



## Mortgage rates on the rise Canada's long-term rates jumped following a strong U.S. employment report

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Long-term mortgage rates rose a quarter-point Friday, but the move is not expected to put the brakes on the Lower Mainland's hot real estate market just yet.

"It won't have a significant impact, I don't think," said Rob Regan-Pollock, a mortgage broker with Invis Financial.

He noted that long-term rates are still among the lowest in decades and homeowners with variable-rate mortgages can still expect a rate cut when the Bank of Canada governors meet in mid-April.

In the local housing market "demand is still outstripping supply," Regan-Pollock added. "I don't think this is the beginning of the end."

Canadian long-term mortgage rates jumped unexpectedly Friday as interest rates rose in the bond market following a strong U.S. employment report.

CIBC was first off the mark, raising rates on residential mortgages for terms of two years and longer by between 0.15 and 0.25 percentage points.

The new rates, effective Saturday, are 5.95 per cent for a five-year term and 5.35 per cent for a three-year loan, each up 0.25 point.

The Royal made a similar announcement about an hour later, nudging its 10-year rate up 0.35 point to 7.75 per cent, and other major banks followed suit with their posted rates.

Bankers finance mortgage lending in the bond market, where rates jumped Friday amid fears a rapidly expanding U.S. economy would intensify inflationary pressures.

The U.S. Labor Department reported that American employers added 308,000 jobs in March, hiring at the fastest pace in four years and more than double the rate most economists had expected.

The jobs data added to expectations that the U.S. Federal Reserve will raise short-term interest rates later this year to forestall inflation.

That prompted suggestions that homeowners with floating-rate mortgages think about locking in.

"I do expect some of our clients will be locking in," Regan-Pollock said. And if positive economic indicators continue to come out of the U.S., they will look wise in hindsight.

However he cautioned that Friday's rise came on the basis of a single jobs report, and even if the trend continues, inflation and interest rates usually rise gradually.

"It's an indication that we're probably at the low point in the cycle," he said.

On a \$200,000 mortgage, a rise of a quarter percentage point from 4.5 to 4.75 per cent would translate into an extra \$28 in monthly payments, rising from \$1,106 to \$1,134, he said.

A CIBC economic study released Friday, meantime, suggests that low mortgage rates have been propping up more than just the real estate sector.

Canadian homeowners have pulled out \$29 billion from their home equity in the past two years while saving an additional \$7 billion in interest by refinancing their mortgages, the study said.

The report "identifies the real estate market as the sole champion of the current economic cycle," the bank said in releasing the report, entitled Home Is Where the Money Is.

"Lured by historically low mortgage rates, Canadians have been refinancing their mortgages at a pace never seen before -- nearly one in two mortgage holders refinanced between 2002 and 2003," stated Benjamin Tal, senior economist at CIBC World Markets.

"A cocktail of surging home prices and falling interest rates put \$36 billion of extra purchasing power in the hands of mortgage holders. This is equivalent to the annual income from one million new jobs being created."

The study indicates Canadian homeowners who refinanced in the past two years have saved an average of \$4,000 per household by obtaining a lower interest rate.

At the same time, "when mortgage holders refinance, about one in three increase their mortgage amount by an average of \$28,000, leading to an \$18-billion increase in total mortgages outstanding in the economy," said Tal.

And home equity loans, growing at an annual rate of more than 25 per cent, added \$11 billion to consumer spending power, he said.

CIBC estimates more than 25 per cent of those who obtained extra cash from mortgage refinancing "showed a high level of discipline, as they used the funds to pay down more costly debts," and among lower-income households that figure rose above 50 per cent.

The study also found that over 25 per cent of households blew the extra cash on pure spending, while 25 per cent invested it in home renovations.

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