Accrued Interest

CMLS mortgage fund

August 2025

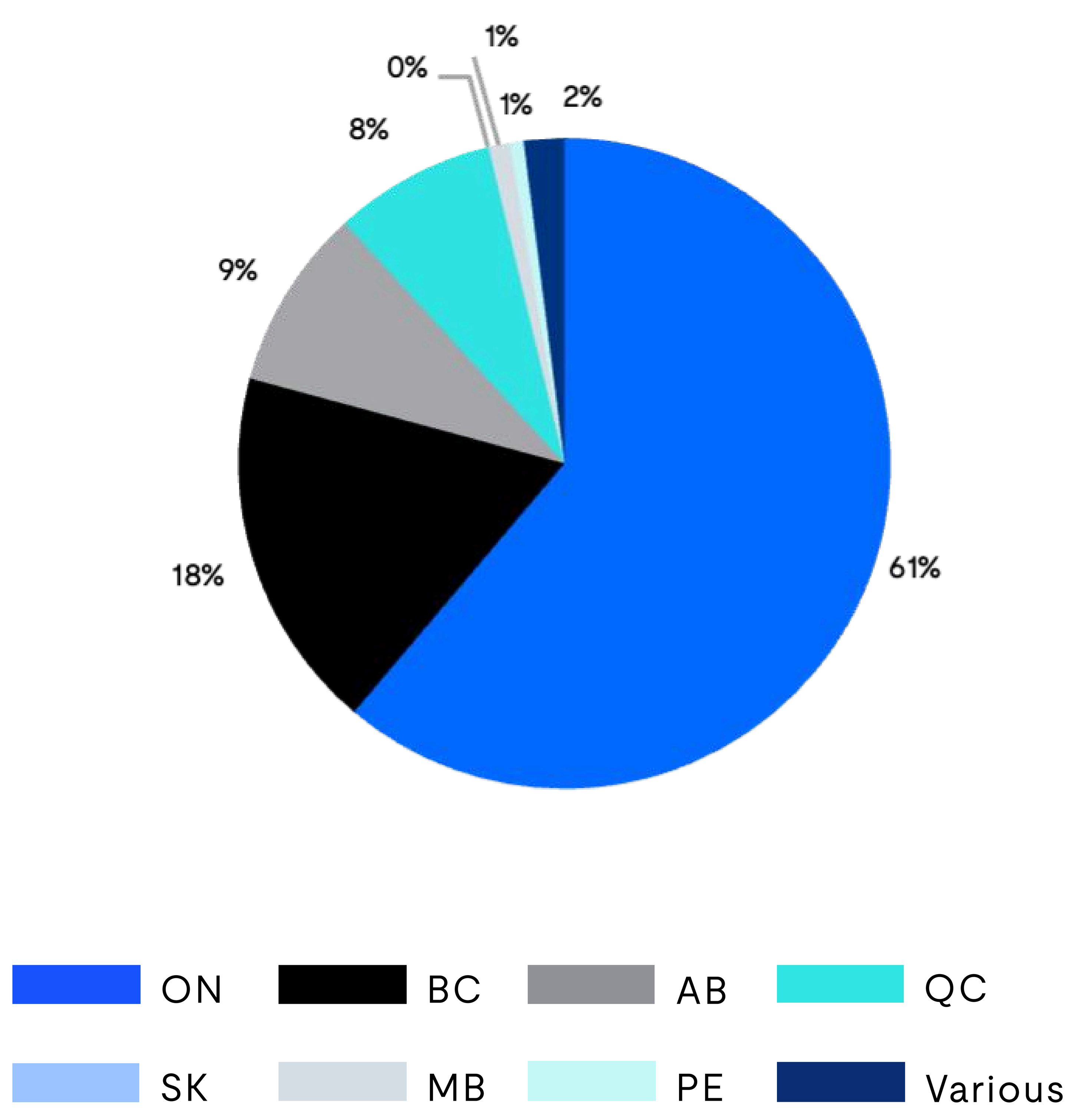
cmls asset management

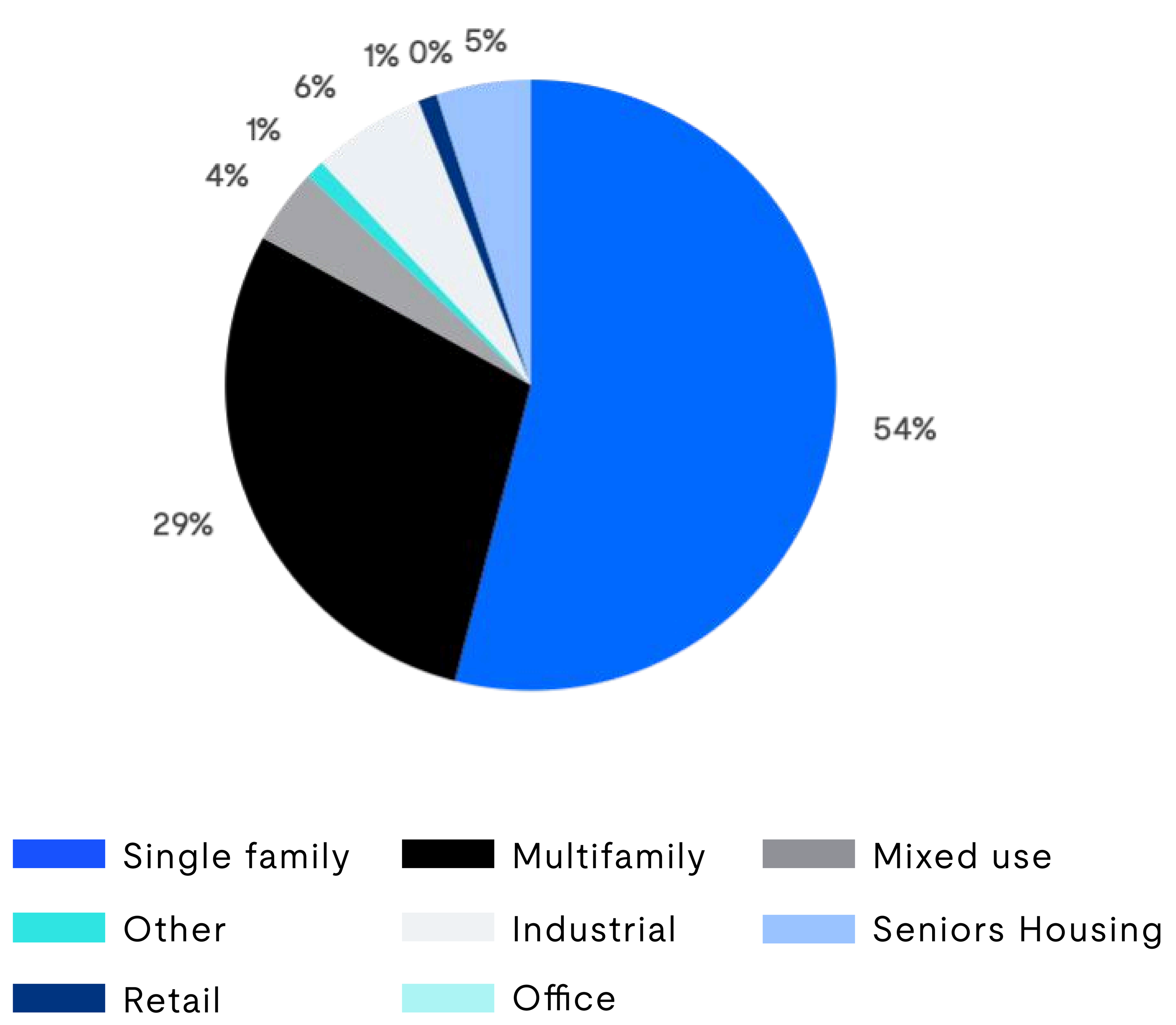
Accrued Interest

August 2025

Thank you for reading the August edition of **Accrued Interest**. In July, the CMLS Mortgage Fund delivered a monthly return of 0.53%, or 6.42% annualized. Our weighted average coupon has remained relatively flat, going from 8.02% in June to 7.96% at the end of July. Both deployment of capital and capital raising efforts have gone well through the year, with cash sitting at 0% at the end of July. This is consistent with our objective to access our line of credit for modest leverage, reduce cash drag, and absorb AUM growth (~$35 million, or 16%, year to date) quickly into new investments.

