Your Money

# Factors involved in locking in mortgage rates

**BRIAN COSTELLO**
**Correspondent**

It's all over.

This never ending decline in interest rates did, indeed, have an end.

It's got to be time to lock your mortgage away for the longest period you can find.

That's what I heard the other day.

Actually, it was more like a question as yet another homeowner was trying to decide what to do with their mortgage especially after seeing the Canadian dollar come under heavy selling pressure in world markets.

There are only a few things the Bank of Canada can do to support our dollar.

The prime candidate is to jack up interest rates to entice foreign investors to convert their money to ours so they can buy Canadian investments.

We've seen it happen before, there's no reason why it can't happen again.

Without question, now will be a good time for many to switch out of the short term loans that have proven so rewarding into five year and longer mortgages that will allow a peaceful sleep.

But, those contemplating a move like this should only do so after taking a close look at why rates and the dollar are where they are. Then carefully consider the impact of any major changes.

Before we look at the Canadian scene a few words about what's going on south of the border. Consumer prices in the United States showed virtually no increase in July compared to June.

In the last three months, in fact, U.S. inflation rates average only 0.8 per cent on an annualized basis.

Armed with these numbers and the belief that U.S. President Clinton's new budget will suck billions of dollars of spending out of the economy there's now great confidence that there will be no inflation fears in the U.S. for some time.

Inflation plays a major role in determining where interest rates are headed. It clearly suggests that U.S. interest rates can now fall.

One of the reasons why our dollar has weakened is the spread between Canadian and U.S. interest rates.

We've been slashing ours while their's have held steady. As a result, Canadian interest rates are closer to U.S. rates than they have been in decades. Now, though, based on the U.S. bond markets where bond yields are falling there's room for their interest rates to move lower.

That will take some of the pressure off our dollar and ease any need to push our rates higher other than for the odd short spurt to show the world we have the situation well in control.

Remember when we had two other bouts of temporarily high interest rates? The Referendum and the Constitution confusion.

Well, now we have an upcoming election. Foreign investors will watch us carefully.

If it appears that we are throwing out so many promises that we won't have any hope of eliminating our government deficits foreigners will dump our dollar.

If it looks like we are showing some fiscal responsibility; if it looks like we intend to cut government spending they'll give us a chance.

Foreign investors aren't really troubled by the sharp decline in Canadian interest rates. They know that we are world leaders in this field.

In fact, even though our interest rates have collapsed so too has inflation, so much so that our "real" interest rates after subtracting inflation, are still high. We can afford to lower interest rates.

But, we can't afford to increase them other than for short periods of time to show we are in control.

If we increase interest rates we will stifle an already anaemic economy. Real estate is a good example. In July resale real estate sales slumped almost seven per cent from a year ago. What's worse, for the first two quarters sales are down almost nine per cent compared to the first half of last year. That, in spite of far lower mortgage rates. What do you think will happen if they raise mortgage rates? A few buyers will jump in to beat the rate increases, most will cancel any thoughts of buying.

The big problem is unemployment. Last year unemployment averaged 11.3 per cent. Most economic projections call for an average of 11.2 per cent this year and maybe 11 per cent in 1994. Increase interest rates and we create no jobs at all.

After pushing rates this low Ottawa has found that the economy needs more. I think it fully intended for the dollar to move to the 75-cent level.

Foreign buyers would find our prices so low that they would buy everything they could get their hands on.

Expanding our exports is almost the only hope we have to get our economy turned on. We wouldn't buy as much across the border and they would load up here in Canada.

So, you can expect the Bank of Canada to lend some support to our dollar but to lower interest rates once again when the heat is off.

With no inflation on the horizon long term mortgage rates will fall for sure. Then we can lock in at a lower rate than we can hope to find right now.



## AFS program caters to high school students

Would you like to travel to a distant land, taste different foods and meet new people?

Well get ready because AFS Interculture Canada can make it happen for you!

One goal of AFS is to give flexible and adventurous high school students, from ages 15 to 18, the opportunity they deserve to explore a whole new world abroad.

AFS Interculture Canada is an international, non-profit organization that promotes cross-cultural learning through worldwide exchange programs.

For a year, a semester, or a summer, AFS Interculture Canada will send you to any one of 35 different countries.

If you are a high school student who would like a taste of the extraordinary, contact AFS Interculture Canada toll free at 1-800-361-7248 as soon as possible.