Tarrifs → Interest Rates → Mortgages

Tarrifs: the new HOT topic.

These sneaky trade taxes have a ripple effect that can hit your mortgage and really shake up the Canadian real estate scene. Whether it's pricier building materials, or inflation nudging interest rates higher - let's break down how global trade battles could be playing a role in your next mortgage payment, and what to expect next as a homeowner.

THE LINK BETWEEN TARIFFS & INTEREST RATES

Tariffs often lead to higher prices on imported goods, increasing inflation. When inflation rises, the Bank of Canada (BoC) may raise interest rates to stabilize the economy. However, if tariffs slow economic growth and reduce consumer spending, the BoC may lower the prime rate to encourage borrowing and investment.

For homeowners, this fluctuation in the prime rate is crucial because it directly impacts mortgage rates, particularly for variable-rate mortgages and Home Equity Lines of Credit (HELOCs).

HOW MORTGAGE BORROWERS ARE AFFECTED

Changes in interest rates due to tariffs can create opportunities and risks for borrowers:

- ***Variable-Rate Borrowers***: Since variable rates are tied to the prime rate, borrowers may see lower payments if the BoC cuts rates.
- ***Fixed-Rate Borrowers:*** Those locked into higher rates may explore refinancing options if rates drop.
- ***New Homebuyers:*** Lower borrowing costs can make homeownership more accessible.

POTENTIAL MORTGAGE SAVINGS

A small rate decrease can lead to substantial savings. The following breakdown shows how **a 0.25% prime rate drop** can affect monthly mortgage payments:

MORTGAGE AMOUNT	ESTIMATED MONTHLY SAVINGS (0.25% DROP)
$300,000	$43
$500,000	$72
$750,000	$107
$1,000,000	$143

Even a modest rate decrease can result in thousands of dollars saved over the life of a mortgage.

STRATEGIES FOR MORTGAGE BORROWERS

With economic uncertainty and potential rate changes ahead, borrowers should consider:

1. Monitoring Interest Rate Trends:
Understanding how tariffs influence mortgage rates can help borrowers time refinancing or new purchases effectively.

2. Refinancing Options:
Homeowners with fixed-rate mortgages may want to refinance if rates drop, allowing them to secure lower payments.

3. Locking in a Competitive Rate:
For those uncertain about future rate movements, locking in a fixed rate can provide stability. However, for borrowers comfortable with fluctuations, a variable rate could offer savings if rates decline.

4. Leveraging Home Equity:
Lower borrowing costs can make HELOCs more attractive for renovations, debt consolidation, or investment opportunities.

FINAL THOUGHTS

Tariffs may seem like a technical trade policy issue, but they can have a real impact on mortgage rates and borrowing costs. As Canada’s economy continues to shift, it’s important for homeowners to stay informed and plan ahead. With potential rate cuts on the horizon, now is a great time to explore refinancing, secure a competitive mortgage rate, or strategize for long-term savings. If you have questions, the M2 Mortgage Team is always here to chat and provide tailored advice to help you make the best financial decisions for your future.

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For expert mortgage guidance, reach out to Monica & Melissa at M2 Mortgage Team!