

For Immediate Release

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**Bank of Canada Speaks April 20/2010**

**Bank of Canada maintains overnight rate target at 1/4 per cent;  
removes conditional commitment**  
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OTTAWA-The Bank of Canada today announced that it is maintaining its target for the overnight rate at 1/4 per cent. The Bank Rate is unchanged at 1/2 per cent and the deposit rate is 1/4 per cent.

Global economic growth has been somewhat stronger than projected, with momentum in emerging-market economies increasing noticeably. Exceptional stimulus from monetary and fiscal policies continues to provide important support in many countries. The recovery in the major advanced economies is still expected to be relatively subdued, reflecting ongoing balance sheet adjustments and the gradual withdrawal of fiscal stimulus commencing later this year. Despite recent progress, considerable uncertainty remains about the durability of the global recovery.

In Canada, the economic recovery is proceeding somewhat more rapidly than the Bank had projected in its January Monetary Policy Report (MPR). The profile for growth is more front-loaded than that presented in the January MPR. The Bank now projects that the economy will grow by 3.7 per cent in 2010 before slowing to 3.1 per cent in 2011 and 1.9 per cent in 2012.

This profile reflects stronger near-term global growth, very strong housing activity in Canada, and the Bank's assessment that policy stimulus resulted in more expenditures being brought forward in late 2009 and early 2010 than expected. At the same time, the persistent strength of the Canadian dollar, Canada's poor relative productivity performance, and the low absolute level of U.S. demand will continue to act as significant drags on economic activity in Canada. The Bank expects the economy to return to full capacity in the second quarter of 2011.

The outlook for inflation reflects the combined influences of stronger domestic demand, slowing wage growth, and overall excess supply. Core inflation, which has been somewhat firmer than projected in January, is expected to ease slightly in the second quarter of 2010 as the effect of temporary factors dissipates, and to remain near 2 per cent throughout the rest of the projection period. Total CPI inflation is expected to be slightly higher than 2 per cent over the coming year, before returning to the target in the second half of 2011.

In response to the sharp, synchronous global recession, the Bank lowered its target rate rapidly over the course of 2008 and early 2009 to its lowest possible level. With its conditional commitment introduced in April 2009, the Bank also provided exceptional guidance on the likely path of its target rate. This unconventional policy provided considerable additional stimulus during a period of very weak economic conditions and major downside risks to the global and Canadian economies. With recent improvements in the economic outlook, the need for such extraordinary policy is now passing, and it is appropriate to begin to lessen the degree of monetary stimulus. The extent and timing will depend on the outlook for economic activity and inflation, and will be consistent with achieving the 2 per cent inflation target. In accordance with the removal of the conditional commitment, there will be no additional term Purchase and Resale Agreements issued by the Bank.

**Information note:**

A full update of the Bank's outlook for the economy and inflation, including risks to the projection, will be published in the MPR on 22 April 2010. The next scheduled date for announcing the overnight rate target is 1 June 2010.

Read- probably a .50% increase in June 2010  
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## Fixed or Variable-Good Comments in Favor of Variable

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An Email received from one of our lenders "Fixed Rate or Variable Rate?....The Debate Continues

There is so much information, theory's and reports available that indicate that the variable mortgage is a better deal for your client. The key is knowing your client. Identifying their long and short term goals, their lifestyle preferences, and their monthly budget flexibilities, then presenting the options. I was quoted by a local Ottawa broker something that I felt to be a powerful statement and with her permission allowed to share.....

"I sell VRM all the time, my rational has always been: Why pay the lender for the security of a payment when you can create your own payment and put the difference in payment directly to principal? This is far more financially responsible then paying for the security of a payment, which is why most clients want the fixed rate!"...Jacqueline Bushell, Centum City Mortgages So I decided to do another comparison to chart the differences if client paid both mortgages at the same rate as a 5 year mortgage.....

