

# Enhancing Borrower Awareness

The following information is to assist borrowers in better understanding interest rate terms, mortgage types, mortgage terms, and prepaying your HomeEquity Bank mortgage.

For more information on mortgages, such as choosing a mortgage, renewing your mortgage and paying off your mortgage faster -and more, visit the Financial Consumer Agency of Canada (FCAC) website at [Mortgages – Canada.ca](http://Mortgages – Canada.ca)

## **Interest Rates, Mortgage Types and Mortgage Terms**

### ***Fixed rate mortgages***

A fixed interest rate mortgage can offer interest rate stability as once you have selected the term [for example 5 years], your interest rate will not change until the expiry of that term.

### ***Variable rates mortgages***

A variable rate mortgage means your interest rate will fluctuate based on an index or benchmark interest rate.

### ***Open mortgages***

An open mortgage is a type of mortgage that allows the borrower to repay the loan in part or in full at any time without facing any penalties.

### ***Closed mortgages***

A closed mortgage is a type of mortgage that restricts borrowers from repaying the loan in full or making significant additional payments without incurring penalties.

### ***Long-term mortgages***

A long-term mortgage usually has a term that extends over a period of more than 5 years.

### ***Short-term mortgages***

A short-term mortgage typically has a term of fewer than five years.

## **Paying off your HomeEquity Bank Mortgage**

If you decide to make a full mortgage repayment or a partial mortgage prepayment (contract dependent), it may result in you having to pay a prepayment charge.

When you may incur a prepayment charge and how it is calculated, depends on the type of Reverse Mortgage Product you have, when you first obtained your mortgage, and the terms and conditions of your specific mortgage agreement.

However, there are a number of ways in which a borrower can pay off their mortgage faster without having to pay a prepayment charge.

### **Ways to pay off your mortgage faster without having to pay a prepayment charge.**

You can avoid a prepayment charge by taking advantage of your contract specific prepayment privileges, as outlined below.

#### ***Contract 34 Prepayment Privileges:***

- You can make regular scheduled interest payments, if you have made specific arrangement with us to pay by automatic withdrawals (this prepayment privilege is not available for clients who have the 'Income Advantage' product)
- Annually, you can make a single partial payment of up to **10%** of the outstanding principal and interest made within 30 days following each anniversary date of the initial advance to you

#### ***Contract 33 Prepayment Privileges:***

- You can make regular scheduled interest payments, if you have made specific arrangement with us to pay by automatic withdrawals (this prepayment privilege is not available for clients who have the 'Income Advantage' product)
- Annually, you can make a single partial payment of up to **10%** of the outstanding principal and interest made within 30 days following each anniversary date of the initial advance to you
- After the 5th anniversary date of your mortgage, if you make a partial or full repayment within 30 days following your reset date, you will not incur a prepayment charge

#### ***Contract 32 Prepayment Privileges:***

- You can make a single payment of up to 10% of the total funds owing, once in a 12-month rolling period.
- After the 5th anniversary date of your mortgage, if you make a partial or full repayment within 30 days before your reset date, you will not incur a prepayment charge.

#### ***Contract 31 Prepayment Privileges:***

- You can make a single payment of up to 10% of the total funds owing, once in a 12-month rolling period.
- After the 5th anniversary date of your mortgage, if you make a partial or full repayment within 30 days following your reset date, you will not incur a prepayment charge.
- No prepayment charge will apply following the 10th anniversary date of your mortgage.

***Contract 29 - 30 Prepayment Privileges:***

- You do not pay an early payment charge if you are making a payment between 3 and 10 years of receiving the funds, have a fixed rate at the time of payment and you make the payment within 30 days before your interest reset rate
- You do not pay an early payment charge if you make a payment any time after 10 years of receiving the funds.

