

## Have interest rates finally bottomed out?

THE BANK OF CANADA RECENTLY sent a firm indication that it doesn't expect to have to lower interest rates again. If true, this means rates will eventually start to head back up again, maybe a few months from now or in 2005. For those with variable rate loans, low rates have been a long sweet ride, but you had better start planning because the ride may be coming to an end.

Many people today have variable rate mortgages. This has saved them a lot of money by sharing the rate risk with their financial institution. They've been on the winning side of the equation. Now it's time to review this strategy. This is especially true for those who have increased their mortgage over the last few years to access home equity at a low price. If rates go up, you might see your payments grow to an unsustainable level. This is always a danger when you borrow money.

Five years ago, the posted rates were 8.5% or more for a 5 year mortgage. Today the rate is around 4.5%. On a \$100,000 mortgage, this lowers your monthly interest cost from \$708 to \$375. If a rebounding economy takes interest rates back up to 8% over the next two-year period, for example, a lot of budgets could be squeezed very tightly.

Make sure you understand how rising rates will affect your portfolio. You'll avoid nasty surprises when the increases happen.

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