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## **The Lowest Mortgage Rates in 40 Years, New Home Buying Incentives & When to Lock-in Variable Rate Mortgages**

As expected, The Bank of Canada cut the rate that banks borrow money from 1% to ½% on March 3. This is the lowest that the rate has been for 40 years. The Consumer Prime rate or “Prime Rate” has also reduced from 3.00% to 2.50%.

In the fastest response to a Central Bank rate reduction in the history of Canada, all major banks followed and passed on the entire ½% reduction within 30 minutes. This shows how widely the reduction was expected by the markets and economists.

### **Rates are as low as they can go. What next?**

The Bank of Canada commented that they are now exploring a program of “credit and quantitative easing” as they have clearly run out of room on the interest rate front. So what is quantitative easing?

From Bloomberg.com: “Quantitative easing is designed to leave banks with so much free cash that they stop hoarding and expand lending. It can involve a central bank buying securities and creating money to pay for them. A central bank can also try buying up securities to drive down longer-term market interest rates, extending efforts to keep short-term rates low with their benchmark rates.”

This is good news as the BOC is signaling they are willing to pull out all stops, but it’s also a little concerning as they have never implemented such programs in Canada before and such programs in other countries have had a history of fueling inflation. They plan to layout the framework for their quantitative easing program on April 23<sup>rd</sup>.

### **The Future**

These low rates are expected to stay constant until Canada is seen to be recovering from the recession. The recovery is predicted anytime from Jan. 2010 all the way out to Jan. 2011. At that time rates are expected to jump dramatically due to inflation.

Raising rates is the best way to cool inflation and because the States has printed \$2 Trillion dollars or 20% of their money supply, inflation is expected to start early and be substantial. Prime will raise quickly, as will fixed mortgage rates, which is why locking in at these low fixed rates for 5 years is a smart strategy.

For the brave, variable rates are now at Prime + 0.8% or 2.50% + 0.8% = 3.55% which sounds great as long as prime is not jumping to 6%. To protect against this, mortgages from brokers – not banks – can be locked in at what the fixed rates of the day you chose to lock in are. This strategy will give the best of both worlds but the risk is missing the best lock-in rates and end up locking in at a rate higher than you could have had, or 4.17%.

## Economics – Surprising!

- Wage growth in Alberta is maintaining at 3.4% Still the best in the country.
- Alberta inflation is down to 1.1%.
- 3.3% is the unemployment rate for the construction industry. 4% unemployment is considered to be full employment so construction is surprisingly strong.
- The US goods deficit with Canada increased by \$6 billion, from \$68.2 billion in 2007 to \$74.2 billion in 2008. This means that for every extra dollar the USA imports from Canada they lose a dollar of employment for their own workers – which is great for Canada.

## Government Program Summary – Home Buying Incentives

- The limit has been raised to \$25,000 from \$20,000 for down payments from RRSP's
  - A new \$5,000 tax credit for first time home buyers
  - A new \$9,000 tax credit for renovations to homes – new or old – with many renovation projects included.
- see our new Data Sheets for the details on the programs.

## When to Lock-in Your Variable Rate

Variable rate mortgages can be locked in at broker rates in the future at what the broker rates are that day you choose to lock in. Banks do not do this and is one of the main advantages of using a mortgage broker in today's market.

If you are in a variable already it is best to stay in it until the recession is almost over – which could be 12 months – but no one knows for sure. In a recent report the IMF – International Monetary Fund - said Canada should be one of the first to emerge out the world wide recession and it would be 1 year at the earliest. That means to start watching the rates and get ready to lock-in about August.

We do send out a very short “Rate Advisor” email every Thursday ... and it will tell you when to consider locking in. If you do not receive this email yet please sign up for Rate Advisor at our website:  
[http://www.mortgagealliance.ca/MarkHerman/default\\_Agent.asp?ContentTypeID=&PageID=10](http://www.mortgagealliance.ca/MarkHerman/default_Agent.asp?ContentTypeID=&PageID=10)

***SOMETHING VERY SMART:*** Tell anyone with a mortgage renewing before June 30 that they should call ASAP for a rate hold at these record lows. If the rates go down they will still receive the lower rate. This ensures that they will also have the lowest rates possible.

**0% Down Program:** There is still a zero-down program for clients with good credit. Call for details.

## Rate Specials

- 1 year closed at 3.96% (3.86% if more than \$500,000)
- 3 year closed at 3.75%, quick close (only a 45 day rate hold)
- 5 year closed at 4.15% (4.05% if more than \$500,000)
- Variable, Prime+.8=3.55%, can be locked in at best broker rates–Not offered at banks!