Our portfolio is composed as follows:

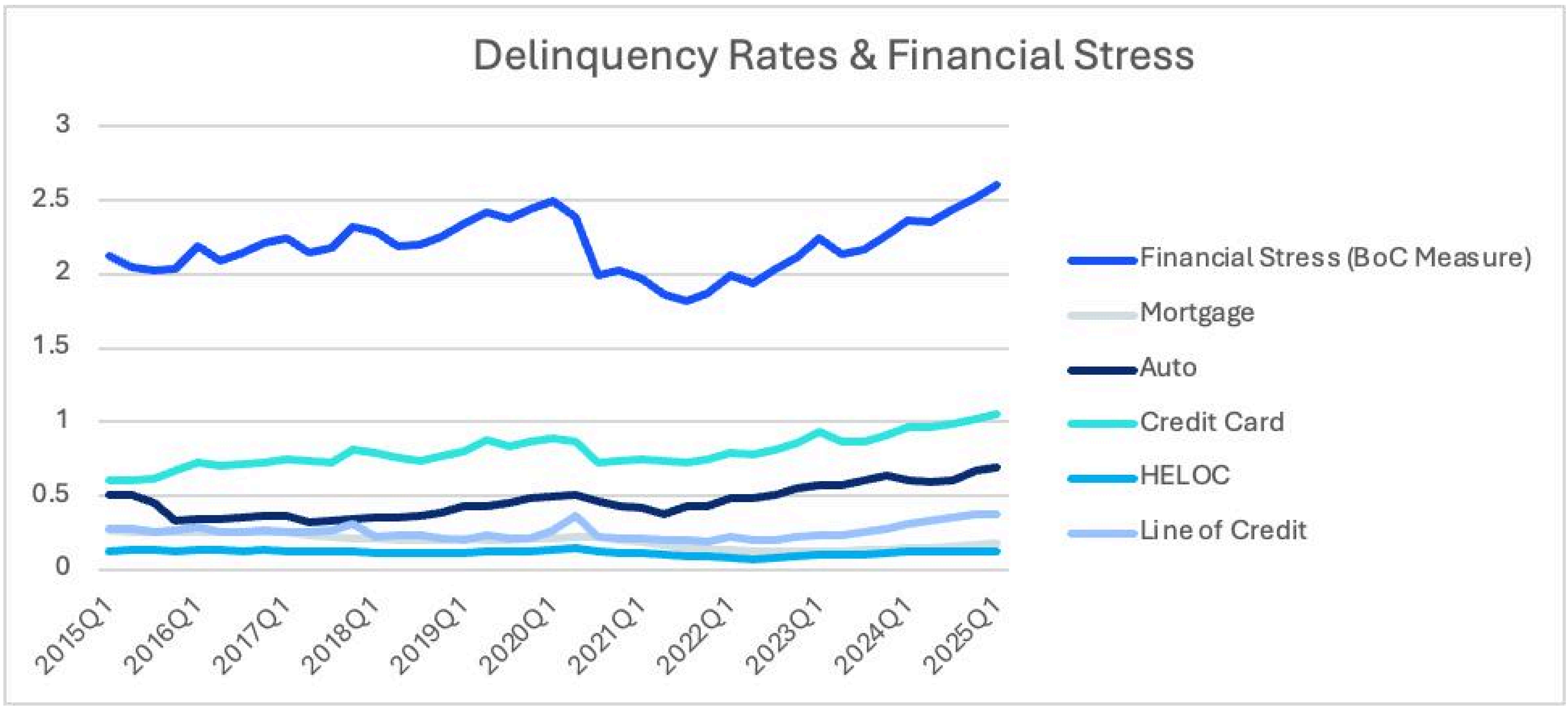




More detailed and up-to-date portfolio information can be found in our monthly Fund Facts, available on our website here.

