAN 30 YEARS. A YEAR PRIOR THAT NUMBER WAS ZERO."

available to first-time homebuyers with insured mortgages.[24] The number of residential mortgages lasting more than 30 years in Canada has grown substantially.[25] In 2022 many of the large banks reported that approximately 30% of their residential mortgages had amortization periods longer than 30 years. A year prior that number was zero.[26] With interest rates having increased between 2022 and 2023 hitting a high of 5%[27], alongside the cost of single-family homes, the number of mortgages with a 30 year amortization grew to approximately 37%.[28] It is particularly first time, younger homebuyers who secure the longer mortgages.

While long amortization periods may benefit households in the short term (smaller monthly mortgage payments), it also makes them poorer. A longer amortization period spreads your payments over a longer period of time thus reducing the amount of your regular principal and interest payment. This also means, however, that more interest will be paid over the life of the mortgage and building equity will take much longer. Meanwhile, it enriches banks who receive more interest payments over a longer period of time.

For instance, on a $500,000 mortgage at an interest rate of 5.5%, the total interest payments for a 25-year mortgage would amount to approximately $415,500, whereas for a 30-year mortgage, they would be around $515,000. Monthly payments would be $3,051 for a 25-year mortgage and $2,819 for a 30-year mortgage.[29] Therefore, with a 30-year mortgage, not only do interest payments exceed the principal amount, but they are also 21% higher compared to a shorter mortgage term, while the monthly payments are merely 7% lower. Additionally, it will take significantly longer to build equity with a 30-year mortgage.

MORTGAGE AMORTIZATION COMPARISON

$500,000 mortgage at 5.5% interest rate

	25-Year Mortgage	30-Year Mortgage
Monthly Payment	$3,051	$2,819
Total Interest	$415,500	$515,500
Total Cost	$915,500	$1,015,500

The interest is more than the original value of the mortgage!

So, homeowners struggling to make their monthly mortgage payments find that they are making profits for banks through interest payments, while only slowly creating wealth for themselves and their families. It is not surprising, therefore, that in 2022 approximately 32% of homeowners with a mortgage were spending more than they are earning and more than 65% of mortgage holders in Canada were having trouble meeting their financial commitments, an increase of 22% between 2020 and 2022.[30]

It has also been argued that the interest rates on lending set by banks are often not done so to the benefit of borrowers, particularly when rates are low. A recent report demonstrated that there has been a growing gap between rates set by the Bank of Canada and the rates at which the banks lend to borrowers, particularly when interest rates are low. For example, when the Bank of Canada lowered rates during the pandemic, the big banks in Canada did not pass on a proportional decrease to borrowers. And yet, later, when the Bank of

Canada raised interest rates, the banks were quick to pass on the full increase to borrowers. [31] While the difference in rates between the central bank and commercial banks may be miniscule (percents of percents), when applied to the trillion-dollar asset base of banks, they translate into billions of dollars of more interest flowing to banks annually[32], and less money in the pockets of borrowers.

"MORTGAGE LENDING ISN'T A PRODUCTIVE ASPECT OF THE ECONOMY, IT DECREASES HOUSEHOLD SPENDING POWER, WHICH MAKES YOU POORER."

When mortgage lending is a dominant aspect of an economy, and when household debt burdens are high, as is the case in Canada, economic vulnerabilities and risks are a concern. Unexpected crises like a global pandemic, or a trade war with a major trading partner can lead to economic instability including job loss.[33] For a heavily indebted household that was already struggling to make their monthly mortgage payments, this can result in mortgage delinquency (falling behind on mortgage payments for 90 days), and even power of sale or foreclosure.[34]

Mortgage lending in the context of high housing prices, may not be a productive aspect of an economy, especially at the household level. Exorbitant house prices mean mortgage loans are larger and debt servicing is more costly. This leaves less money available to households to put back into the economy through consumption, travel, or starting a new business. In turn, this may contribute to a contraction in the economy which can contribute to stagnant wages, an increase in the demand for loans, and a negative feedback cycle.

Banks contribute to high housing costs, which results in higher levels of household debt, particularly for lower income borrowers, which then makes those households more indebted and more vulnerable to any financial implications of major crises. And despite this, governments continue to push homeownership schemes and loosen regulations to allow for larger and longer loans and banks go along with this because they make huge profits through interest payments and fees associated with mortgage lending.

