

# What You Need To Know About Mortgages & Mortgage Prepayment Charges

## Mortgage Glossary

**Amortization Period** - The actual number of years it will take to repay a mortgage loan in full. This may go beyond the term of the loan. (e.g. mortgages often have five-year terms but 25-year amortization periods.)

**Maturity Date** - The last day of the term of the mortgage. The mortgage must then be renewed or the mortgage balance paid in full.

**Mortgage** – A loan secured by real property.

**Prepayment Charge** – A fee charged by the lender when the borrower pays off all or a portion of a mortgage prior to the maturity date.

**Refinance** – To arrange a new mortgage for an increased amount. The old mortgage is paid out (discharged) from the proceeds of the new loan. A prepayment charge could apply.

**Term** – The period of time over which the interest rate, payment and other mortgage conditions are set. At the end of the term, the mortgage is due and payable unless renewed.

## Mortgage Type Comparison

Mortgage Type	Consider this option if...	Key benefits
<b>Fixed Rate</b>	You want to know exactly what your interest rate and mortgage payment will be over the term of your mortgage.	Your rate and payment amount is fixed for the term of your mortgage. Typical prepayment charges to payout prior to the end of the term would be the greater of 3 months interest or Interest Rate Differential. (Refer to the section below “How to Calculate Your Prepayment Charge” for more details)
<b>Variable Rate*</b>	You're comfortable with fluctuations in your interest rate and mortgage payment. (If necessary, you may be able to lock-in to a longer fixed rate closed term product, with no prepayment charge.)	The rate of interest fluctuates when Scotiabank Prime Rate <sup>1</sup> changes. If paying out the mortgage before the end of the term, typically a 3 months' interest calculation using the current interest rate on the mortgage, or cap rate if there is one, will apply.
<b>Closed Term</b>	You don't anticipate needing to make any changes to your mortgage before the end of the term.	A closed mortgage does not provide for payout before maturity. A lender may permit payout under certain circumstances but will levy a prepayment charge for doing so. Usually closed terms will offer lower rates than the comparable open terms.
<b>Open Term</b>	You anticipate having to payout the mortgage within the next year, prepayment charges would not apply.	An open mortgage permits for prepayment/repayment at any time without a prepayment charge.
<b>Short Term</b>	You have plans to change your mortgage within the next couple of years.	At the end of the term, you can prepay/payout without having to pay a prepayment charge. Short term mortgages include 6 months, 1 year open or closed terms and 2 year closed terms.
<b>Long Term</b>	You don't anticipate making any changes to your mortgage for a few years.	A longer term offers a consistent rate and payment for the entire term. This can be beneficial when planning your budget for the next few years. Long term mortgages include 3 to 5 years, 7 years, and 10 year closed terms.

(\*Note: Variable rate mortgage can offer either fixed payments or variable payments)

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

Options	Allows you to...
<b>15% + 15%® privileges</b>	Pre-pay up to 15% of your original principal <sup>2</sup> each year and increase your scheduled monthly payment by up to 15% once per year without incurring a prepayment charge. This will help you payoff your mortgage faster.
<b>Match-a-Payment®</b>	Double your mortgage payment on any scheduled payment date without a fee or prepayment charge.
<b>Increase your payment frequency</b>	Save interest by switching from a monthly to a bi-weekly or weekly payment. This has the effect of making an extra monthly payment every year.
<b>Amortization period</b>	Choose the shortest amortization with the largest payment amount you can afford. This will help you pay off your mortgage faster.
<b>Increase your payments</b>	When you renew and interest rates are lower, keep your payments the same or increase the payment to what you were paying before. The increased amount will be applied directly to your principal balance helping you pay off your mortgage faster.

## Ways to avoid prepayment charges

Options	This means you can:
Portability <sup>3</sup>	Take your Scotiabank mortgage with you. If you move to a new home, you can keep the same interest rate for the remainder of the current term.
End of Term	Payout, prepay, or change the terms of your mortgage on the maturity date without any prepayment charges.
Open Terms	Payout, prepay, or change the terms of your mortgage without any prepayment charges.

