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Mortgage rates rising in line with borrowing costs
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Mortgage rates are going up, or standing pat, depending on your borrowing choice.
Fixed-term rates are rising in line with borrowing costs in the bond market, while variable or floating rates will hold steady as long as the Bank of Canada stays the course on domestic interest rates.

CIBC was first out of the gate Wednesday with an announcement of higher rates of between a fifth and nearly half a point on fixed terms ranging from one to five years, effective today. Other lenders were quick to follow.

The increases reflect the higher cost of borrowing in the North American bond market, where investors are demanding higher returns to offset inflationary pressures in the U.S. economy.

CIBC is increasing its five-year posted rate by 0.20 percentage points to 6.25 per cent -- pushing up the monthly cost of a $300,000 mortgage by nearly $36 to $1,964 -- although most borrowers can negotiate a discount to the high four-per-cent or low five-per-cent range.

Similar discounts can also be found on CIBC's other posted rates, which show a one-year mortgage climbing 0.35 points to 4.95 per cent, a two-year term up 0.45 points to 5.50 per cent, a three-year term up 0.40 to 6.05 per cent, and a four-year term up 0.30 to 6.15 per cent.

Those rates compare to typical variable rates of 3.50 per cent -- for a monthly payment of $1,497 on a $300,000 mortgage -- which won't change until Bank of Canada Governor David Dodge makes his next move on bank rates.

Some economists, including those at the CIBC and Scotiabank, say that won't happen until the fourth quarter, when they anticipate Dodge will trim the rate by 0.25 percentage points in response to the strong loonie and its negative impact on exports. Others still expect Dodge to start raising rates in the summer or fall.

So what's a borrower to do?
"Fifty per cent of my clients are locking in, and 50 per cent are variable," said mortgage broker John Ribalkin of North Vancouver's Nova Financial Services. "Only time will tell who has the right crystal ball."

Ribalkin suggests variable-rate borrowers hold their course, but seek pre-approval for a longer-term mortgage, perhaps 10 years at 5.4 per cent, which is close to record lows for a 10-year term. Pre-approvals are generally good for 90-120 days.

Dean Marsland, a mortgage consultant with Invis in Vancouver, says variable rates remain a viable strategy for borrowers who want to save on interest and reduce their principal faster by making more than the minimum payment.

For those on a tight budget, he says this is a good time to get the security of a fixed term "because we seem to have hit the bottom on the fixed-term side."

Paul Mims, vice-president of CIBC Mortgages and Lending, remains a staunch advocate of variable-rate mortgages, suggesting fixed rates are "expensive insurance" for borrowers who are worried about rising interest rates. Until rates rise, those who negotiate a five-year discount rate at 4.65 per cent, for example, will pay $187 more each month on a $300,000 mortgage than the variable-rate borrower.

About 75 per cent of CIBC's borrower are in variable-rate terms, compared to about 25 to 30 per cent of borrowers industry wide.

"We are the exception because we think it is a way of saving money," Mims said in a telephone interview from Toronto. "I have been beating this drum for six years now."