Even when interest rates are low, mortgage lending does not necessarily represent a productive aspect of the economy. While it can lead to the construction of more housing and more renovations, which may be productive in terms of job creation and goods and services, such liberalizing of mortgage markets also results in a significant rise in the use of housing for speculation, as an investment or tool

of finance and hence an "explosion of money chasing an inherently limited supply of housing, inevitably leading to house prices rising much faster than incomes."[35]

Between the onset of the pandemic and the spring of 2023 the share of all home sales purchased by investors across Canada soared by at least 50 percent, with investors acquiring upwards of 30 percent of all housing bought with a mortgage by an individual as of spring 2023.[36] Using land and property as a form of speculation is not real investment; it is not productive.[37] Manuel Aalbers, a professor of human geography, argues that while investment in housing can contribute to the construction and maintenance of buildings, it doesn't necessarily generate new goods or services in the same way as investment in manufacturing or agriculture. Instead, it often involves the creation of financial instruments and the transfer of wealth, and is not necessarily focused on human well-being[38] or the realization of the right to housing.

3. Your Mortgage May Be Owned By An Institutional Investor, Not By The Bank You Got It From

Most people require a mortgage to buy a home in Canada, acquiring one through a bank, a credit union, or a mortgage broker. Approximately 35.5 per cent of homeowners in Canada currently have a mortgage.[39] While homeowners reasonably assume their mortgage relationship is with their lender, for many this is not the case.[40]

Thousands of mortgages in Canada are sold to investors each year as mortgage-backed securities (MBS)[41]. By the end of 2023, CMHC reports that about $503 billion of mortgage debt was securitized, representing nearly 25% of all outstanding mortgages and an 8% increase from the year prior.[42]

In Canada, financial institutions create mortgages for homebuyers, then group these mortgages into diversified risk pools. Once CMHC approves and insures these pools, they are sold to investors as securities with guaranteed returns regardless of mortgage default.[43] Monthly mortgage payments from borrowers provide the investment return. According to the Bank of Canada, 100% of mortgage-backed securities in Canada are publicly securitized through government agencies, primarily through CMHC's National Housing Act Mortgage-Backed Securities (NHA MBS) program and the Canada Mortgage Bond (CMB)

program. These securitized mortgages remain on banks' balance sheets, so the risk of default is born by borrowers, and by CMHC and Canadian taxpayers but not by the investors.[44] Banks generate revenue on MBS through transaction fees and interest rate differentials between what borrowers pay and what investors receive.

Lenders do not tell borrowers that their mortgage has been pooled, and this information may not be accessible even upon request. Without your knowledge or consent, your mortgage may in fact be owned by an investor – a pension fund, an asset management or private equity firm – someone whom you will never meet and who considers your mortgage their asset, or profit-making financial tool.

"DISPLACEMENT FINANCING BY BANKS EXPOSES A PERVERSE FINANCIAL SYSTEM THAT ACTIVELY REWARDS CORPORATIONS FOR TREATING HOUSING AS A COMMODITY"

Banks remain involved in securitized mortgages; they will still meet with the borrowers facing payment difficulties. However, in an MBS structure, the bank's primary client becomes the investor. The borrower becomes an instrument of finance – to service the guaranteed return on investment. Banks also favour mortgage backed securities out of self-interest: to ensure they "meet their funding needs and regulatory liquidity requirements."[45]

Governments, financial institutions, and investors view securitization positively as it provides banks with greater lending liquidity than if they were solely reliant on bank deposits made by customers (as was the case historically). From government perspective, this is viewed as good for the economy with more lending resulting in more mortgages and homeownership.

However, from a human rights and public policy point of view, MBS provide few direct benefits to borrowers[46] and may not always be in the public interest.

A defaulting borrower still risks foreclosure (or the equivalent) despite their fiscal and emotional investment in that home. The transformation of 'home' into a financial instrument generating profits for third-party investors, aligns with the financialization of housing seen in the rental accommodation sector. Just like tenants, homeowners whose mortgages are securitized are primarily valued for their capacity to meet financial obligations rather than as human

rights holders whose homes are vital for their security and well-being.

Securitization also significantly contributes to the financialization of Canada's housing system. Directly relying on institutional investors to provide a major source of housing finance ensures that their interests will be a priority for governments and the Bank of Canada when setting fiscal and monetary policy. As with banks, investor interests are not neutral. Investors want high and guaranteed returns on investment. When investors play an outsized role in housing, the potential for negative outcomes on housing consumers becomes real, as witnessed in multi-family housing, where fiduciary duties to investors result in poor housing conditions for tenants inconsistent with the right to housing.[47]

From a public policy perspective, MBS offer questionable public value considering the billions in public dollars required to make them available. The supposed benefits – more liquidity and loans – have negative consequences: increased lending inflates house prices and makes some households poorer.

