What you need to know about Mortgage Default Insurance

What is mortgage default insurance and why does the bank require it?

By law, Canadian banks can only provide mortgage financing to qualified homeowners with at least a 20% down payment, unless the mortgage is insured against default. Mortgage default insurance helps buyers purchase a home and begin building equity sooner. Default insurance may also be required by Scotiabank when a borrower has more than a 20% down payment, if the property is in a remote location or if the borrower is qualifying under a special program considered a higher risk.

Mortgage default insurance protects lenders in the event a borrower defaults on their mortgage. It does not protect the borrower or a guarantor. If a borrower defaults, the insurer may oversee all legal proceedings and payment enforcement. In addition, the insurer compensates the lender should there be a shortfall after the property has been sold and expenses paid. The defaulting borrower remains responsible for any shortfall on the mortgage and the lender or mortgage insurer may pursue the borrower for any deficiency following sale of the property.

Scotiabank's approved mortgage default insurance providers are:

- Canada Mortgage and Housing Corporation (CMHC), and
- Genworth Financial Canada

For more details on mortgage default insurance, we invite you to visit the insurer websites at www.cmhc.ca or www.genworth.ca.

Mortgage Default Insurance Premium

Who Pays the Premium?

The mortgage default insurance premium is paid by the borrower(s) to the lender. The premium is added by Scotiabank to the principal amount of the loan and repaid over the same amortization period. Sales tax, if applicable, is paid separately (it is not added to your principal amount). On the closing date, Scotiabank pays the insurer by deducting both the sales tax and premium from the principal amount advanced.

How is the Premium Calculated?

The insurance provider calculates the standard premium as a percentage of the principal amount of the loan. The percentage is determined based on the Loan to Value ratio of your mortgage. The Loan to Value ratio is your principal amount (excluding premium) divided by the purchase price or market value, if lower (the lending value). A larger down payment will result in a lower Loan to Value ratio. For mortgages under a *Scotia Total Equity*® Plan, the ratio is the total of all mortgage loan components divided by the lending value. The mortgage default insurance premium is added to the principal amount of one mortgage component.

If you refinance a previously default insured mortgage (maximum 85% Loan to Value ratio) or port the terms (interest rate, remaining term, remaining amortization and balance) of your mortgage to a new home or switch your mortgage to another lender, you may be eligible for the insurer's portability program provided that the lender uses the same default insurance provider. You may save money by reducing or eliminating the premium on the new mortgage.

- If you port or switch your mortgage with no change to the loan to value ratio, loan amount or amortization period, an additional premium may not be required.
- If you refinance your mortgage and use the same default insurance provider, your premium may be a lesser amount than would be charged for a new mortgage. Please see the following table.

The following table is an example of the current premium percentages for a typical purchase transaction of a residential property and the Premium on Increase to Loan Amount (Top-Up Premium) percentages that may apply if you refinance your insured mortgage.

Loan to Value Ratio	**Premium on Total Loan Amount**	**Premium on Increase to Loan Amount (Top-Up Premium)**
Up to and including 65%	0.50%	0.50%
Up to and including 75%	0.65%	2.25%
Up to and including 80%	1.00%	2.75%
Up to and including 85%	1.75%	3.50%
Up to and including 90%	2.00%	N/A
Up to and including 95%	2.75%	N/A

Notes:

1. Assumes a 25 year amortization period. For Premium on Increase to Loan Amount (Top-up premium), assumes no change to the original remaining amortization period.
2. Extended amortization surcharges may apply:
   - greater than 25 years, up to and including 30 years: 0.20%,
3. Specialty programs may incur higher premiums, such as;
   - *Scotia®*Mortgage for Self-Employed program,
   - *Scotia Secondary Home®*Financing Program - Type B Properties,
   - *Scotia Free Down Payment®* Mortgage,
   - Extended Amortizations for portability program transactions and refinance transactions (blended amortization).
4. For a refinance under the insurer's portability program, the premium is calculated as the lesser of the Premium on Total Loan Amount or Premium on Increase to Loan Amount (Top-up premium).
5. The exact premium will be calculated when you are approved for a mortgage.
6. The mortgage default insurance premiums are not refundable if your mortgage is paid early.
7. If you purchase an energy-efficient home or make energy-saving renovations, you could be eligible for a 10% refund on your mortgage insurance premium. Please visit the mortgage default insurers websites for details.
8. For Progress Draw Construction Mortgages, Scotiabank pays the insurer by deducting both the sales tax and premium from the 1st advance. You may be entitled to a refund of a portion of the sales tax and premium if the principal amount is not fully advanced. Please refer to your Personal Credit Agreement for more details.

Example of a premium calculation for a new home purchase:

Mortgage Loan Amount	$100,000
Loan to Value Ratio	90%
Premium on Total Loan Amount (%)	2.00%
Premium Payable	2.00% x $100,000 = $2,000.00

Please visit the insurer websites for details of the various mortgage default insurer programs. www.cmhc.ca or www.genworth.ca.

Scotiabank and Mortgage Default Insurers Payment/Benefits/Arrangements

Scotiabank does not nor is it expected to enter into an arrangement to receive payments or benefits from any of our approved mortgage default insurers. This statement of disclosure applies to the following period(s):

- This fiscal quarter and the following three fiscal quarters.

Note: Scotiabank fiscal quarters begin on November 1, February 1, May 1, August 1.

This information statement is prepared as of Mar 18 2011 and is subject to change without notice.