COST OF INCREASED MORTGAGE RATES

It's not as costly as you may think. A quarter point (.25%) adds roughly $14 per month on a $100,000 mortgage. For example, suppose you were purchasing a home that resulted in your needing a $180,000 mortgage. At the current 5 year interest rate of 4.5% the payment for principal and interest is $996. If that same size mortgage was at a quarter point higher, that is 4.75%, the payment would rise to $1021. That is a difference of $25 each month.

It's important to note that interest rates have not yet risen. However, most economists are predicting that by this time next year, 5 year mortgages will be up a full one per cent. If that prediction is true, then the $180,000 mortgage that costs $996 now, will then cost $1098 per month. That is an added cost to you of $102 per month.

A second example is of a mortgage of $225,000. If mortgage rates rise a quarter point on that amount, the cost goes from $1245 per month to $1276. If it climbs the predicted one per cent the payment would be $1373 which is $128 more per month than it would be right now. So, obviously buying right now has a real benefit. But, I wanted to point out that even if the rates do rise, they are still very affordable.

In previous years we have looked to the prime rate, as we knew if prime went up or down, so would the fixed rate mortgages. Not so, recently. The bond market is what impacts the fixed rate mortgage rates, not the prime rate.

Currently the prime rate is only effecting the variable rate mortgages, lines of credit, demand loans etc.

I checked with a popular local mortgage broker to see if most buyers were choosing long term fixed mortgages or variable mortgages. She said it was about 50/50. Interesting that she said most young buyers were choosing the variable rates as payments cost less per month. Whereas, more mature buyers generally choose the fixed rate, because it is a good rate and they want the peace of mind of knowing what their payment is going to be.

You may be wondering if it is time you converted to a fixed rate mortgage. Some people are. But, if you look at the increased cost per month I showed you earlier, you may not feel the need to act hastily. Just be diligent and keep an eye on mortgage rates. Stay in touch with your banker or mortgage broker, and listen to their advice.

You will also want to be mindful of any other loans you have. Check to see which ones are based on prime. I am referring to debt that has not been put on a fixed rate loan. Now is probably a good time to review your debt repayment plans with your lender.

All things considered, I think we have a favourable outlook for mortgage rates. At this time there is no drastic rise predicted by the economists. Just be sure the debt you are taking on at the low variable rates will be affordable to you if you must convert them to the higher fixed rates in the future.

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