New economic thinkers argue this finance cycle is not economically productive. Banks make huge profits from MBS that are not channeled into investments that stimulate other aspects of the economy or with clear social value. Instead, MBS feed a never-ending loop – investors make banks more liquid, banks provide more mortgage loans, creating more MBS for investment, all while house prices increase.[48]

One wonders if the billions in financial backing could achieve better public use, such as directing a percentage of MBS fees toward non-market housing. This could both ensure access to adequate housing for a greater number of people while increasing affordability through decreased competition in the private housing sector.

4. Banks' Commercial Financing for Multi-Unit Residential Properties Incentivizes High Rents and Contributes to Tenant Insecurity [49]

Many researchers and advocates have been rightly concerned with the impact of the financialization of housing on tenants in rental accommodation, whereby rental properties are turned into instruments of finance by financial actors. They argue that financial firms who are increasingly investing in rental accommodation[50], adopt

business practices that prioritize the profit interests of shareholders over the affordability, security of tenure, and quality of life interests of tenants.[51]

Less discussed has been the role of banks in encouraging these business practices.

The process of securing commercial financing[52] for residential real estate operates within a framework that fundamentally prioritizes financial performance and return on investment over housing that is affordable, secure and habitable as required in human rights law. The commercial lending process functions in ways that not only incentivize landlord behaviour resulting in higher rents and less security for tenants – both of which are inconsistent with the right to housing – but also structurally favours profit-motivated property owners over non-profit housing providers who are generally more committed to affordability and tenant well-being.

i. Bank Lending Criteria Incentivize Higher Rents and Fees

The valuation processes used by banks when financing multi-unit residential property acquisitions systematically incentivize practices that undermine affordable housing and tenant stability. These seemingly neutral financial criteria create direct pressure to increase rents and fees while reducing services to tenants.

When developers, REITs, or pension funds approach a national bank for financing to purchase multi-unit residential property, they enter a valuation process. [53] The bank uses a series of metrics to determine loan-risk and sets terms accordingly. These metrics focus on the financial solvency of the borrower and income-generating potential of the property, including assessments of:

- The borrower's financial track record and financial strength
- Current rental income and occupancy rates of the property being acquired
- Potential for rental income growth
- Required and proposed capital improvements of existing property
- Quality of existing tenants and lease terms
- Comparable property sales

The cornerstone of the bank's assessment is the Debt Service Coverage Ratio (DSCR)[54], determined by dividing the net operating income of a building by its annual debt servicing payments. Banks typically require a minimum DSCR score of 1.25, meaning the property must generate 25% more income than needed to service the debt, with this requirement often rising for borrowers with smaller portfolios.

This DSCR requirement creates a direct imperative for property owners to maximize income through rents and fees while minimizing operating expenses, for example by cutting services. The higher the DSCR requirement, the greater the pressure to extract more revenue from tenants relative to the debt burden.

> **BETWEEN THE PANDEMIC AND SPRING 2023, THE SHARE OF HOME SALES PURCHASED BY INVESTORS SOARED BY AT LEAST 50 PERCENT ACROSS CANADA**

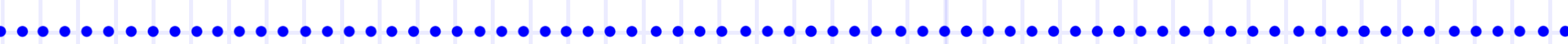
Further reinforcing this dynamic, banks also assess the property's "capitalization rate" (cap rate), which helps determine the investor's return on investment. The cap rate is calculated by dividing the net operating income by the market value of the property. The percentage rate represents the investor's potential return on investment. [55] This aspect of valuation explicitly rewards landlords who maximize rental income and prioritizes properties demonstrating potential income growth through unit renovations or repositioning. In other words, landlords who demonstrate higher cap rates by taking a more aggressive approach to rental income and the generation of other fees – to the detriment of tenants – are likely to secure loans with more favorable terms.

Banks exercise considerable power in this valuation system. They require borrowers to use bank-selected appraisers, set the criteria for property valuation, and conduct their own assessments. This creates a valuation feedback loop: bank valuation processes determine lending (how much, and to whom) which affects purchase prices and helps establish market rates, which then influences future valuations and lending decisions.

