MORTGAGE PREPAYMENT AND PREPAYMENT CHARGES GUIDE

The ABC's of mortgage financing

Amortization: The number of months required to repay the loan and pay the interests in full.

Closed term loan: Loan which may not be prepaid before the term's maturity, unless prepayment charges are paid to the Bank.

Fixed rate: Interest rate which does not fluctuate for the entire length of the term.

Prepayment charge: Amount payable to compensate the Bank for any loss of income incurred by the Bank due to the prepayment of a loan.

Open term loan: Loan which may be prepaid before the term's maturity date, without fees.

Posted rate: Interest rate used to calculate the prepayment charge. This rate corresponds to the fixed rate published by the National Bank at the beginning of the term for a residential mortgage loan with the same characteristics as your mortgage loan. This rate may be different than the rate applicable to your loan.

Prepayment: Total or partial payment of the loan before the term's maturity date.

Interest differential: Difference between the posted rate and the standard rate, calculated on the remaining term.

Renewal: Agreement determining the terms and conditions of a new term (duration of new term, interest rate, payment frequency, etc.) upon term's maturity.

Standard rate: Interest rate published by the National Bank to determine the interest rates applicable to residential mortgage loans.

Term: Duration of the loan during which certain terms and conditions apply (interest rate, payment frequency, etc.).

Variable rate: Interest rate which fluctuates for the duration of the term according to the standard rate variations.

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DESCRIPTIVE TABLE OF DIFFERENT TYPES OF LOANS AND THEIR CHARACTERISTICS

Type of loan	This product may suit you if:	Main characteristics	Applicable charge upon prepayment
Fixed interest rate mortgage loan	You want protection from interest rate fluctuations for the entire duration of your term and benefit from the stability of mortgage payment amounts.	Fixed interest rate and fixed payments for the entire duration of the term.	The higher of the following 2 amounts: a) 3 months of interest; or b) the sum of the following 2 amounts: 1 month of interest with a maximum of $500 and the interest differential.
Variable interest rate mortgage loan	You can tolerate a fluctuation in your mortgage payment amounts. You wish to save on interest when interest rates are low.	Interest rate which fluctuates for the duration of the term according to the standard rate fluctuations. Variable amount payments (will vary according to rate fluctuations). Possibility of converting into a fixed rate mortgage loan with a term equal or greater to the remaining period of the current term, without fees.	3 months of interest.
Closed term mortgage loan	You are not planning on selling your property or needing to refinance within the next 6 months.	Interest rates lower than rates applicable to open term mortgage loans of equivalent duration.	Refer to charge applicable to fixed rate loans and variable rate loans.
Open term mortgage loan	You are planning on selling your property within the next 6 months, or your projects are uncertain in the short term.	No fees applicable upon prepayment. Interest rates higher than the rate applicable to closed term loans of equivalent duration.	No fees applicable.
Short term mortgage loan	Your projects are uncertain in the medium term. For example, you plan on selling your property within the next 12 months to 48 months.	Terms of 3 months to 48 months.	Refer to charge applicable to fixed rate loans and variable rate loans. For a fixed interest rate loan with an applicable prepayment charge based on the interest differential, the greater the remaining term is upon prepayment, the greater the fee will be. In contrast, the shorter the remaining term, the smaller the fee will be.
Long term mortgage loan	No move or change in your personal finances is planned for the following 60 months or more.	Terms of 60 months to 120 months.	

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Certain decisions may cause you to pay fees related to the prepayment of your mortgage loan. For example:

- refinancing your mortgage loan before the term comes to maturity;
- renegotiating your mortgage loan terms and conditions before the term comes to maturity;
- making a principal prepayment greater than 10% of the original loan principal amount before the term comes to maturity;
- making a total prepayment of your mortgage loan before the term comes to maturity;
- transferring your mortgage loan to another financial institution before the term comes to maturity.

Your term has not come to maturity and you wish to reimburse your loan with a closed term more quickly? Three options are available to you:

- make an additional prepayment on principal;
- occasionally increase your mortgage payments;
- increase the frequency of your payments.

1. Additional prepayment on principal

You can prepay up to 10% of the initial principal amount of your loan over each calendar year, without fees[1]. This prepayment can be made in one or several payments throughout the year.

When your term has come to maturity, you may repay any amount you wish before the new term begins (renewal of your loan).

2. Occasional Payment Increase

You can prepay additional amounts without fees by adding to your current payment on principal and interest up to 1 time the amount of your payment;

Example: your payment is $650 and is due on the 15th of each month. Therefore, on the 15th of every month, you may pay without fees an additional amount of $650 or less.

