Homebuyers Beware: These Recent Changes Could Make Mortgage Rates Skyrocket

Description

Get ready, Canada. The last two years of historically low interest rates could be coming to a swift end.

Since late September, a growing number of mortgage lenders have gradually increased their mortgage rates. Though the rate increases have been, for the most part, modest, averaging around 15 to 20 basis points, it was the first upward trend we've seen since the pandemic started.

Now, more than a month later, conditions could be ripe for another major rate hike, this one potentially greater than the ones we've seen before. What's happening? Let's take a deeper dive.

What's happening?

The first major change happened at the end of October. In an effort to ease inflation rates, the Bank of Canada ended its "quantitative easing" (QE) program, which helped stimulate the economy during the pandemic. In a nutshell, the Bank of Canada bought large quantities of bonds, helping to keep bond prices high. That, in turn, brought down their yields, lowered interest rates, and made borrowing money more affordable.

But with the steady improvement of the Canadian economy, the Bank of Canada has brought the QE program to end. With the government "scaffolding" off, five-year bond yields spiked almost immediately after. Since mortgage rates and bond yields have a direct relationship, it's very likely that the five-year bond yield hike will lead to another hike in mortgage rates.

In addition to ending its bond-buying program, the Bank of Canada has now warned it will hike interest rates sooner than many Canadians expected. Since March 2020, the Bank of Canada's target overnight rate has stayed at a steady .25%, which has made borrowing extremely cheap for Canadians.

The Bank of Canada has said before that it expected to hike up the interest rate in 2022. But whereas before it said in *late* 2022, now it's saying the rate hike could come as soon as the second quarter.

Why the push to hike rates earlier? Easy: it's to cool down raging inflation. Interest rates and inflation rates typically have an inverse relationship. When one goes up, the other goes down. And while there's some debate around whether low interest rates are the prime mover behind Canada's high inflation, the Bank of Canada has made it clear it'll pull this lever regardless.

What should you do?

Now might be the time to get a mortgage pre-approval.

When a lender pre-approves you for mortgage, they'll give you an estimated monthly mortgage payment along with—*yes*—a mortgage rate based on *toda*y*'s* rate.

While you're not guaranteed a mortgage, you are guaranteed the rate, at least for a time, usually anywhere from two to four months. Even if the central bank hikes rates before Q2 of next year, you would still benefit from historically low rates by getting pre-approved today.

Of course, some circumstances could cause your lender to change your mortgage rate, even with a pre-approval. If you lose a source of income, for instance, or you take on more debt, your lender could adjust your rate. Alternatively, if mortgage rates go down (not likely), your lender will typically give you the lower rate.

If you plan on buying a home within the next three to four months, a pre-approval could be right for you. But act fast. You're not the only Canadian trying to lock in historically low interest rates.

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