Let's compare a \$200,000 mortgage at 3.79 fixed for 5 years with a P-.50 variable mortgage and this time we'll assume a .75% increase in Prime annually for the next 5 years and we'll pay it at the same payment level as the fixed payment for the first 4 years (year 5's payment was slightly higher by \$42.81.)

<b>Mortgage Type and Rate</b>	<b>Monthly Payment</b>	<b>Balance</b>
5 Years Fixed rate 3.79	1029.40	End of 5 years \$173,465
Variable Rate P-.50		
Year 1 - 1.74%	1029.40	
Year 2 - 2.50%	1029.40	
Year 3 - 3.25%	1029.40	
Year 4 - 4.00%	1029.40	
Year 5 - 4.75%	1072.21	End of 5 years \$166,570

\$6895 in interest is saved over the term of the mortgage and only in year 5 did the payment slightly exceed the fixed payments.

Clear winner the variable even with an increase in prime. When rates increased it was interesting to note that another comparison was done with rates at 4.59% on a \$250,000 mortgage with prime increasing by 1% per year over the 5 year period. In this example the payments were not kept level throughout the mortgage but we set at the minimum rate applicable at the time. The rate used was Prime less .40% The payment on the variable in the fourth year was \$6.00 more per month than the fixed rate mortgage and \$129 more per month in the 56th year of the mortgage. In the first three years of the mortgage the payments were less.

The end result was \$6868 less in payments over the term and \$3012.13 less interest for a difference of \$9880 in favor of the variable.

**Look at the chart below** which gives you the trends since 1991 during periods of recession and inflation.

<b>Greatest increase from low to high</b>	<b>- 1993 to 1995</b>	<b>+4.25%</b>
<b>Greatest decrease from high to low</b>	<b>-1995-1997</b>	<b>-5.00%</b>

Look what would have happened if somebody had panicked?

Ultimately, the decision is yours but the facts are stacked in favor of holding a variable position.

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### An article from the Financial Post

**Variable mortgages (almost) always win Whether They're Taking On New Mortgages Or Renewing Ones They've Held For Years, Homeowners End Up Asking Themselves The Same Question: Should They Lock In Their Mortgage Or Should They Let It Float With A Variable Rate. Here, Toronto-Based Wealth Manager Scott Tomenson Makes The Case For Variable.**

<http://www.financialpost.com/magazine/story.html?id=2766742>

[<http://r20.rs6.net/tn.jsp?t=m7t6gqdab.0.0.adljepbab.0&p=http%3A%2F%2Fwww.financialpost.com%2Fmagazine%2Fstory.html%3Fid%3D2766742&id=preview>]

**ARE VARIABLE MORTGAGES AS GOOD AS THEY LOOK?**

**Q:** My fiancé and I have just bought our first home and we are going in circles about what is the best mortgage for us before we close. We currently have a locked-in fixed rate with a bank of 3.98%, which we prefer to the uncertainty of taking a variable mortgage. But would we be better off with a variable-rate mortgage, especially if we saved money during periods when rate are low and use that to make payments on principal? Will that offset costs when our payments are higher than our current fixed rate?

