

How will the BoC's interest rate drop affect home ownership?

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You've likely heard by now that the Bank of Canada (BoC) dropped its overnight lending rate by 0.25 percentage points to 0.75 per cent. But it might not stop there.

With two banks predicting that the BoC may drop its rate further due to the plunging cost of oil, it could benefit house hunters or current home owners to know how this affects them.

Mortgage rates

There are high expectations that the drop in interest rates will affect your mortgage, but how it will be affected is debatable.

If you currently have a [variable-rate mortgage](#) on your property, this means that your payments just became slightly more inexpensive since the prime interest rate, which determines your mortgage payment, is influenced by the overnight lending rate. (Of course, when the BoC raises its lending rate, your mortgage rate also goes up.)

The Royal Bank of Canada was the first bank to decrease its prime lending rate, which was quickly followed by others. While the cut was expected, there was some surprise that the prime lending rate only dropped to 2.85 per cent from three per cent, which was only a cut of 0.15 percentage points. It was expected that the banks may cut it by the same amount the BoC cut its rate (0.25 percentage points). Either way, for the moment, this quashes expectations that mortgage rates are supposed to rise this year.

If you currently have a fixed-rate mortgage on your property, you're less likely to be affected. The one way you could be affected is if you decide to break your mortgage and refinance for a better rate.

Meanwhile, if you're hunting for a house, chances are that when you're shopping around variable rate mortgages will be lower (if you choose to take this route). But to get a variable rate mortgage, you still need to qualify for the bank's five-year fixed-rate mortgage.

Fixed mortgage rates may not be affected since these are based on bond yields. But [according to MoneySense magazine](#), how bond investors feel about the country's current economic state with this move could raise fixed rates instead since the BoC's move may signal a lack of confidence in Canada's economy.

Housing market

An interest rate drop could be a double-edged sword for house hunters. Depending on whether banks modify its mortgage rates based on the BoC's move, this could also lead to a hotter housing market in some cities. If mortgage rates for house hunters noticeably fall, you could pay less for a mortgage due to lower rates, but this could also encourage increased competition since homebuyers may be able to [afford](#) more expensive properties. More competition could translate into even higher housing prices, especially in markets with an already limited supply.

But other areas of Canada's economy, such as the dropping price of oil, may temper housing activity in cities reliant on the oil and gas industries, such as Calgary and Edmonton.

During this time of year, housing markets tend to slow down, but anyone looking to jump into homeownership may want to factor the BoC's lending rate changes and its effects in their decision.

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