3. Payment Frequency Increase

You may increase the frequency of your payments[2]. This will allow you to reimburse more principal, thereby decreasing the total reimbursement period of your mortgage loan.

If you chose a payment frequency of every two weeks or weekly, you benefit from accelerated payments. These accelerated payments enable you to pay half of a monthly payment every two weeks (frequency of every two weeks) or the quarter of a monthly payment every week (weekly frequency). Since there are 52 weeks in a year, you will make 26 payments per year (52 weeks ÷ 2) if you pay every two weeks or 52 payments per year if you pay weekly. This means that you make an extra payment equivalent to one monthly payment per year. Therefore, you will repay your loan more quickly.

You must sell your property, or you want to refinance your loan before the end of the term? Three options may be available to you[3]:

1. Buyer Referral

In certain cases, you may not be required to pay prepayment charges if the Bank grants the buyer of your property a mortgage loan with an amount, rate and remaining term equal to or greater than those of your existing mortgage loan.

2. Double Mortgage

Buying a bigger house? There is one more option available to you.

If you or your buyer obtain a closed term mortgage loan for an amount equivalent to at least twice the balance of your existing loan, all or part of the prepayment charge triggered by the prepayment of your closed term loan may be reimbursed.

3. Rollover Mortgage

A rollover mortgage involves transferring the terms and conditions of your existing mortgage loan (balance, interest rate and remaining duration) to a new mortgage loan taken out at National Bank for the purchase of a new property. This transaction enables you to recover the prepayment charges amount paid when the new mortgage loan is disbursed.

[1] You do not benefit from this privilege when you repay the balance in full or when the amount of the repayment is more than 10% of the initial principal amount.
[2] Starting at the 2nd change request, fees may be payable.
[3] These options are subject to change. Please communicate with us to verify whether they are still available and the applicable admissibility conditions at the time of your transaction. All options apply only to new mortgage financing. All other types of financing are excluded (All-In-One, personal Line of Credit, personal loan, etc).

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For your information, here's how to estimate the applicable prepayment charge upon prepayment.

Simplified formula for a prepayment charge corresponding to 3 months of interest (the result obtained is approximate)**:**

The fees correspond to 3 months of interest and are calculated on the prepayment amount at the posted rate for a fixed rate loan or at the standard rate for a variable rate loan.

Quick calculation formula:

Prepayment amount X Rate X 3 months / 12 months

Example of prepayment charges calculation for payment in full of a fixed rate loan:

Loan balance: $150,000
Posted rate: 6.50%

Calculation of the fee
$150,000 X 0.065 X 3 months / 12 months = $2,437.50

Simplified formula for a prepayment charge corresponding to the interest differential (the result obtained is approximate)**:**

The fee corresponds to the interest differential, to which is added one month of interest. The fee is calculated on the prepayment amount:

Interest differential + 1 month of interest at the posted rate (maximum of $500).

The interest differential represents the difference between the posted rate and the standard rate, calculated on the remaining term.

If no standard rate exists for the corresponding remaining term (ex.: 53 months), a standard rate is determined for calculation purposes by using a rate between the rates published for the two terms closest to the remaining period (ex.: 48 months and 60 months).

Quick calculation formula:

Standard rate

Posted rate of the shortest term + [(Posted rate of the longest term – Posted rate of the shortest term) X (Remaining term of the loan - Shortest term) / (Longest term - Shortest term)] = Standard rate

Prepayment charge

[Prepayment amount X (Posted rate - Standard rate)] / 12 months X Remaining term + 1 month of interest (max. $500)

Example of payment in full
Loan balance: $150,000
Posted rate: 6.50%
Remaining term: 53 months
Standard rate / term of 48 months: 5.75%
Standard rate / term of 60 months: 5.79%

Calculation of standard rate

5.75% + [(5.79% - 5.75%) X (53 months - 48 months) / (60 months - 48 months)] = 5.77%

Calculation of the fees

[$150,000 X (0.065 - 0.0577)] / 12 months X 53 months + $500) = $5,336.25.

Interest differential = Posted rate – Standard rate

For more information

If you wish to speak with one of our representatives specializing in prepayment of mortgage loans, you can contact your branch or a customer service representative toll free at 1-888-835-6281.

For more information, you can also visit the Financial Consumer Agency of Canada website at www.acfc-fcac.gc.ca.

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