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Rising mortgage rates aren't always a reason to panic; In a volatile market, taking time to shop around for the best rate can save you thousands

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With Canada's major banks raising mortgage rates almost a full percentage point over the past two months before backing down, and the Bank of Canada expected to raise its overnight rate in July, actual and wannabe homeowners may be wondering what it means to them. The answer may depend on where you are on the home-buying chain.

Most affected will be those currently looking for a mortgage whether it's for the first time or to renew. With the recent volatility in rates the key is to shop around, said Fred Kreutlein, director of lending with ING Direct. A one-percentage-point difference in rates can mean thousands of dollars in extra payments, he said.

ING's five-year fixed mortgage rate is 5.89 per cent, while the posted rate for Canada's major banks is 7.24, though those rates can be knocked down a full point or more for good borrowers who know to ask.

To see what difference a percentage point makes, ING provides an online calculator for those in the hunt for a mortgage. For a \$300,000 mortgage -- not an unheard-of amount in British Columbia's hot real estate market -- payments increase from \$1,900 a month at 5.89 per cent to \$2,081 at 6.89 per cent. Over 25 years that adds almost \$108,000 in interest payments, according to the calculator.

"So it really has a huge impact," Kreutlein said.

Not only should mortgage-hunters shop around, they should also get pre-approved as soon as possible in case mortgage rates continue to creep up, Kreutlein advises. And while most lenders will only hold a rate for 60 to 90 days, look for a lender, like ING, that guarantees the rate for 120 days, he said. If the rate falls between pre-approval and purchase, all lenders will substitute the lower rate, so there is no downside to getting pre-approved, Kreutlein said.

"At least you're sure that you're not going to get stuck with a higher rate down the road," Kreutlein said.

Current homeowners who have variable-rate mortgages are also affected by rising rates, albeit indirectly, because the new higher fixed-term mortgage rates would be what the borrower would have to pay if he chose to lock in his variable mortgage. And while the variable and fixed rates aren't directly linked, they do tend to go up together.

But just because mortgage rates are increasing, it doesn't mean people should panic and lock in, said **Feisal Panjwani**, a senior mortgage consultant with **Invis**.

To date, the variable rate -- which moves along with the Bank of Canada's overnight rate and not fixed-term mortgage rates -- has stayed constant for more than a year. But that could change on July 10, when the Bank of Canada is expected to raise its overnight rate by 25 basis points (or a quarter of a percentage point) to 4.50. That will bring the prime rate to 6.25 per cent and variable rates, which are based on prime minus a discount, will go up accordingly.

Most variables float below prime by about 75 basis points (or three-quarters of a percentage point), Panjwani said. So if prime is currently at six per cent, a borrower is probably paying 5.25 per cent. If they locked in now they'd be paying at least 5.84 per cent. And while they'd be protected from further rate increases, they'd lose the benefit of falling rates in the future.

"My honest opinion is that if you are on a variable and you've been on one for a while, there's no point in locking in at a rate that's already gone up," Panjwani said. **"Keep floating it and keep your eye on the market. But basically don't panic."**

Rob Meekison and his wife Kirsten bought their first house in east Vancouver in April and locked in at 4.99 per cent for five years. With mortgage rates rising ever since, Meekison can't help but pat himself on the back for making the right move.

But Meekison worries about people who bought with a minimum down payment and now see their rates rising. If they can't afford those higher new payments they might be forced to sell, he said.

By picking a fixed-rate mortgage Meekison won't have to worry about that.

"It's just five years when I don't have to worry about anything," Meekison said.

"It's peace of mind."

While people whose five-year mortgages are now coming up for renewal may be in for a shock, given their existing mortgage was negotiated at a near all-time low in interest rates, there is unlikely to be a raft of foreclosures, said Cameron Muir, chief economist with the B.C. Real Estate Association.

Those people would have paid down some principal, their wages have likely gone up, and they've probably seen their house value increase dramatically, Muir said. So even if they did get into financial trouble they could easily sell their home and capture the equity gain.

Foreclosures only happen when the economy plummets for some reason or mortgage rates go through the stratosphere, he said.

"But consumers shouldn't fear that interest rates are going to go into the 15 or 20 per cent range [as they did in 1981-1982]," Muir said. "That's simply not in the cards from any economist's point of view."

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