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FINANCIAL SOLUTIONS

Deep Interest Rate Discounts

By: Ahmet Jakupi

Even though the Bank of Canada just announced a hold on prime lending rates, Canada's big

banks are locked in a competitive pricing war over variable-rate mortgages. Economic trends point to future interest rate hikes ahead — leaving Canadian mortgage borrowers struggling to interpret the mixed messages.

The Bank of Canada has raised its trend-setting interest rate once this year and is expected to do so at least once more before the end of 2018. When interest rates rise, banks are inundated with demand for fixed rates, so borrowers can lock in their rates.

As a result, Canada's lenders are working to attract borrowers to variable-mortgage rates, which are tied to the fluctuations of the central bank's overnight rate. They are offering special rates as low as 2.45% for May, some of the largest ever widely advertised discounts advertised by the big banks. At the same time, they have increased the rates of their fixed-rate mortgages.

Even in this rising interest rate environment, experts suggest current variable-rate options are more attractive when compared to fixed-rate mortgages.

The gap between the available rates from the lenders will widen to nearly one full percentage point, with the five-year variable rate at 2.45% and five-year fixed rate at 3.39%.

It is debatable whether the central bank will act as quickly as economists anticipate and is statistically unlikely that the overnight rate will go only upward over the next five years, given historical trends going back 28 years. If interest rates get too far ahead, then there is a high probability that at some point interest rates will drop if the economy slows down too quickly. So over the next five years borrowers could pay less interest by choosing a variable rate.

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