

I have a home equity line of credit and rates are heading up fast. Am I in trouble?

By [Rosa Saba](#) Business Reporter
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The Bank of Canada hiked its overnight rate this week and that has some borrowers worried about their financial future.

Those with a home equity line of credit (HELOC) should pay attention.

When the overnight rate goes up, banks usually raise the prime rate. If you have a variable rate HELOC — and most are variable — the interest rate you pay is linked to the prime rate. So if the prime rate at your financial institution goes up, so will your interest rate.

How much could rates rise? The Big Five banks have already raised the prime rate to 3.2 per cent. Economists are predicting the rate could jump to 4.45 per cent by the end of the year. In the coming years, many say it could go much higher, as high as five or six per cent.

Financial planner Janet Gray says you should calculate what future payments might look like if rates keep climbing and budget accordingly.

For example, if you have a \$100,000 HELOC and your rate is now 3.35 per cent, your monthly interest payment would be \$279. But if prime rates keep going up and your rate follows, say to 6 per cent, your monthly interest payment would be \$500.

In some cases you can convert a portion of your HELOC debt to a fixed rate, according to Ratehub, before rates go much higher.

One surefire way to reduce the interest on your HELOC is to pay down more of the principal if you've got the cash to do it.

However, if you're one of those Canadians who has only been paying the interest on your HELOC, that may be tough to do. A government survey published in 2019 found that more than a quarter of respondents were making interest-only payments on their HELOCs.

If you are already struggling to pay just the monthly interest on your HELOC, says Gray, rising rates could be a tipping point, especially if you are carrying a large debt. At that point, it might be time to turn to a reputable non-profit credit counselling agency to help.

"If people are already struggling, they're going to struggle a little bit more," Gray says.