



## Could Mortgage Rates Double Before the End of 2022? Here's What You Should Know

### Description

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

Since January, we've known the Bank of Canada has plan to raise the benchmark interest rate by increments through the year. In March, the Bank of Canada finally pulled the plug: it raised the rate from 0.25% to 0.50% — the first rate hike since 2018.

Many economists saw this rate hike as nothing more than a harbinger of things to come. In fact, with inflation still alarmingly high, many economists are expecting the Bank of Canada to be more aggressive, some going so far as to predict the Bank of Canada could raise the rate to 3.25% by the end of the summer.

If the Bank of Canada does raise the benchmark rate to 3.25%, then it would be *double* what it was pre-pandemic, when it was 1.75%. For homebuyers, that would mean more expensive mortgages, which could discourage many from entering the market.

Could the Bank of Canada really raise its benchmark rate to 3.25%? Let's take a look.

### Could the benchmark rate hit 3.25% by the end of the year?

First off, keep in mind that the Bank of Canada does **not** usually have aggressive policies. It's a national bank, and, as such, it typically treads carefully when implementing policy changes.

When it comes to benchmark rates, the Bank of Canada has traditionally raised it by small increments of 25 basis points, or a quarter percent. This is what they did last month, and many experts expect it to continue raising the rate by 25 basis points until it reaches the pre-pandemic rate of 1.75%.

But the situation in Canada has changed drastically. The economy is gaining momentum, as is the labour market. Inflation has gotten so high that many fear it's out of control. While the post-pandemic

supply crunch was the leading factor in higher prices, the war in Ukraine has only exacerbated it. By good estimates, we could be facing high inflation well into 2023.

For that reason, many believe the Bank of Canada will — and *should* — raise the benchmark rate to 1% on April 13, when the Bank of Canada has its next scheduled meeting. That would be a raise of 50 basis points, which would be aggressive for the Bank of Canada. On top of that, many believe it will continue to raise the benchmark rate by 50 basis points until it reaches 3.25% — double the pre-pandemic rate.

My guess is that, yes, the Bank of Canada will raise the benchmark rate by 50 basis points on April 13. Right now, it's likely the Fed will also raise its benchmark rate by 50 basis points. And considering that the Bank of Canada often follows the Fed, it's likely we'll see the same happen in Canada.

As far as a 3.25% rate is concerned, it's not out of the question, but I'm skeptical. At the very least, I want to see what happens after the next interest rate hike. If inflation hits 6% or higher — and hovers there — then the Bank of Canada may take an aggressive approach to bring it down. For now, I don't think homebuyers or borrowers should lose sleep over a 3.25% rate.

## If you're a homebuyer, what should you do?

If you plan on buying a home within the next three to four months, you might want to get a mortgage pre-approval if you haven't already.

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 today'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 the benchmark rate more than 50 basis points by summer, you would still benefit from low rates by getting pre-approved today.

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