

Canadian banks hike prime rates by quarter percentage point

By David Berman

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Canada's biggest banks have responded to the Bank of Canada's interest rate increase on Wednesday morning, raising their prime rates in lockstep with the central bank's move.

Royal Bank of Canada was the first bank to respond, raising its prime rate by a quarter of a percentage point, to 3.2 per cent. Toronto-Dominion Bank, Bank of Montreal, Canadian Imperial Bank of Commerce and Bank of Nova Scotia followed soon after with the same increase.

The big banks tend to move together when they adjust their prime rates, which affect variable rates on loans and mortgages.

However, they don't always adjust their prime rates exactly in line with the Bank of Canada's moves. When the Bank of Canada last cut its key interest rate, by a total of half a percentage point, the banks lowered their prime rates by just half that amount.

But following the central bank's last two rate increases, including Wednesday's quarter point increase that raise the overnight rate to 1 per cent, the banks appear to be raising their prime rates by the same amount.

For the banks, higher prime rates should translate into fatter margins on loans. At a financials conference on Wednesday, RBC's chief executive officer, Dave McKay, estimated that the Bank of Canada's rate hike will add \$100-million of revenue to RBC's retail operations, according to Bloomberg.

For consumers, higher prime rates will mean homeowners with variable rate mortgages will see rates rise when the new prime rates kick in on Thursday.

"Anyone who currently has a variable rate mortgage should consider if now is a good time to lock into a fixed rate mortgage," James Laird, co-founder of Ratehub.ca and president of CanWise Financial mortgage brokerage, said in a statement.

The moves in both the Bank of Canada's overnight rate and the big banks' prime rates follow some uncertainty in certain areas within Canada's housing market. The Toronto Real Estate Board reported on Wednesday that Toronto home prices in August fell 20.5 per cent from their peak in April, while the number of home sales fell 34.8 per cent from last year.