***Other Contract Specific Prepayment Privileges:***

- **Applicable to Contracts 20-28 only:** No prepayment charge will apply following the 10th anniversary date of your mortgage.
- **Applicable to Contracts 15-19:** No prepayment charge will apply if you have a fixed rate and make a prepayment within 30 days preceding the Interest Reset Date
- **Applicable to Contracts 12-19:** No prepayment charge will apply if you have a variable interest rate.
- **Applicable to Contracts 12-14:** No prepayment charge will apply if you have a fixed rate and make a prepayment within 15 days of your interest reset date.
- **Applicable to Contracts 9-10:** No prepayment charge will apply if you have a variable interest rate.
- **Applicable to Contract 2-8 and Contract 11:** No prepayment charge will apply if you repay your mortgage in full. However, partial prepayments are not permitted.

***Product Specific Prepayment Privileges***

- **Applicable to the Chip Open product only:** You can choose to make a partial or full repayment at any time without incurring a prepayment charge as your product is an 'open mortgage' (defined above).

**Additional situations where a prepayment charge will not apply or is reduced:**

- No prepayment charge is levied upon the death of the last borrower.
- The prepayment charge is reduced by 50% if the last of the borrowers has moved into a long-term care facility or retirement residence.
- In line with requirements set forth by the Interest Act, after the 5<sup>th</sup> anniversary date of your mortgage, you may choose to give us 3 months' written notice of your intention to make a payment, in lieu of paying the prepayment charge.

**How to calculate your prepayment charge**

How you can calculate your prepayment charge, is outlined below.

Alternatively, please refer to our website <https://www.homeequitybank.ca/rates/> where we have a prepayment financial calculator which you can use to calculate your prepayment charge.

If you want to calculate your prepayment charge and don't have specific information about your loan on hand, you may call us toll-free at 1-866-331-2447 and we will assist you.

The information below applies to borrowers who are subject to a 3-month interest charge as outlined in their mortgage agreement.

- If you have an **Income Advantage** product or an **Additional Funds** product, please contact us at 1-866-331-2447 to calculate your prepayment charge.
- If you have a Contract 9,10 or 12 -19 with a fixed interest rate, your prepayment charge will be an 'Interest Rate Differential' (IRD) charge. Please contact us at 1-866-331-2447 to calculate your prepayment charge.
- If you have a contract 31 or 32, and are on a fixed interest rate, your prepayment charge is: the greater of 3 months interest or an 'Interest Rate Differential' (IRD). However, in accordance with requirements set forth by the Interest Act, this charge cannot exceed 3 months of interest. Therefore, the 3-month interest charge would apply, and you can refer to the calculation charges as outlined below.

***Making a payment on or before the 3<sup>rd</sup> anniversary date***

If you make a payment of principal and/or interest on or before the 3<sup>rd</sup> anniversary date, the prepayment charge is calculated as follows:

- Add the amount of principal and/or interest you pay = A
- Multiply A by the appropriate percentage below = B
- $A \times B = C$ , estimated prepayment charge

<b>Time of Payment</b>	<b>Percentage for Calculation</b>
On or before the 1 <sup>st</sup> anniversary date	5.00%
After the 1 <sup>st</sup> anniversary date but on or before the 2 <sup>nd</sup> anniversary date	4.00%
After the 2 <sup>nd</sup> anniversary date but on or before the 3 <sup>rd</sup> anniversary date	3.00%

***Making a payment after the 3<sup>rd</sup> anniversary date***

If you make a payment of principal and/or interest after the 3<sup>rd</sup> anniversary date, the prepayment charge is equal to 3 months' interest on the payment amount. This prepayment charge is calculated as follows:

Amount of principal and/or interest you pay	(A)
The interest rate that applies to the principal and/or interest being prepaid	(B)
$A \times B / 4 = C$ , estimated prepayment charge	(C)

### **Examples of Prepayment Charges and Calculations**

(Assuming a client has a C33/3C4 Chip Reverse Mortgage)

#### *Example 1:*

A Borrower wishes to make a partial payment of \$25,000 in year two since they obtained their mortgage. Their mortgage balance for the example is now \$200,000.

