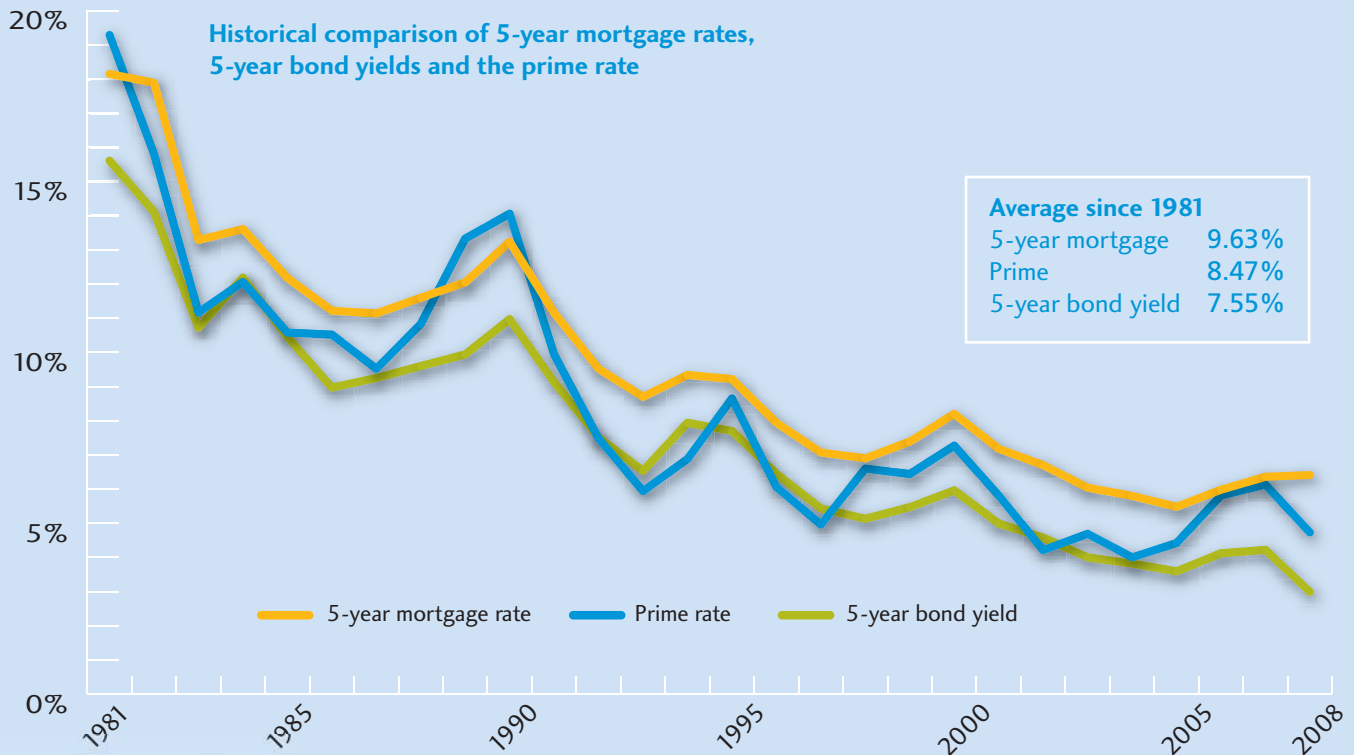




About mortgage rates



Source: Bank of Canada. Prime, 5-year mortgage rates and bond yields are based on a 12-month average.



How are mortgage rates set?

The chartered banks set the prime lending rate (*the rate they offer their best customers*). They base their decisions on the Bank of Canada's overnight rate because that's the rate that influences their own borrowing. There are approximately eight times a year the Bank of Canada makes rate announcements. Variable mortgage rates and lines of credit move in conjunction with the prime lending rate.

Fixed-rate mortgages are a little different. Banks use Government of Canada bonds to raise money for fixed-rate mortgages. In the bond market, interest rates can fluctuate more often, since they're subject to the changing moods of traders and bond investors, which try to figure out how fast the economy will grow and where inflation is headed. As a result, watch the bond market for clues on where fixed mortgage rates will go next.