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Interest Rates Head Upwards, Some Mortgage Holders Feel the Pinch

TORONTO, Ontario, April 25 &8212; Rates for both variable-rate and new fixed-rate mortgages are on the rise and some mortgage consumers are beginning to feel the pinch. Today's decision by the Bank of Canada to hike its key interest rate marks the sixth increase for variable-rate mortgages since September 2005. Likewise, the current rate for a new fixed-rate mortgage has been drifting upwards in recent months, due to trends in the bond market.

However, it's not all doom and gloom for mortgage seekers.

"As competition in the marketplace goes up, so too does the size of the discount lenders are willing to offer," says Andrew Moor, president and CEO of Invis, one of Canada's largest mortgage brokerage firms. "The pricing of variable-rate mortgages in Canada is becoming very competitive, and in fact, Invis has witnessed mortgage lenders battling for market share by offering variable-rate mortgage rates well below Prime — discounts previously seen in the Canadian market. Many of these offers are available from independent mortgage banks that only offer their products through mortgage brokers."

At the beginning of September 2005, a competitive variable-rate mortgage could be obtained for 3.45 per cent. After today's rate hike takes effect, the rate for a competitive variable mortgage will stand at 4.85 per cent. With a variable-rate mortgage of $150,000, payments were approx. $745 per month in September 2005, versus approx. $860 per month factoring in today's Bank of Canada rate increase.

"The carrying costs on a variable mortgage are still less than on a fixed-rate mortgage, however, we have seen more of our customers opt for fixed-rate mortgages in the last few months," adds Moor. "We recognize that adding more than $100 to a mortgage payment will pinch already tight household budgets. The good news is there are options available such as mortgage refinancing or longer amortizations."

A competitive five-year fixed mortgage was available for 4.50 per cent in September 2005, while today such a mortgage is often arranged at 5.25 per cent. For those who took out a five-year fixed-rate mortgage of $150,000 with a 25-year amortization in September 2005, the monthly payment was – and remains – approx. $830. Today, a new five-year fixed-rate mortgage of $150,000 with a 25-year amortization would have a monthly payment of $894.

Moor points out that mortgage refinancing can offer an effective way to reign in the costs of carrying high-interest consumer debt, such as credit card balances or other personal loans.

"With a lower interest rate on a refinanced mortgage, borrowers can consolidate higher-cost borrowing with lower-cost mortgage financing. Some people opt for a lower monthly payment to improve their cash flow, while others choose to pay off the loan sooner," he says. "Best of all, mortgage refinancing offers a clear plan to reduce your debt – at the end of the amortization period, your balance is zero."

In an ever-shifting interest rate environment, the right mortgage strategy is crucial – mortgage brokers, like those at Invis, advise mortgage holders and new homebuyers on how to get the most from their mortgage financing. Consumers wanting to explore different mortgage scenarios will find a wide selection of mortgage calculators at www.invis.ca.

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