As noted above, their percentage for calculation given the time period of their payment, is 4%.

Their Product is the CHIP Reverse Mortgage.

Mortgage Balance	\$200,000
Partial Payment Amount (A)	\$25,000
Percentage for Calculation (%) (B)	4%
Calculation for prepayment charge	$\$25,000 (A) \times 4\% (B) = \$1,000 (C)$
Estimated Prepayment Charge (C)	\$,1000

#### *Example 2:*

A Borrower wishes to make a partial payment of \$25,000 in year two since they obtained their mortgage. Their mortgage balance for the example is now \$200,000.

As noted above, their percentage for calculation given the time period is 4%.

**The partial payment is made within 30 days following their anniversary date so their 10% prepayment privilege would apply.**

Mortgage Balance	\$200,000
Prepayment Privilege (10%)	10%
Allowable prepayment privilege amount subject to no charge	$\$200,000 \times 10\% = \$20,000$
Partial Prepayment Amount	\$25,000
Partial Prepayment Amount subject to prepayment charge (A)	$\$25,000 - \$20,000 = \$5,000$ (A)
Percentage for Calculation (%) (B)	4%
Calculation for prepayment charge	$\$5,000$ (A) X 4% (B) = \$200 (C)
Estimated Prepayment Charge (C)	\$200

*Example 3:*

A Borrower wishes to repay their mortgage in full after 4 years.

Their mortgage balance for the example is now \$200,000 and their current interest rate for the example is 5.99% per annum.

As noted above, they would be subject to a 3-month interest charge.

Mortgage Balance	\$200,000
Repayment Amount (A)	\$200,000
Current Interest Rate (B)	5.99%
Calculation for prepayment charge	$\$200,000$ (A) X 5.99% (B) / 4 = \$2,995 (C)
Estimated Prepayment Charge (C)	\$2,995

*Example 4:*

A Borrower wishes to repay their mortgage in full after 4 years.

Their mortgage balance for the example is now \$200,000 and their current interest rate for the example is 5.99% per annum.

As noted above, they would be subject to a 3-month interest charge.

**The payment is made within 30 days following their anniversary date so their 10% prepayment privilege would apply.**

Mortgage Balance	\$200,000
Repayment Amount	\$200,000
Prepayment Privilege (10%)	10%
Prepayment privilege amount subject to no charge	$\$200,000 \times 10\% = \$20,000$
Prepayment Amount subject to prepayment charge (A)	$\$200,000 - \$20,000 = \$180,000$ (A)
Current Interest Rate (B)	5.99%
Calculation for prepayment charge	$\$180,000$ (A) X 5.99% (B) / 4 = \$2,695 (C)
Estimated Prepayment Charge (C)	\$2,695

**Some actions that may result in a prepayment charge:**

- Not taking advantage of prepayment privileges
- Not making a payment in accordance with your contract specific prepayment privileges
- Your mortgage balance increasing (e.g. loaning more funds).
- After the fifth year of your anniversary date, not providing HomeEquity Bank with 3 months' written notice of your intention to make a mortgage payment in lieu of a prepayment charge.
- Partially prepaying amounts that are higher than allowed by your mortgage agreement.
- Refinancing your mortgage (contract specific and interest rate dependent)
- Switching interest rates (e.g. from a variable rate term to a fixed rate term, if your specific contract doesn't levy a prepayment charge on a variable rate mortgage)

If your mortgage is paid in full other fees may apply. Please consult [www.homeequitybank.ca/fees](http://www.homeequitybank.ca/fees) for our fee schedule and/or your mortgage documents for more details. In case of questions, please refer to your mortgage agreement or contact HomeEquity Bank at 1-866-331-2447 to determine your applicable fees.

The information provided above is for informational purposes only and is subject to change without notice. It is not intended to provide financial, legal, accounting or tax advice and should not be relied upon in that regard.