

SURPRISE MARKET UPDATE: March 16th, 2020:

Hello Again! I hope you are all doing well and managing to stay safe in this crazy time.

The next Bank of Canada (BOC) meeting was not scheduled to happen until Mid-April. But they held an emergency meeting on Friday and decided to lower their Overnight Rate by a further 0.50%. This is the second half percent drop in 2 weeks and brings the Overnight Rate down to the lowest point of all time.

As of this moment, there has not been word how far the banks and lenders will lower their Prime Rate. Will they lower it the full 0.50% or only a portion of this amount (or none at all????)

The BOC also stated they were prepared to lower rates further if needed. So it is still possible we see another drop at the April BOC meeting. The market has priced in another 0.50% drop at that time, so the market definitely expects another drop.

So there should be more room for fixed rates to come down some more (and they were already heading towards the lowest rates of all time).

HOWEVER, many lenders decided to RAISE fixed rates over the weekend! Some lenders raised fixed rates as much as 0.25%. We jumped from like 2.59% to 2.84% for a 5 year fixed term with 20% Down Payment at some lenders. And went from 2.29% to 2.54% at many lenders for purchases with less than 20% Down Payment.

The profitability spreads are now MASSIVE. I've never seen them this big before. There is room for a 0.50%-0.75% drop in fixed rates if this was a normal time and not a period of crisis.

I honestly have no clue why the banks and lenders did this. It simply doesn't make sense to me. The spreads would indicate there is plenty of room to lower rates...not raise them!

-Is this "Profit Taking"??

-Are they trying to slow the flood of business caused by the lower rates to give them a chance to get caught up?

-Or maybe they want to slow down business so they can work with a "skeleton staff" over the next few weeks??

-Or maybe this is a liquidity issue?

-Or maybe this is simply an extra buffer to account for some increased losses and defaults that will most likely be coming in the next few months with many out of work or unable to earn more money??

(As I've said before...it is not easy to make \$10 Billion a year in a tough economy!!)

Whatever the case may be, I guess we shall see soon enough.

It is entirely possible that fixed rates could drop back down after this craziness blows over...that is my hope anyway.

The US FED (America's BOC Equivalent) held an emergency meeting yesterday and dropped rates a full percent down to 0%!

ALSO, the new "Stress-Test" rules that were supposed to come into play in early April have been postponed. It appears they will still be rolled out at some point when we get through this crisis. But they are certainly not top priority for the government at this point.

If you recall, they were changing the way they calculated the Stress Test, to be closer to your actual rate + 2%, instead of qualifying you at 5.19%...the 5 year posted rate.

The next BOC Meeting is still scheduled to happen on April 15th...assuming there are no emergency meetings between now and then! So I will be in touch after that.

GOOD LUCK THIS MONTH! Stay safe and stay healthy!

And good luck to any parents for the next few weeks! Probably not going to be an easy 3 weeks.

Take care,

Lucas Preston

Mortgage Agent

Phone: 1-866-680-2020

Cell: 647-299-5136

Fax: 1-866-748-2627

lucaspreston@invis.ca

License #: M08003866

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PLEASE NOTE: This update is for information purposes only. Please do not rely on it to make a major decision! Everyone's situation is different and a "one size fits all" approach doesn't work. For information on how this impacts your personal situation, please contact me directly.