These financial metrics create a system that values properties based on their income-extraction potential rather than their social function encouraging the conversion of properties that have "upside potential" – that is, buildings that can be renovated or repositioned to extract higher rents. These are often older buildings inhabited by lower income renters or long-time tenants who pay below inflated market rates.

ii. Banks' Financing Terms Encourage Tenant Displacement

Canadian banks have established property classification systems that structurally encourage tenant displacement.
Multi-unit residential properties are often categorized into tiers that contribute to determining financing terms:



Class A Properties (recently built or extensively renovated with premium finishes and highest market rents) receive the most favorable terms, including high loan-to-value ratios, lowest interest rates, and amortization periods up to 30 years.

Class B Properties (well-maintained older properties with some updates and market-rate rents) receive intermediate terms.

Class C Properties (older properties with minimal updates and below-market rents) face the most restrictive terms: lower loan-to-value ratios, higher interest rates, and shorter amortization periods.[56]

This tiered system creates powerful financial incentives for upgrading properties[57] from lower to higher classes to improve loan conditions, often at the expense of existing tenants. When a borrower with a Class C property undertakes upgrades and repositioning, the property can be revalued, and the loan can be renegotiated for substantially better terms. Bank lending thus supports, without any human rights accountability, institutional investors who purchase older buildings, evict tenants (including constructively), create intolerable living conditions, upgrade the property and raise rents. Financial support will often be required for older buildings in need of renovations, particularly those with rent-controlled units and below-average market rents. This would be an appropriate focus for CMHC and other government financial interventions in housing.

This amounts to what can properly be called "displacement financing"—lending conditions that actively contribute to tenant displacement through incentivizing high rents, increased fees, renovations, and property repositioning.[58] It also exposes a perverse financial system that actively rewards corporations for treating housing as a commodity for wealth extraction rather than recognizing homes as a fundamental human right that require protection.[59]

The banking system further entrenches structural inequality by offering increasingly favorable terms to landlords who demonstrate the ability to maximize returns across multiple properties. Through portfolio advantage programs, these landlords gain access to enhanced loan-to-value ratios and rate discounts, creating a circular system where those who maximize profits—often at the expense of affordability and tenant security—gain even greater financial advantages to expand their operations.

It is surmised that institutional landlords incorporate the potential

of successful Above Guideline Increase (AGIs) applications in their business modeling when seeking financing from banks to acquire a building. AGIs can be applied for through administrative tribunals and allow landlords to raise rents above provincially determined caps to help compensate the landlord for any capital improvements to the property. Prof. Martine August notes that financial firms purchasing multi-family properties have clearly stated that they use AGIs as a revenue generation strategy to increase profits for investors.[60]

Banks' valuation process is intended to mitigate their risk, but rarely considers the risks associated with lending to borrowers who may undermine the human right to housing by raising rents, increasing fees while reducing services, and renovating buildings leading to evictions and displacement of tenants. Throughout this entire process, the perspectives and rights of tenants are systematically ignored—factors such as the longevity of tenancies, the need to maintain affordable rents, the experiences of tenants in other buildings owned by the borrower, the likelihood of above-guideline rent increases being filed, and the likelihood of tenant eviction and displacement.

The current banking valuation system thus creates structural incentives that directly contribute to the housing affordability crisis and undermine the human right to housing, rewarding practices that prioritize maximal revenue extraction over housing stability and affordability.

This is not to suggest that bank lending incentives to upgrade buildings are necessarily problematic. Rather, it is to suggest that banks should not be incentivizing upgrades that could and often do result in infringements of the rights of tenants without human rights safeguards in place as a condition of lending.

iii. Lending Practices Create Structural Impediments for Non-Profit, Affordable Housing Providers

The commercial lending framework disadvantages non-profit housing providers dedicated to affordability.

Non-profit housing organizations' commitment to providing affordable housing inherently limits their ability to maximize rental income, creating a structural disadvantage under DSCR requirements. While profit-motivated landlords can simply raise rents to meet financial thresholds, non-profits cannot do so without abandoning their core commitment to housing affordability.

The financing terms offered to non-profits reflect this systemic bias against affordable housing provision. They typically face more

restrictive loan-to-value ratios (60-65% versus 75% for commercial borrowers), requirements for additional government guarantees, shorter amortization periods, and substantially higher equity contribution requirements of at least 35%.[61] Banks typically do not permit non-profit housing providers to leverage their assets to secure loans, requiring them to find a loan guarantor—a requirement most cannot meet. Corporate actors, however, can leverage off their assets and provide corporate guarantees to secure loans. This systemic disadvantage effectively blocks the participation of NFPs in housing markets, requiring them to rely on government policies and programs that are often inconsistent and under resourced.

