My mortgage lender says I’ve hit my ‘trigger rate.’ What does that mean, and what are my options?

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The steep rise in the cost of borrowing is proving a major burden for Canadian households.

Between 73 and 80 per cent of borrowers who signed onto variable-rate fixed-payment mortgages between 2020 and 2022 hit their ‘trigger rates’ by early 2023, according to a National Bank of Canada report.

Your interest rate increases with the prime rate, which fluctuates based on the Bank of Canada’s overnight lending rate.

For variable-rate holders, this means that while your monthly payment remains fixed, your payment will go more toward interest than principal.

Eventually, there will come a point when 100 per cent of your payment is going toward interest, and none toward the principal, says Ross Taylor, president at Toronto-based Ross Taylor Mortgages.

Your mortgage balance starts to increase rather than decrease once you’ve hit your trigger rate, says Taylor, “where you’re back to where you started with your mortgage owing.”

As an example, someone who qualified for a $600,000 mortgage amortized to 30 years at a 1.25 per cent mortgage rate in 2020 would pay around $2,000 a month.

“Now, if I run that payment in my trigger rate calculator, this borrower hit their trigger rate at just over four per cent,” says Taylor. “So, once the interest rate on their mortgage increased from 1.25 to, say, 4.25 per cent, this borrower is no longer paying down their principal."

For most borrowers, this translates to an extra couple hundred dollars a month. But for Canadians struggling with cash flow and unable to shoulder that sticker shock, there are other options.

The first step, according to Elan Weintraub, co-founder and director at Mortgage Outlet, is to call your lender. If you're up for renewal, your lender might suggest putting down a lump-sum payment to cover your principal.

Or, your lender will roll your remaining principal into your mortgage. Either way, Weintraub recommends contacting a mortgage broker to explore the best rates and lenders. Weintraub says one option your broker might put on the table is to refinance your entire mortgage and re-amortize it back to 30 years.

"This means you basically reset your mortgage," Weintraub explains, adding that this will offer some short-term relief.

Borrowers should also take a holistic look at their complete financial picture. While there's not much you can do about interest rates, Scott Plaskett, certified financial planner, managing partner and CEO of Iron Shield Financial Planning, says you can evaluate your overall cash flow.

For example, if the interest on your mortgage is eight per cent, but your investments only earn five per cent, Plaskett says there's now a cost to holding onto those investments instead of tackling your debt because the differential is not working in your favour.

"People have to understand that being liquid in a challenging economic environment is more important than being debt-free or equity rich," he says. "You run into a real pickle if something happens to your cash flow and you don't have the cash on the side."