Getting Dizzy, Ontario

**A:** Historically, as far as interest rates are concerned, it is better to float your mortgage interest rate (i. e., choose a variable rate mortgage). This is a result of the "yield curve." The "normal" yield curve is positively sloped, with interest rates lower for short-term maturities (one to two years) and higher for longer-term maturities (five to 30 years). When the economy strengthens, the Bank of Canada will raise short-term interest rates (they only have control over short-term rates) and the base for variable-rate mortgages (usually the prime rate) is moved higher. This action signals a period of "tightening" of monetary policy to cool the economy and reduces inflationary pressures. The vehicles that determine longer-term interest rates -- bonds -- tend to move according to inflationary expectations: If bond investors anticipate inflation (because of economic growth), they demand higher returns (interest rates) as protection from inflation. When the Bank of Canada is perceived as "fighting" inflation by raising short term interest rates, long-term rates have a tendency, in most cases, to remain stable or improve, because long-term bond investors are content that inflation will not grow. In essence, while short-term interest rates may go up, they do so only until the Bank of Canada has slowed the economy enough to curb anticipated inflation. Then, as economic growth slows, the bank starts to lower them. The yield curve will flatten (with higher short-term interest rates) for a time, but when the economy slows, short-term rates will go back down and the yield curve returns to its "normal" positive slope. Over this time, variable-rate mortgages will move up to being approximately equal to locked-in five-or 10-year rates, but that's followed by a period when they return to lower levels. More often than not, over this time, it is less costly to have held the variable rate debt. Exceptions to this situation would be times of hyper-inflation (like in the 1980s) when short-term interest rates went to extreme levels. If you had a variable mortgage at prime minus over the past few years, as I did, it's been a great ride. I kept my payments level and the low interest rates allowed to me to pay off massive amounts of principal. True, the economy is strengthening and short term rates will go up a bit over the next couple of years, but I don't think it will be dramatic. The case for variable-rate mortgages remains strong.

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**Bank of Canada Historic Rates  
1991 to 2010**

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ave Year
1991	12.25	11.25	11.25	10.75	9.75	9.75	9.75	9.75	9.50	8.75	8.50	8.00	9.94
1992	7.50	7.50	8.25	7.75	7.50	7.00	6.75	6.50	6.25	7.75	9.75	7.25	7.48
1993	6.75	6.50	6.00	6.00	6.00	6.00	5.75	5.75	5.75	5.75	5.50	5.50	5.94
1994	5.50	5.50	6.25	6.75	6.75	8.00	7.50	7.25	7.00	7.00	7.00	8.00	6.88
1995	9.25	9.50	9.75	9.75	9.25	8.75	8.25	8.00	8.00	8.00	7.75	7.50	8.65
1996	7.25	7.00	6.75	6.50	6.50	6.50	6.25	5.75	5.75	5.00	4.75	4.75	6.06
1997	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	5.25	5.50	6.00	4.96
1998	6.00	6.50	6.50	6.50	6.50	6.50	6.50	6.50	7.25	7.00	6.75	6.75	6.60
1999	6.75	6.75	6.75	6.50	6.25	6.25	6.25	6.25	6.25	6.25	6.50	6.50	6.44
2000	6.50	6.75	7.00	7.00	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.27
2001	7.25	7.25	6.75	6.50	6.25	6.25	6.00	5.75	5.25	4.50	4.00	4.00	5.81
2002	3.75	3.75	3.75	4.00	4.00	4.25	4.50	4.50	4.50	4.50	4.50	4.50	4.21
2003	4.50	4.50	4.75	5.00	5.00	5.00	4.75	4.75	4.50	4.50	4.50	4.50	4.69
2004	4.25	4.25	4.00	3.75	3.75	3.75	3.75	3.75	4.00	4.25	4.25	4.25	4.00
2005	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.50	4.75	4.75	5.00	4.42
2006	5.25	5.25	5.50	5.75	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	5.81
2007	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.25	6.25	6.25	6.25	6.25	6.10
2008	5.75	5.75	5.25	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.00	3.50	4.79
2009	3.00	3.00	2.50	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.40
2010	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25

**Summary-**

1991 to 1993 high to low -6.75%  
 1993 to 1995 low to high +4.25%  
 1995 to 1997 high to low -5.00%  
 1997 to 2000 low to high +2.75%  
 2000 to 2002 high to low -3.75%  
 2002 to 2003 low to high +1.25%  
 2003 to 2004 high to low -1.25%  
 2004 to 2007 low to high +2.50%  
 2007 to 2009 high to low -4.00%  
 2009 to 2010-flat

The Bank of Canada changed in rate set policy in November 2000 to set 8 times during the year that they would establish monetary policy to guide inflation within a band of 1-3%. This was done to prevent the hyper inflation experienced during the 1980 early 1990's.