Similar barriers exist where a non-profit seeks renovation financing. Renovation loans for non-profits typically require demonstrated ability to increase operating efficiencies or secure additional subsidies, creating additional barriers to maintaining quality affordable housing.

This contributes to a dynamic whereby the needs of lower income households can only be addressed through non-market mechanisms and programmes, and the whims of governments. A better way forward might be to ensure that market mechanisms contribute to social value and the realization of human rights, such as the right to housing for those most in need.

5. Banks are backing away from climate commitments

The financing activities of Canada's big five banks contribute to climate change.[62] They have come under heavy critique for continuing to finance fossil fuel activities[63] and for failing to phaseout the financing of thermal coal. They have also been criticized for not "publicly advocat[ing] for ambitious climate-related policy in Canada."[64]

Four of the five major banks have even gone so far as to pull out of the Net Zero Banking Alliance, preferring to hold themselves internally accountable rather than be beholden to a broader group.[65] The Canadian Bankers Association which represents Canada's banks, has similarly asserted that Canada does not require climate-related financial regulation.

Almost no attention has been paid to determine the impact of bank lending in Canada with respect to the built environment and climate change, even though the construction and operation of residential real estate is a significant contributor to greenhouse gas emissions. Build-

-ings represent approximately 18 per cent of Canada's emissions, 47 per cent of which comes from residential buildings (this is an under-measurement as it does not include emissions related to the construction of buildings or embodied carbon). Canada's building emissions per person are double that of the European Union.[66] The built environment is the third largest emitting sector after oil and gas and transportation.

Banks currently lack comprehensive evaluation processes for the climate impact of their housing-related financial activities. Whether providing loans for housing development and acquisition or offering "green" investment products to retail investors, financial institutions do not adequately assess the CO_2 emissions profile of residential real estate projects or holdings.

This oversight extends to Real Estate Investment Trusts (REITs) included in investment pools, where climate impact verification is notably absent. Furthermore, banks implement no systematic review to determine if these corporations place tenants at heightened risk from climate-related disasters—either through construction material choices or through eviction practices that may result in homelessness.

Despite these gaps in assessment, anecdotal evidence suggests banks actively promote residential real estate as a "green" alternative investment option and routinely include REITs in their Environmental, Social, and Governance (ESG) investment products without proper climate impact verification.

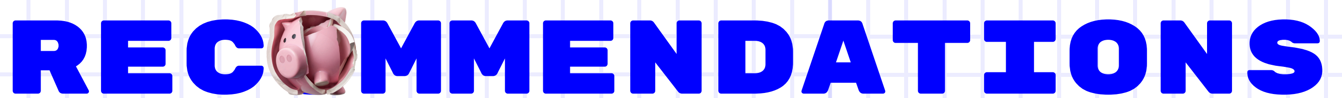
> **"CANADA'S BUILDING EMISSIONS PER PERSON ARE DOUBLE THAT OF THE EUROPEAN UNION. THE BUILT ENVIRONMENT IS THE THIRD LARGEST EMITTING SECTOR AFTER OIL AND GAS AND TRANSPORTATION."**

The economic strategies driving Canada's housing sector carry unexamined climate consequences. Financial practices like mortgage securitization that promote housing investment as an economic engine, combined with government policies encouraging rapid housing supply expansion and accessible mortgage financing, have yet to be evaluated through a climate impact lens. These market-stimulating approaches persist without adequate consideration of their environmental implications.

Neither financial institutions nor governmental bodies have adequately evaluated how these economic priorities contribute to emissions, resource consumption, and climate vulnerability across the Canadian housing landscape. The environmental costs of policies designed to boost homeownership and construction remain largely uncalculated.