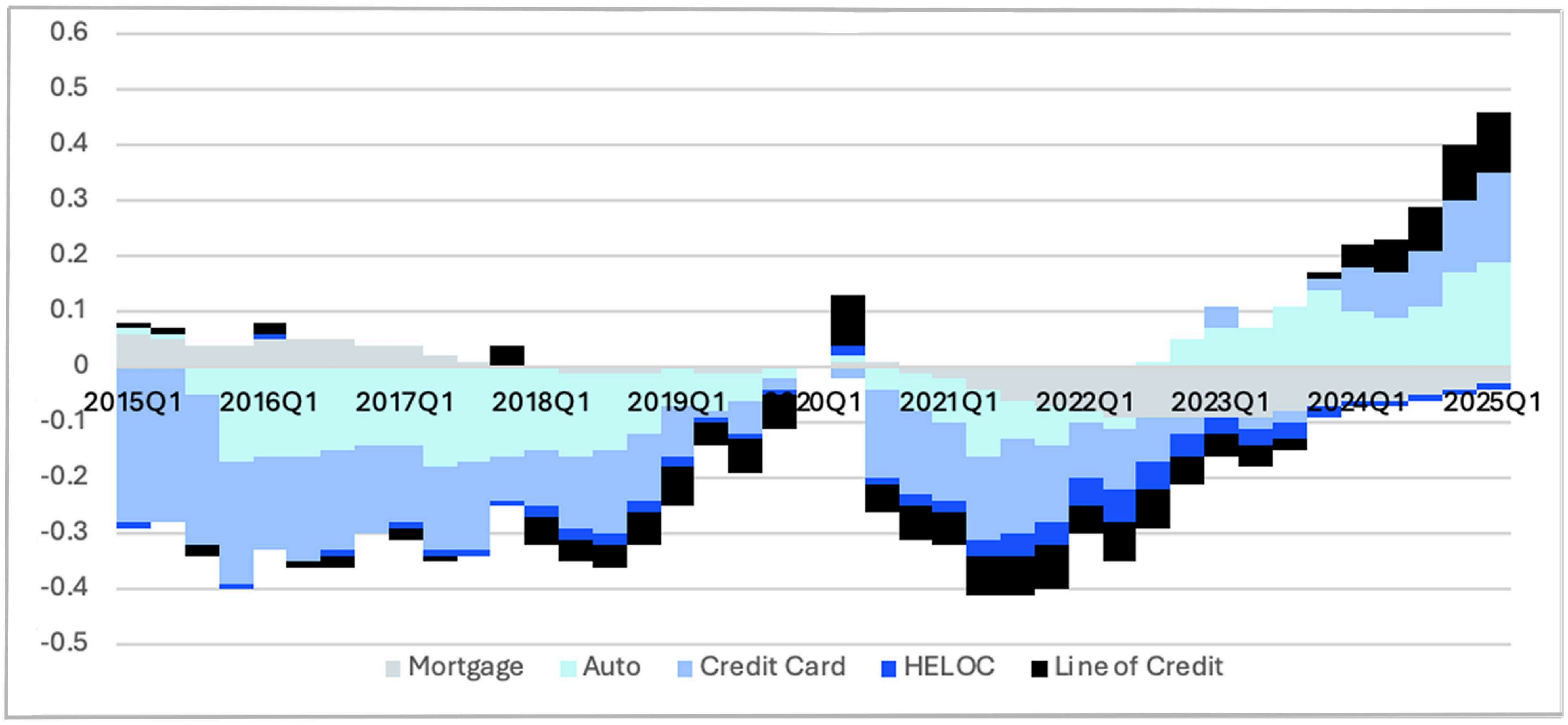
Market activity in general remains anemic. How are the homeowners faring?

