MORTGAGE BASICS · UPDATED OCTOBER 29, 2026

What Is the Prime Lending Rate?

Homestead Financial
Dominion Lending Centres

The **prime lending rate** is the interest rate Canadian banks offer to their most creditworthy customers. More importantly, it acts as a benchmark for many variable-rate products, including:

- Variable-rate mortgages
- Adjustable-rate mortgages
- Lines of credit
- Some credit cards

Variable rates are typically quoted as **"prime plus" (+)** or **"prime minus" (–)** a set percentage.

What Influences the Prime Rate?

The prime lending rate is closely tied to the **Bank of Canada's policy interest rate**, which changes based on economic conditions. When the Bank of Canada adjusts its rate, lenders usually adjust their prime rate shortly after. In practice:

Strong economy / high inflation
Rates may be increased to slow borrowing and spending.

Weak economy
Rates may be lowered to encourage borrowing and economic activity.

Fixed vs. Variable vs. Adjustable

Feature	Fixed-Rate	Variable-Rate	Adjustable-Rate
Interest rate	Locked for the full term	Moves with prime	Moves with prime
Monthly payments	Fixed and predictable	Payment stays the same; interest vs. principal split changes (until the trigger rate is reached)	Payments fluctuate as rates change
Penalty to break	Higher of 3 months' interest or Interest Rate Differential (IRD)	Typically 3 months' interest	Typically 3 months' interest
Conversion option	Not applicable	Can convert to fixed without penalty	Can convert to fixed without penalty
Best for	Stability and budgeting certainty	Stable payments with rate flexibility	Immediate benefit when rates fall — for those who can absorb increases

What About Fixed Rates?

A common misconception is that fixed mortgage rates should fall when the prime rate drops. **They are not directly connected.** Fixed mortgage rates are primarily driven by **Canadian government bond yields**, especially the 5-year bond.

- Bond yields fall → fixed mortgage rates may decrease
- Bond yields rise → fixed mortgage rates tend to increase

Why Bond Yields Change

Bond yields mostly reflect what investors expect for inflation and interest rates:

- **Inflation or rate hikes expected:** yields rise.
- **Slowing economy or rate cuts expected:** yields fall.
- **Uncertainty:** investors buy bonds for safety, and yields fall.
- Canadian yields also tend to follow U.S. bond yields.

BOTTOM LINE

Prime rate changes affect **variable and adjustable-rate** mortgages. Bond market activity determines **fixed** mortgage rates.

Quick Summary

Fixed-Rate

Rate and payment never change during the term. Based on bond yields, not the prime rate or Bank of Canada decisions.

Variable-Rate

Rate changes with prime, but payments stay stable. Rate increases shift more of each payment toward interest — until your trigger rate.

Adjustable-Rate

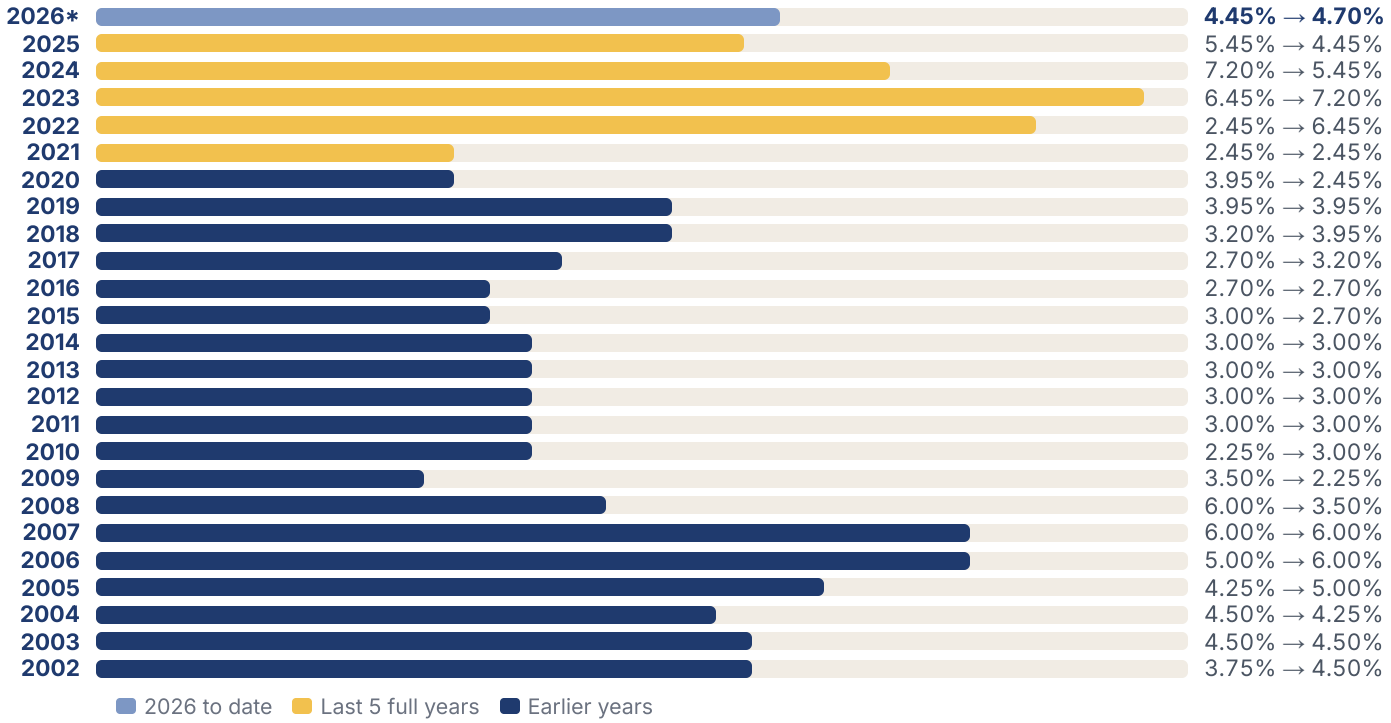
Both rate and payment change with prime — the highest potential risk and reward.