RECOMMENDATIONS

RECOMMENDATIONS



RECOMMENDATIONS

RECOMMENDATIONS

1. Re-align Banking Practices with Housing Affordability and Tenant Security [67]

BANKS

i According to the Bank Act (s. 465), Banks must adhere to investment and lending policies, standards and procedures that avoid undue risk. In this context, risk should be understood as including the reputational and financial risk that arises as a result of business practices that fuel unaffordability and displacement.

ii Reform commercial lending criteria to include affordability metrics and tenant security considerations, for example, rapid and above guideline increases in rent, and renovations that would lead to displacement of tenants.

iii Create lending criteria that evaluate the eviction history of commercial borrowers and where irregularities (eg: above average number of evictions) are found, lending should be restricted.

iv Set interest rates in line with Bank of Canada rates in a manner that benefits borrowers.

v Attribute 15% of all banks profits above $1 billion to financing the construction and acquisition by non-profits, retrofitting, and renovation of affordable housing, while ensuring it is maintained as affordable in perpetuity.[68]

GOVERNMENT

vi The Government of Canada should amend the Bank Act to include provisions that prevent Banks from lending in a manner that would support the realization of the right to housing as found in the National housing Strategy Act. For example: provisions that reward lending practices that support and maintain stable, affordable housing rather than those encouraging displacement and increased costs. This could include preferential terms for loans that maintain or create affordable housing units and penalties for financing that results in unreasonable rent increases, evictions, and tenant displacement.

REGULATORY BODY

vii In exercising its regulatory authority, the Office of the Superintendent of Financial Institutions must interpret the Bank Act and related legislation to: (a) foster economic growth and prosperity for all Canadians, not solely within the banking sector; and (b) ensure consistency with the human right to housing as recognized in Canada's National Housing Strategy Act.

viii OSFI should support Banks in understanding that “risk” includes reputational and financial risk that arises because of business practices that fuel unaffordability and displacement.

2. Transparency & Disclosure

➡ **GOVERNMENT**

i As a matter of transparency, banks should be required to publicly disclose to mortgage holders if/when their loans are securitized and sold to investors.

➡ **REGULATORY BODY**

ii OSFI should create a database that tracks bank lending for the acquisition of multi-family residential real estate, making publicly available the information about the lending terms, particularly those that affect tenants.

3. Level the Playing Field for Non-Profit Housing Providers

➡ **BANKS**

i Several banks have stated that Canada's below-market housing stock needs to double from 4% to 8%. Banks ought to play a role in reaching this goal. To do this, banks could alter lending criteria to non-profit and cooperative housing providers by re-evaluating their profile particularly where the NFP can demonstrate steady tenancies and good management.

ii Banks should establish dedicated banking units specializing in non-profit and co-operative housing providers, and with lending criteria that:

(1) does not require guarantees to support the borrower's promise to pay;
(2) has a debt service coverage ratio (eg: 1 – 1.1%) based on existing rents, and assumes rents will remain affordable or (where units are acquired) become affordable in accordance with the borrower's housing objectives;
(3) is familiar with public supports for affordable housing and treats forgivable loans from governmental authorities as equity for its underwriting purposes; and
(4) considers accepting charitable receipts in exchange for interest payments.

➡ **REGULATORY BODY**

iii OSFI shall require banks to provide information annually on the value and number of social and affordable housing units financed through the above new mechanisms, using CMHC's definition of affordability for tenants (30% of household income). This information shall be made public.

4. Reform Mortgage Securitization to Serve Public Interest

➡ **GOVERNMENT**

i Through taxation, re-direct a significant percentage of bank

profits from mortgage-backed securities toward affordable housing initiatives. As CMHC guarantees these securities with public funds, the resulting financial gains should be channeled to address housing needs. This could include funding for non-market housing construction, tenant protection programs, or affordable housing acquisition funds that compete with investor-buyers.

ii Develop bank-led mortgage protection programs alongside CMHC — akin to those that attach to securitized mortgages — for homeowners facing significant rate increases at renewal, that provide creative loan re-negotiation options and protect them against power-of-sale and foreclosure.

5. Climate-Responsible Housing Finance

BANKS

i Require banks to assess and disclose climate impacts of their residential real estate financing activities.

ii Introduce incentives for lending that supports energy-efficient construction and retrofits without evictions, while imposing additional requirements on financing that contributes to significant emissions. This would align Canada's housing finance with its climate commitments and reduce long-term risks to homeowners and tenants.

CONCLUSION

This is a preliminary examination into the role that banks in Canada play in the housing crisis. More research and analysis is required, especially in light of the dominant and yet opaque role that banks play alongside governments, investors, and developers in housing ecosystem.

Moreover, further research must be conducted regarding discriminatory lending practices of banks which precludes many Indigenous, racialized and other marginalized groups from securing mortgages.

Further research should also be undertaken to explore the relationship and any conflicts of interest between a banks Capital Markets branch which encourages investment in residential real estate and its domestic lending branch which provides loans to those engaged in the purchase, sale and building of residential real estate.

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