
# Bank of Canada Could Hike Mortgage Rates as Soon as This Week: Here’s How Homebuyers Can Prepare

### Description

Get ready, Canada. The era of historically low- interest rates could be coming to a quick end.

On January 26, the Bank of Canada will make its next rate decision. While we’ve heard in the past that the Bank of Canada will raise the overnight interest rate (currently at 0.25%) in the middle of 2022, many experts speculate they will raise the rate sooner rather than later.



If you’re a homebuyer, that might be concerning. Before you panic, let’s take a look at why the bank may raise the rate as well as what you can do to prepare.

## Why would the Bank of Canada hike rates sooner than expected?

Two words: *rampant inflation*.

Recall that inflation and interest rates have an inverse relationship. That means when one goes up, the other typically goes down.

Why’s that the case? Think about it. When borrowing money is less expensive to consumers, it incentivizes them to spend more. The more they spend, the stronger the economy becomes. And that, in turn, makes prices go up.

The inverse is true, too. As the economy gets stronger, borrowing rates can — and should — go up. That, in theory, will make inflation go down.

Despite what the Bank of Canada has said in the past, most experts agree the inflation we're witnessing *isn't* transitory. It's not going to disappear on its own. For inflation rates to go down, theBank of Canada has to intervene. And that means pulling the "inflation rate" lever and hiking theovernight rate.

In fact, some experts aren't just speculating the Bank of Canada will raise the rate. They're imploring that they do. Some economists are afraid we're witnessing *runaway* inflation, which is a type of inflation that's so high that it becomes almost impossible to maintain. In an economy with runaway inflation, high interest rates alone won't bring down inflation. It would take more strategy to bring runaway inflation under control, which is certainly not what Canada wants right now.

## What if the Bank of Canada doesn't raise interest rates?

Oh, it will. It's not a matter of if; it's a matter of *when.*

If it doesn't raise the overnight rate on January 26, I'd say they'll most certainly do it between March and April. In October Bank of Canada governor Tiff Macklem said they would raise the rate in the middle of 2022. But, given the urgency of inflation, April is the latest.



## How can homebuyers prepare?

At this point, if the Bank of Canada raises interest rates, you'll just have to prepare yourself for a bigger mortgage payment. I'm sure that's not what you want to hear. But unless you have a mortgage pre-approval, you might have no choice but to accept the higher rate.

Speaking of mortgage pre-approvals, you could try to lock in historically low interest rates by getting pre-approved through a lender. While you're not guaranteed a mortgage with an approval, you are guaranteed the interest rate, at least for a time, usually anywhere from two to four months.

But you'll have to act fast. How long it takes to get pre-approved depends on the lender, but if you're serious about buying a home this year, you'll want to submit your application as soon as you can.

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