Scotiabank®

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 Housing Corporation
- Genworth Financial Canada and
- Canada Guaranty

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.

If you 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.

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%	0.60%	0.60%
Up to and including 75%	0.75%	2.60%
Up to and including 80%	1.25%	3.15%
Up to and including 85%	1.80%	4.00%*
Up to and including 90%	2.40%	4.90%*
Up to and including 95%	3.60%	5.65%*

*refinance not available.

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. Specialty programs may incur higher premiums, such as:
   - *Scotia*® Mortgage for Self-Employed program,
   - *Scotia Secondary Home*® Financing Program - Type B Properties,
   - Extended Amortizations for portability program transactions and refinance transactions (blended amortization).
3. For the insurer's portability program and refinances, the premium is calculated as the lesser of the Premium on Total Loan Amount or Premium on Increase to Loan Amount (Top-up premium).
4. The exact premium will be calculated when you are approved for a mortgage.
5. The mortgage default insurance premiums are not refundable if your mortgage is paid early.
6. 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.

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 (%)	2.40%
Premium Payable	2.40% x $100,000 = $2,400.00

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

This information statement is prepared as of February 29, 2016 and is subject to change without notice.