



Fixed versus variable: Which mortgage option is best for you?

Canadians in the market for a new mortgage have an incredible number of options to choose from – in addition to making sense of shifting interest rates. It can be a confusing time for those looking to acquire, renew or refinance a mortgage. As a starting point, if you're looking for a mortgage, you first need to come to terms with one critical question: Do you want the stability of a fixed rate mortgage or are you comfortable with the potential risks and rewards of a variable rate mortgage?

Over the past few years, interest rates have fallen to near-historic low levels and, as a result, many Canadians are choosing the peace-of-mind of a fixed rate mortgage over the potential savings of a variable rate mortgage. However, competition amongst lenders offering variable rate mortgages continues to heat up, and consumers are taking notice. Canadians have been increasingly turning to variable rate mortgages over the past few years, with 22% of homeowners in this country opting for this type of mortgage, according to a recent Ipsos-Reid survey.

A variable rate mortgage allows the borrower to take advantage of low rates – the interest rate is calculated on an ongoing basis at prime minus a set percentage. (Prime is the base rate that banks use in pricing loans to their best and most creditworthy customers.) For example, based on the current prime-lending rate of 6.25%, the holder of a prime minus 0.90% mortgage would pay a 5.35% interest rate, until the prime rate changes. Variable rate mortgages may also have additional features such as an opening or "teaser" rate that applies for the first few months of a loan, or "lock-in" rules that allow a borrower to change their variable rate to a fixed rate at certain intervals.

A variable rate mortgage can pose challenges for some, such as financially stretched first-time buyers who may not be able to handle an increase in their mortgage payments that would usually accompany a significant rise in interest rates. And there are those who simply prefer the greater sense of stability that a seven- to ten-year fixed term mortgage can provide in a changing rate market. Nevertheless, the advantages of a variable rate borrowing strategy are real: over the last 50 years, research shows consumers would have been better off by borrowing at prime rather than at a five-year fixed rate 88% of the time.

Faced with today's competitive mortgage market and a changing interest rate landscape, consumers need access to timely, quality information as well as trustworthy expertise. Mortgage agents continue to emerge as a preferred source of financing and advice. When deciding on whether a fixed or variable mortgage is best for you, a mortgage agent will carefully assess your situation and long-term goals to determine which mortgage best meets you and how much you can afford to borrow.