Fixed or variable mortgage? Right now, it's a matter of style.

Okay, so the rate-watching game has been a little more nerve-wracking lately than it's been for the last decade. It was a pretty easy decision there for a while. Mortgage rates were sliding down – then playing around at the bottom – since the early 1990's. With that kind of rate environment, Canadians jumped on the opportunity for a variable-rate mortgage that stood a good chance of declining or staying low over the course of their mortgage.

So what now? Rates have seen several small hikes. Is it time to finally lock in? Well, right now, the question of fixed or variable is a matter of style. The rate climate is heating up a little, and the right mortgage decision is really a matter of your attitude towards risk versus reward. Keep in mind that – despite a few hikes – mortgage rates are still at near-historic lows. So both fixed and variable mortgages are very attractive right now.

There are some great benefits to a variable-rate mortgage. The rate you pay is set based on the prevailing prime lending rate. Lenders offer variable-rate mortgages at the prime lending rate plus a certain percentage. Discuss with your mortgage broker what lenders are offering on their variable-rate mortgages.

If the prime rate drops and you have a variable-rate mortgage, you'll see the decrease in your mortgage rate quickly. If you're able to keep making the same payment amount at that lower rate, each payment will knock a little bit extra off your principal: a great trick for driving down your mortgage a little faster. If rates start rising, you can exercise your option to convert to a fixed rate for the rest of your mortgage. If you don't mind a few ups and downs, then the benefits of variable-rate mortgages are very compelling. While variable-rate mortgages are sometimes considered a little riskier, the truth is that variable mortgages haven't been much of a gamble for years: they've been a solid, great choice for most homeowners. Since 1991, prime has been lower than the 5-year rate based on a 12-month average so overall interest paid during this period has been minimized through this option.

If, however, you're starting to lose sleep wondering what will happen next with rates, then you may want to look at fixed-rate mortgages. If you're on a very tight budget, a fixed rate gives you the security of knowing exactly how much your mortgage will be so you can plan accordingly. Many first-time homebuyers choose a fixed-rate mortgage for this reason. Five-year terms are popular, although fixed-rate mortgages for longer terms are available and should be considered if you decide to go this route. You may be able to lock in a rate for the remaining life of your mortgage which can provide real long-term security. Don't just automatically take a 5-year term; get advice on the mortgage term that will best meet your needs and goals.

Still not sure? Well consider that studies have shown that most Canadians hold their mortgage for 15 years or longer and that over the long term, less overall interest is paid with a variable-rate mortgage. If you believe that minimizing the total amount of interest you pay over the life of your mortgage is an important goal, then the case for variable rate mortgages is very strong. Variable rate mortgages can also help you minimize costs to break your mortgage should you sell or refinance.

If we could predict the future, we'd know how to make the right mortgage choice. In the absence of a crystal ball, however, you'll want to have a good conversation with an experienced mortgage planner who can help you assess your own situation. With access to more than 50 lenders – including most of the major banks – your planner can give you an unmatched overview of what's out there right now, and can design a mortgage plan that's right for you.

Mark Goode AMP
Agent #M08003177
Mortgage Broker
180 Memorial Avenue, Orillia, ON L3V 5X6
T: 705.326.8523 TF: 1-866-326-8523
mark@markgoode.ca
www.markgoode.ca

Mortgage Architects™
Planner Network

Brokerage # 10287
Corporate office: 6505 Mississauga Rd., Suite A/B, Mississauga, ON L5N 1A6