Consider these three charts. The y-axis in the first chart represents the related category's arrears rate as a percentage of the debt consumers' hold in that category[1]. The level of financial stress, as defined by the Bank of Canada and shown as the black line below, has now breached its prior peak in Q1 2020.

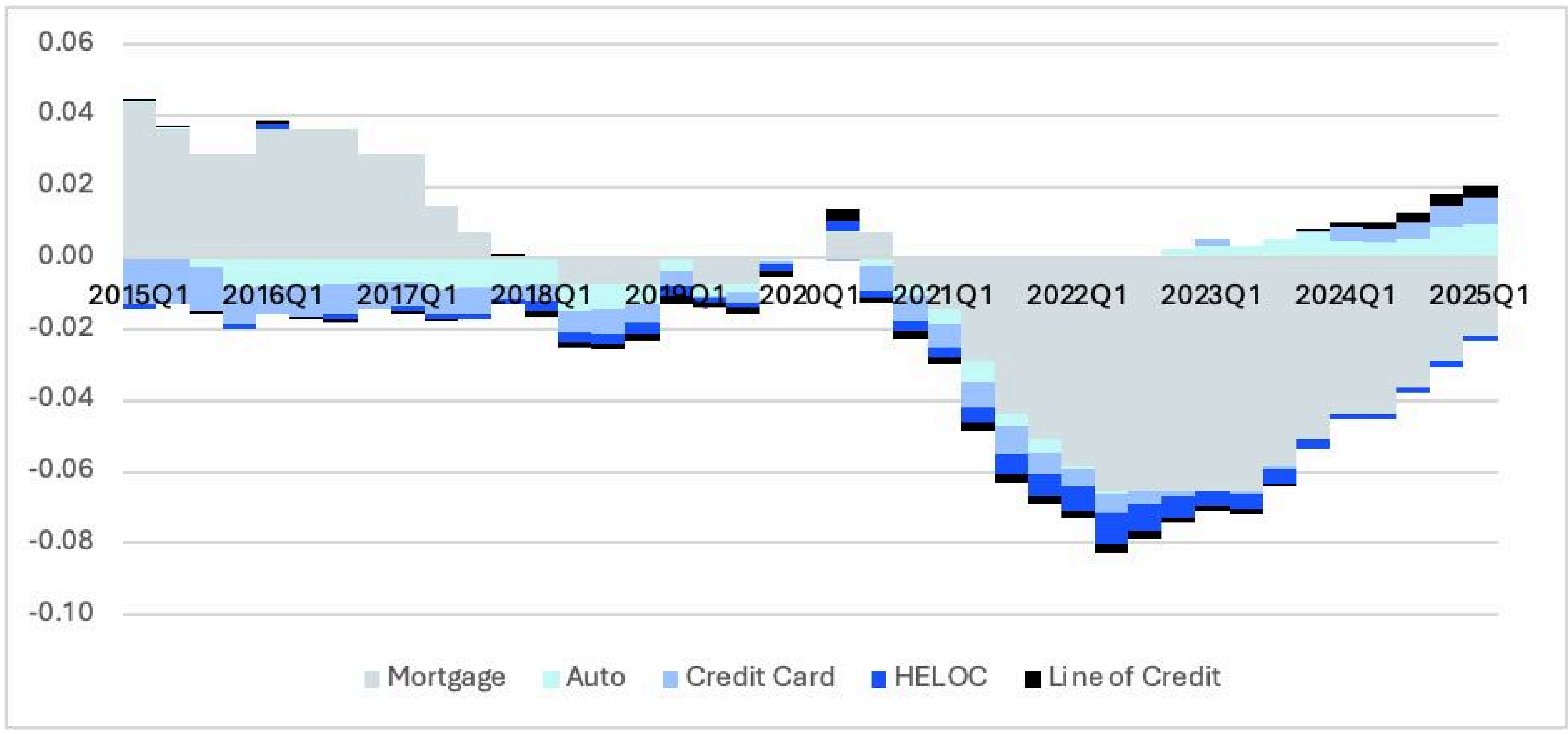


[1] Bank of Canada | Indicators of financial vulnerabilities For all but the Financial Stress measure, share of indebted borrowers behind on payments for at least 90 days in the applicable credit category; the Financial Stress measure demonstrates the share of indebted borrowers behind on payments for at least 60 days across all credit categories.a

Our second chart references the same period but reframes the data as the difference in arrears rate relative to what prevailed at the prior peak of "financial stress" in Q1 2020. In visualizing consumer distress this effectively weights each category of consumer debt equally. Each of auto loans, credit cards and lines of credit have surpassed Q1 2020 levels and continue to grow.



