

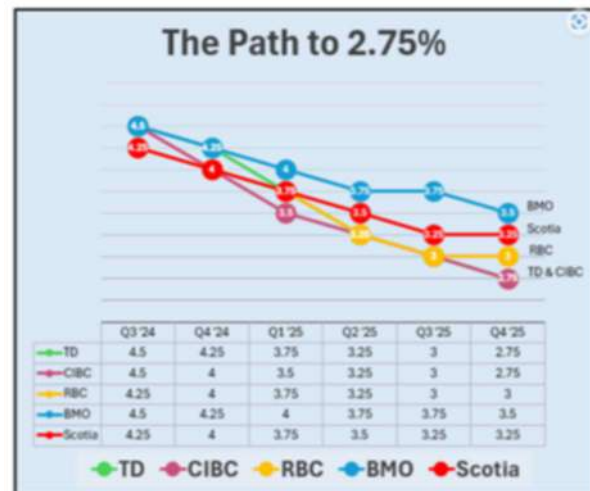
## VARIABLE RATE beats both 3-year fixed & 5-year fixed terms

Variable Rate Mortgages are expected to go down a total of 2%, over the next 15 months, via 7x Prime Rate reductions.

Your rate & payment go down after each reduction.

Best customer quote of October:

I am not locking in 3-year money nor 5-year money today, when the Bank of Canada has made it clear they are reducing rates 2% over the next 15 months.



## Variable Wins vs 3-year fixed & 5-year fixed terms

**4.74% for 3-year fixed & 4.54% 5-year fixed**

vs

**Variable at 5.50% today going down by 2.00% - to 3.5% over the next 9 months (July 2025) and then hold there longer term.**

### Details

**Variable Rate should drop 2.00% in the next 9 months, and then hold there.**

And, you can "lock-in" to a fixed rate at the lower rates later, or we suggest you "ride the variable" and harvest the savings. Variable rates have been lower than fixed rates for most of the last 20 years.

### Detailed Reduction Break-Down

Variable rates are quoted as "Prime rate minus a 'discount' of 0.95%" which is:

Prime = 6.45 (prime today) - 0.95% = **5.50% today.**

Expect a 'Jumbo Prime rate cut' of 0.50% - yes a massive ½ % - is expected on Oct 23, 2024.

AND another probable cut of 0.25% on December 11<sup>th</sup>.

= 0.75% less buy the END OF 2024

**4.75% should be the rate at the end of 2024, in just 50 days, or <2 months.**

- This ties the current 3-year fixed rate in just 50 days.

**3.50% should be the rate at the end of 2025, in 9 months.**

Expected Amount & Date of Prime Rate Reductions	
Variable = Prime - .95%	Expected Date of Rate Change
5.50% = 6.50% - .95%	Today
5.00 = .50% jumbo drop	October 23, 2024
<b>4.75% = .25% drop</b>	<b>Dec 11, 2024 – Matches current 3-year fixed rate</b>
<b>4.50% = .25% drop</b>	<b>Jan 29, 2025 – Matches current 5-year fixed rate</b>
4.25% = .25% drop	March 12, 2025
4.00% = .25% drop	April 16, 2025
3.75% = .25% drop	June 4, 2025
3.50% = .25% drop	July 30, 2025
No change	Sept 17, 2025
No change	Oct 29, 2025

#### Analysis:

- **It is a quick win when the Variable Rate = the same as**
  - **the 3-year fixed rate**, on about December 11, **in just 2.5 months.**
  - **the 5-year fixed rate**, on about Jan 29, 2025, **in just over 3 months.**
  - **And all the rest is savings!**
- When rates are down they are expected to hold lower than the 3-year fixed rate for the foreseeable future.
- The lenders we use **DO adjust your monthly payment down when the rate goes down**, lowering your payment. Not all lenders do this.

### ... and then for 2025

Continue to reduce your rate by **another 1.25% total with rate cuts in 2025 = 3.50% by August 2025** by way of **5 x 0.25% reductions.**

**So in 9 months your rate should be 3.50%**

and hold there for the next 16 months / long term target to hold at.

#### MORE DATA

Yes, you can "lock-in" a fixed rate at any time for no fee, cost or penalty.

- But you will probably "ride the variable" and stay in it long term, as the rate should be lower than any fixed rate when rates stabilize.
- We DO have a list of customers on the Variable, and we do send out notes on when would be a good time to lock in. These are rare and should not be happening for a few years yet.

## Re: Fixed Rates staying higher longer ... the Bank of Canada says this:

- For homeowners renewing their mortgages or prospective buyers seeking rate relief, we expect borrowing costs to decrease in the latter half of the year and early 2025.
- **The Bank of Canada's policy decisions will have the most immediate and significant impact on variable-rate mortgages.**
- For fixed-rate mortgages, it's essential to also consider the actions of the US Federal Reserve. Currently, the Fed is on hold and is unlikely to cut rates until very late 2024 or 2025. This will be the biggest constraint on lowering Canadian fixed mortgage rates, as Canadian rates follow U.S. rate movements.

## Q & A

### Q1: My bank's rate is close to your Broker Rate. Should I just take my banks offer?

A: All Big-6 Banks have super high POSTED RATES – like about 6.5% - and everyone gets a “big discount” off posted. BUT, the payout penalties at all Big-6 Banks are based on “re-capturing the discount off of posted rates” which means their penalties are 500% to 800% HIGHER, yes, 5x to 8x higher than Broker Banks which do not do this.

### Details

With a variable - the payout penalties are significantly lower.

- The maximum payout penalty for a Variable is 3-months of interest. That is it.
- The payout for all fixed rates is the GREATER OF: 3-months of interest OR the IRD – Interest rate differential – which has 4 moving parts and is not possible to guess at. In a decreasing rate environment, the IRD can be very large – like 35k to 40k.
  - During Covid when fixed rates dropped from 4% to 2%, a 350k mortgage with 2 years left on it could easily have a payout of \$25,000, so not many people were able to get out of their mortgages for lower rates; but those in Variables did! And locked in at 1.92% for 5 years.
- Lots more here on my blog with actual numbers and examples: <https://markherman.ca/fixed-rate-mortgage-penalties-larger-than-ever/>

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