Is Now the Time to “Rate-Lock” a Historically Low Mortgage Rate?

Description

Well, the jig is up, as they say. The era of historically low-interest rates may be coming to a swift and somewhat silent end.

Over the past two weeks, big banks across Canada have been quietly raising interest rates on fixed-rate mortgages. The move is mostly in response to the rise in bond yields, which began soaring at the end of September.

So far, **RBC, National Bank of Canada,** and **BMO** have each raised their rates modestly, with smaller lenders following suit (**Desjardins**, **Canada Life**, and **Simplii Financial**, just to name a few). While true, no one knows if interest rates will continue to rise undaunted, or if they’ll take a brief fall, but if bond yields continue to soar, which they have, Canadian homebuyers may be looking at a slightly more costly monthly mortgage payment.

Of course, if you’re serious about buying a home right now, you probably don’t like the sound of that. The good news is that you can still lock-in historically low mortgage rates right now.

How can you lock-in historically low interest rates?

Easy: get a mortgage pre-approval.

Getting a mortgage pre-approval means having a lender look over your finances, including your debts, assets, credit history, and income, and telling you the maximum mortgage amount you can borrow. They’ll typically give you an estimated monthly mortgage payment along with — *yes* — an interest rate based on *toda*y*‘s* rate.

While you’re not guaranteed a mortgage (there’s more to getting a mortgage than just a quick glance at finances) you are guaranteed the interest rate, at least for a time, usually anywhere from two to four months. So even if rates were to continue climbing in the foreseeable future, you could still benefit from historically low rates by getting pre-approved today.

Once you’re pre-approved, can a lender change your rate?

Once you’re pre-approved, your interest rate is locked. Under only two circumstances will a lender change your rate.

The first is if your finances change. When a lender gives you a low-interest rate, they’re showing that they trust you to pay back what you borrow. Of course, this trust is based entirely on how much money you’re earning, how much debt your carry, and how well you’ve paid your debts in the past. If any of these change (negatively), your lender has the right to raise your locked-in interest rate. In their eyes, you’re a more risky borrow, and to compensate, they’ll charge you more in interest.

The second circumstance is more positive. If base interest rates start to go down, lenders will typically honour the lower rate. So let’s say you locked in for, say, a mortgage rate of 2.10%. When you finally find a home to buy, your bank is now offering mortgage rates at 2.05%. Usually, the bank will give you a lower rate, even though your locked-in rate was slightly higher.

Should you get pre-approved?

If you’re serious about buying a home, and you’d love to see yourself in a new house in the next month or so, then get pre-approved. It typically doesn’t cost anything to get pre-approved, and the pre-approval force you to take out a mortgage with any specific lender.

On the other hand, if you’re *not* truly ready to buy, don’t waste your time. When you apply for a mortgage pre-approval, your lender will usually run a hard check on your credit, which can temporarily ding your score.

One final note: many banks distinguish between pre-approvals and pre-qualifications. In other words, they’re *not* the same thing. During a pre-qualification, a mortgage lender assesses your finances (typically without running a credit check) and tells you how much money they *might* extend to you.

And that’s pretty much it. You won’t get a locked-in mortgage rate with a pre-qualification, just an estimate based on the numbers that you provide. If you want to lock in historically low-interest rates, you’ll have to do the mortgage pre-approval.

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