And finally, our next chart controls for the share these credit categories occupy as a percentage of the aggregate debt held by Canadian households[2]. The y-axis is adjusted to represent the category's arrears rate as a percentage of *overall household debt*. The dominant position mortgage debt holds on the consumer balance sheet is thus revealed. And while the trend is upward, we see that prior peaks of mortgage delinquency in the reference period actually occurred before 2020. We remain well below those levels of stress today.



The standard position held by many is that widespread rising delinquencies of non-mortgage debt precede struggles with mortgage debt, as individuals will direct limited dollars first toward maintaining their home.

[2] Bank of Canada: : Bank of Canada: Funds advanced and outstanding balances for new and existing lending by chartered banks

For the purpose of this analysis, resizing of the categories in the context of overall household debt is completed by reference to chartered bank balances only.

Another factor of problems with any secured debt is found in problems with the underlying asset. This could be considered both causal and dependent, in a feedback loop. Trade war uncertainty is often blamed for the prevailing sluggishness of the housing market, in which prices are declining across the country. There are signs that the market is settling into this uncertainty with four consecutive months of increasing sales as of July[3], although price performance suggests it's much too early to tell if this will put the power back into the hands of sellers any time soon. Weaker conditions are being led by Ontario with BC following closely behind, each of which, coincidently, is home to one of the two least affordable cities in the country.

Our sense is that the trade war explanation only goes so far. We believe that buyer and owner *inaction* is more easily pinned to uncertainty than what we have observed: a recent rising trend of sales, listings, and canceled listings illustrates a homeowner's delicate navigation of today's market, balancing all the factors – financial position, life events, etc. – affecting that major decision of trading real estate, beyond merely timing the market.

For the owner-occupant, liquidity available from private mortgage lenders has continued to offer a desirable means of debt consolidation. Most folks who have owned greater than 10 years have enjoyed levered equity growth which, viewed simply as a balance sheet of asset and liability, would make successful hedge fund managers green with envy. In certain cases, however, accessing that equity with additional leverage can result in the home becoming a sort of gilded cage from which the exit is contingent upon a lower rate of monthly expense. It is unpleasant but still prudent to consider the potential that an individual follows consolidation with further debt accumulation and eventually exits *cage left* to the adjacent confines of personal bankruptcy. Income earned, income earning potential and the equity remaining in the asset are all mitigating factors that should be considered by a lender in determining a viable exit strategy.

Increased financial pressure in recent months is not resulting in increased arrears in our fund, although charts above confirm that arrears more broadly have been growing, quarter-over-quarter, since rates spiked in 2022. We do see applications for new mortgage credit from high income, high credit score individuals that are also highly levered, and it is sometimes difficult to underwrite that viable exit strategy. These anecdotes suggest a similar story as the data above: financial conditions are migrating toward weakness but mortgage credit performance remains resilient, relative to recent periods of stress, especially in light of a challenged real estate market.

One word of caution to emphasize footnote 2: mortgage delinquency metrics shown above are chartered bank balances, which represent approximately 80% of the $2.1 trillion in outstanding mortgage balances in Canada[4]. When considering investment into mortgage investment entities (~2% of the market), the performance of chartered bank loans may not reflect that of other market participants. We suggest scrutinizing arrears trends post-2022, underwriting approaches to determining debt serviceability and exit strategy, and default and enforcement policies.

[3] National Bank of Canada: Housing Market Monitor, August 19, 2025

[4] CMHC: Residential Mortgage Industry Data Dashboard