## How to Calculate Your Prepayment Charge – Example for a Fixed Rate Closed Term<sup>4</sup>

When you prepay some, or the entire principal of your mortgage, you will incur prepayment charges unless the partial prepayment is within current limits in which no prepayment charge would apply. The cost to pay off some, or the entire principal amount of your mortgage early, is the higher of (A) or (B):

(A) 3 months' interest costs at the mortgage rate on the amount you want to prepay.

(B) The interest rate differential. This means the difference between your existing mortgage interest rate and the interest rate currently charged for a mortgage similar to yours for the remaining term of the loan. (This is our current posted interest rate for a fixed rate closed term mortgage with a term that is closest to the remaining term of your existing mortgage, less any rate discount you received on your existing mortgage). The cost is calculated on the amount you wish to prepay. If your term is greater than 5 years, and you prepay some or the entire principal amount of your mortgage after the 5th year the maximum cost to prepay is (A) above.

Below are the two methods for calculating the cost of paying all or some of the principal amount of your mortgage before the maturity date. The results of both methods are estimates. **For your exact costs, please contact your branch.** We use a precise formula for Method 2 that credits you for the amount of principal you would have paid off each month.

### Example

Assume a 5-year closed term mortgage at an interest rate of 9%. The original amortization period was 20 years, and there are 18 years remaining. The balance owing is \$100,000. There are 36 months (3 years) left before the mortgage maturity date. The posted rate for a 5 year term at the time, was 9.5%, a discount of .5% was received. At this time, the bank is offering a new 3-year closed term mortgage at an interest rate of 6.5%. Here is the estimated cost to pay off the mortgage today.

#### Method 1: Three Months' Interest Costs

Follow these steps to calculate three months' interest costs:

Step 1	
• \$100,000	<b>A</b> The amount to pay off.
• 9% = 0.09	<b>B</b> Your mortgage interest rate expressed as a decimal.
• \$9,000	<b>C</b> Equals A x B (100,000 x 0.09 = 9,000).
Step 2	
• \$2,250	<b>D</b> Equals C ÷ 4 (9,000 ÷ 4 = 2,250) (estimated three months' interest costs).

#### Method 2: Interest Rate Differential (IRD)

Follow these steps to estimate the interest rate differential amount:

Step 1	
• 9% = 0.09	<b>A</b> The annual interest rate on the mortgage.
• 6% = 0.06	<b>B</b> The current annual interest rate for a new mortgage with a term that is closest to the remaining term in the existing mortgage, less the rate discount received on the existing mortgage (6.5% - .5% = 6%).
• 3% = 0.03	<b>C</b> Equals A – B, which is the difference between the existing interest rate and the discounted current rate. Use the decimal form for calculation; thus, 3% = 0.03.
• \$100,000	<b>D</b> The amount to be paid off.
Step 2	
• 36 months	<b>E</b> The number of months left until the mortgage maturity date.
• \$9,000	<b>F</b> Equals (C x D x E) ÷ 12 (0.03 x 100,000 x 36) ÷ 12 = 9,000 (estimated interest rate differential).

In this example, the estimated cost to pay off the mortgage before the maturity date is \$9,000, representing the interest rate differential that is the higher of the two calculations. Refer to [www.scotiabank.com](http://www.scotiabank.com) to access our Mortgage Prepayment Charge Calculator.

**For information purposes only and does not replace the Terms of your Mortgage Contract. Please refer to your Mortgage Contract, Cost of Borrowing Disclosure, or Renewal Agreement, as applicable.**

<sup>1</sup>Scotiabank Prime Rate is the prime lending rate of The Bank of Nova Scotia as published by Scotiabank from time to time. <sup>2</sup>This is the principle amount when your mortgage was first entered into with us, or where your mortgage has been assigned to us from another lender, the principal amount that was outstanding at the time of the assignment. Some conditions apply. <sup>3</sup>Subject to the home meeting Scotiabank residential standards and maximum permitted loan amounts. <sup>4</sup>The calculations above may not be applicable if your mortgage falls into any of the following categories: Your mortgage was funded under a specialty program, for example, Progress Draw Construction mortgage. Your current term began prior to January 2010.