

Information Memo

To: All Franchises

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Re: Mortgage Rates Heading Higher

Mortgage rates heading higher

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Mortgage rates are on the rise, a situation that's likely to continue as the Bank of Canada shifts its focus away from stimulating the economy and toward taming inflation.

A five-year fixed mortgage will now cost 0.5 percentage points more than it did Wednesday at many of the country's big banks.

This means the average customer can expect to pay a discounted rate of about 6.09 per cent for a five-year fixed term, compared with Wednesday's 5.59 per cent.

The move was swifter than some industry watchers had expected, and was driven largely by a spike in five-year bond yields caused by concerns about the rising cost of living.

"All of us have been struggling, banks and mortgage lenders, from the higher cost of funds and liquidity premiums," said Joan Dal Bianco, vice-president of real estate secured lending at TD Canada Trust.

Then bond yields, on which fixed mortgage rates are based, rose sharply after the Bank of Canada surprised the markets with the announcement that it would freeze, rather than cut, its key lending rate. Since Monday's close, the yield on five-year Government of Canada bonds has risen by 25 basis points.

This clinched the decision to raise fixed mortgage rates, Ms. Dal Bianco said.

The increase in mortgage rates comes at the same time the housing market is softening, with sales dropping and a glut of listings flooding the market in a number of cities.

For those eyeing a home purchase, there's still about a week to lock in at Wednesday's rates, said Gary Siegle, regional manager, Prairies, for mortgage broker Invis.

Many mortgage lenders will take a few days to respond to the announcements from the big banks, meaning the average customer has a short window of opportunity to lock in at a rate of about 5.5 per cent for a five-year fixed mortgage, he said. Locking in doesn't cost anything, and the rate is held for 120 days, he added.

For home buyers who can bear the risk, a variable-rate mortgage is also an attractive option, Mr. Siegle added.

Currently, the rate for a variable mortgage is about 4.15 per cent, a 0.6 percentage point discount from the prime lending rate of 4.75 per cent offered by the banks to their best customers.

Home buyers can lock in this level of discount for 120 days if they're concerned that it could shrink, Mr. Siegle said. However they can't prevent their mortgage rate from rising if the prime rate goes up.

Mr. Siegle said he recommends clients do a "gut check" first, and if they like the idea of a variable mortgage, they should consider a product that can be converted into a fixed-term mortgage at any time without penalty.

However with the language in the Bank of Canada's commentary suggesting the days of declining rates are over for now, Ms. Dal Bianco said customers who believe the prime rate will start moving up may be better to lock in now.

Three of Canada's big five banks – Toronto-Dominion Bank, Royal Bank of Canada and Bank of Montreal – now have a posted five-year fixed rate of 7.15 per cent, a 0.5 percentage point increase. On average, customers can expect to receive a 1.06 percentage point discount from this posted rate.

Canadian Imperial Bank of Commerce raised its five-year fixed rate to 6.95 per cent, an increase of 0.3 percentage points. The bank currently offers a "better-than-posted" five-year fixed mortgage at 5.96 per cent.

At the time of publishing, Bank of Nova Scotia had not announced a change in its rates