# Understanding Mortgage Rates *in Canada*

When it comes to mortgage rates in Canada, there are a few things you should know around how these rates are determined and some important factors that help differentiate the different types.

## Variable Mortgage Rates

Variable-rate mortgage loans are determined by commercial banks' prime rates, which are mainly swayed by the Bank of Canada's key interest rate. This means that an increase in the key interest rate will almost always result in a similar increase in variable mortgage rates. The Bank of Canada will typically raise the key interest rate in an effort to combat inflation.

As a result, variable-rate mortgages can have a tendency to fluctuate throughout the term of the mortgage; increasing and decreasing as the prime and Bank of Canada rates change.

This is a great option for individuals who are willing to take on some risk if it means taking advantage of potential decreases in interest rates. However, for individuals on a fixed income they may find this too uncertain.

## Fixed Mortgage Rates

Fixed-rate mortgage loans are primarily influenced by the yield on Canadian government bonds (bond yields) of corresponding maturity. The correlation between the fixed rates and the yield on five-year Canadian government bonds is almost a near match. This is due to the fact that bond rates represent the benchmark for financial institutions' cost of funds.

As a result, mortgages with fixed rates will not experience any change or fluctuation in the amount paid towards interest and principal during the term of the mortgage as the rate is locked. This type of mortgage loan offers additional stability due to fixed payments and is a great solution for anyone on limited or fixed income, or who prefers stability with their budget.

## Factors Influencing Bond Yields

There are a number of factors that influence government bond yields. Since they are guaranteed by the Canadian government, these bonds are generally among the least perilous assets. Since a large amount of bonds are traded daily in the market, the supply and demand game in the bond market determines their price, and therefore their yield.


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