Understanding Mortgage Rates

While not the only factor to look at when choosing a mortgage, interest rates continue to be one of the more prominent decision criteria with any mortgage product. Understanding how mortgage rates are determined and the differences between your typical fixed-rate and variable-rate options can help you make the best decision to suit your needs.

HOW RATES ARE DETERMINED

The chartered banks set the prime-lending rate (the rate they offer their best customers). They base their decisions on the Bank of Canada's overnight rate, because that's the rate that influences their own borrowing. Approximately eight times per year, the Bank of Canada makes rate announcements that could affect your mortgage as variable mortgage rates and lines of credit move in conjunction with the prime-lending rate. When it comes to fixed-rate mortgages, banks use Government of Canada bonds. In the bond market, interest rates can fluctuate more often and can provide clues on where fixed mortgage rates will go next.

To put it simply: a variable-rate is based off of the current Prime Rate, and can fluctuate depending on the markets. A fixed-rate is typically tied to the world economy where the variable rate is linked to the Canadian economy. When the economy is stable, variable rates will remain low to stimulate buying.

FIXED-RATE VS. VARIABLE-RATE

Fixed-Rate Mortgage

First-time homebuyers and experienced homebuyers typically love the stability of a fixed rate when just entering the mortgage space.

The pros of this type of mortgage are that your payments don't change throughout the life of the term. However, should the Prime Rate drop, you won't be able to take advantage of potential interest savings.

Variable-Rate Mortgage

As mentioned, variable-rate mortgages are based on the Prime Rate in Canada. This means that the amount of interest you pay on your mortgage could go up or down, depending on the Prime. When considering a variable-rate mortgage, some individuals will set standard payments (based on the same mortgage at a fixed-rate). This means that, should Prime drop and interest rates lower, they would end up paying more to the principal as opposed to paying interest.

If the rates go up, they simply pay more interest instead of direct to the principal loan. Other variable-rate mortgage holders will simply allow their payments to drop with Prime Rate decreases, or increase should the rate go up. Depending on your income and financial stability, this could be a great option to take advantage of market fluctuations.

ALLAN MURRAY
Mortgage Agent Level 1
Wolfpack Mortgage Solutions Team
www.allanmurray.ca
allanm@dominionlending.ca
905-536-3154

DOMINION LENDING CENTRES