A NOTE ON TRIGGER RATES

With a variable-rate mortgage, your payment stays the same when prime rises — more of it simply goes to interest and less to principal. If prime rises far enough, the payment may no longer cover the interest owing. That point is your **trigger rate**. When it is reached, your lender may require you to increase your payment, make a lump-sum payment, or convert to a fixed rate. Many variable-rate holders reached their trigger rate during the 2022–2023 rate increases.

Prime Lending Rate: 2002–2026

Start of year → year-end; changes also happened within years. Bars show the year-end rate. *2026 to October 29.



4.70%
PRIME TODAY

Where prime sits today: on October 28, 2026, the Bank of Canada raised its policy interest rate by 0.25% to **2.50%**, its first increase since July 2023. The big banks raised prime from 4.45% to **4.70%**, effective October 29, 2026. Prime had been unchanged at 4.45% since October 30, 2025.

What Can We Learn?

- Over the last 5 full years (2021–2025), the prime rate has had a time-weighted average of **5.04%**.
- Rate changes usually occur in **0.25% (25 bps)** increments.
- While uncommon, large rate swings can occur in short periods.

Bank of Canada Rate Announcements

The next announcement is **Wednesday, December 9, 2026**. Announcements are made at 9:45 a.m. ET; the Monetary Policy Report (MPR) is published alongside the January, April, July and October announcements.

2027 schedule

January 27 + MPR	**March 3**	**April 28** + MPR	**June 2**
July 21 + MPR	**September 8**	**October 27** + MPR	**December 8**

Is a Variable or Adjustable-Rate Mortgage Right for You?

You may want to consider one if:

- You value **flexibility** — some sources have estimated that roughly 6 in 10 mortgages are broken before maturity, and fixed-rate penalties can be costly.
- You want a **small, predictable penalty** if you pay off your mortgage early — most variable and adjustable-rate mortgages can be paid off in full for just **3 months' interest**.
- The variable rate is **lower than the available fixed rates**, which may mean qualifying for a higher mortgage amount.
- You believe **rates may decline**.
- You're comfortable with some risk and potential payment or interest-allocation changes.
- You want the ability to **convert to a fixed rate without penalty**.
- You anticipate a life change (sale, refinance, needing access to equity) and want to avoid large early-payment penalties.

WHAT IT COSTS TO GET OUT EARLY

With most variable and adjustable-rate mortgages, the penalty to pay off the mortgage in full is **3 months' interest** — and that's it. With a fixed-rate mortgage, the penalty is the **higher** of 3 months' interest or the Interest Rate Differential (IRD). The IRD can be many times larger, especially when rates have dropped since you signed or when your lender calculates it using its posted rates.

Example: $500,000 balance at 4.20% variable (prime – 0.50%)	3 months' interest ≈ **$5,250**
The same $500,000 balance on a fixed rate	At least $5,250. The IRD is roughly the interest the lender loses over the rest of your term because it can only relend your money at today's lower rate. It is based on the time left in your term and the lender's posted rate when you break it.

Every lender calculates penalties differently. Check your mortgage terms or ask us for your exact number before you sell, refinance or switch.

Variable / adjustable
Flexibility, potential savings, and a penalty of typically just 3 months' interest.

Fixed
Stability, but potentially high penalties if plans change.

Questions? We're happy to help.

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