

Five largest banks hike prime rates, moving in step with Bank of Canada increase

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July 12, 2017 – *The Globe and Mail*

Canada's five largest banks have hiked their prime rates in step with the Bank of Canada's rate increase, pushing the key lending rate a quarter of a percentage point higher.

Royal Bank of Canada was the first of the country's largest financial institutions to move, shortly after midday, increasing its prime rate to 2.95 per cent, from 2.7 per cent. Prime rates influence the cost of borrowing on floating-rate loans, including variable rate mortgages, credit lines and student loans.

By mid-afternoon, Toronto-Dominion Bank, Bank of Montreal, Bank of Nova Scotia, and Canadian Imperial Bank of Commerce all followed suit with identical increases.

The moves came swiftly after the Bank of Canada raised its key benchmark rate by 25 basis points, the first such hike in about seven

years. (A basis point is 1/100th of a percentage point).

There had been speculation about how much banks would raise their prime rates, which generally move in tandem with the central bank's benchmark rate. When the Bank of Canada cut its overnight rate by 25 basis points twice in 2015, most banks responded by cutting their prime rates by just 15 basis points. That gave the banks some cushion to maintain their margins.

Some experts thought big banks might respond in kind to this week's increase. Instead, passing through the full increase will help boost the banks' net interest margins – which help measure the difference between what a bank earns on loans and pays on deposits – and bolster profits.