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Should you go Fixed or Variable?



It is typically one of the first questions someone asks when talking about your mortgage: What's your rate? While everyone can recall their rate off the top of their head, it tends to be the only detail of the mortgage they can remember. Although the rate is important, your mortgage is so much more than a rate, and if you're not paying close attention, it can cost you money.

Before we dive deeper, let's talk about fixed rate vs. variable rates and which one is better for you. First-time homebuyers and older homebuyers typically prefer the stability of a fixed rate. Keep in mind, seven-in-ten fixed mortgages are broken before the term ends. A fixed rate for five years is fine as long as you stay with a lender that's going to calculate the penalty if you break your mortgage on the contract rate versus the Benchmark rate. This is because the Benchmark rate, or as it's sometimes called the Bank of Canada rate, is higher than your contract rate. Typically, a credit union or monoline is the right choice for this type of mortgage.

Variable rates are great with any lender as it boils down to who offers the best discounted variable rate. There's a pretty simple way to decide whether a variable or fixed makes sense based on rate alone. It's called the 50-basis point rule. Take the best fixed rate and the best variable rate out there and subtract the two.

If the number is less than 50 basis points, there is strong argument to go with a fixed rate. However, if the difference is more than 50 basis points, it may be beneficial to go with a variable.

This seems relevantly simple, right? What's not simple is the personality of your mortgage. It may not seem like it, but yes, your mortgage has a personality. Think of it as a shiny sports car. It may look amazing when it rolls off the lot, but as the years go on, does it meet your daily needs? Besides your mortgage rate, you need to consider portability and whether it can be blended and extended, as well as how penalties for breaking the mortgage are being calculated. When people start looking for a mortgage, they are typically getting advice from their friends or parents, and the only question they are asking is - "what's the rate??" If they don't know the details of the mortgage like the ones listed above, you can tell them to stick their head in the sand because they're giving you bad advice. And if a mortgage broker is only fixated on the rate, you're working with the wrong one.

Life happens and our circumstances change. You want to make sure the mortgage will work for you in the future before you sign on the dotted line.

