Prepayment Reference Guide

MCAP

We have assembled a reference guide to make it easy for you to understand details about prepaying a mortgage and what this means to you.

What is the difference between a fixed rate mortgage versus a variable rate mortgage?
With a fixed rate mortgage the interest rate is set for the entire length of the term, whereas a variable rate mortgage may change with market conditions, which is based on a prime rate. A variable rate mortgage is sometimes referred to as a floating rate mortgage.

What is better for me, an open or closed mortgage?
An open mortgage allows you to repay all or part of your mortgage at any time without penalty. Often, interest rates for open mortgages are higher. Closed mortgages cannot be prepaid, renegotiated or refinanced before maturity without you paying applicable penalties.

How do I know whether a longer mortgage term, or shorter term is the right one for me?
Mortgage term refers to the length of time your current agreement is with us, the lender. This agreement will include interest rates and repayment terms, and at the end of the term, the entire balance may be paid off, or the mortgage renewed for another term.

How can I pay off my mortgage faster without being charged a prepayment penalty?
Several options may be available to you, based on the product selected. Some of which are making a lump sum prepayments, increasing regular mortgage payment amounts and making your payments more often by paying weekly or bi-weekly.

Here are examples:

Making a lump sum prepayment (using $150,000.00 mortgage balance, 5 year term, @ 4.0% and $10,000.00 is applied each year)			
Payment frequency	**Monthly**	**Accelerated Weekly**	**Accelerated Bi-weekly**
Principal & Interest payment	$789.03	$197.26	$394.52
Interest paid over term	$21,526.20	$21,043.72	$21,065.24
Principal paid	$75,815.60	$80,243.88	$80,222.36
Closing mortgage balance	$74,184.40	$69,756.12	$69,777.64

Increasing a regular mortgage payment amount (using $150,000.00 mortgage balance, 5 year term, @ 4.0% and $50.00 more is applied to each payment)			
Payment frequency	**Monthly**	**Accelerated Weekly (pro-rated)**	**Accelerated Bi-weekly (pro-rated)**
Principal & Interest payment	$789.03	$197.26	$394.52
Additional Principal payment	$50.00	$11.54	$23.08
Interest paid over term	$27,610.51	$27,123.61	$27,146.52
Principal paid	$22,731.29	$27,164.39	$27,141.48
Closing mortgage balance	$127,268.71	$122,835.61	$122,858.52

Changing a regular mortgage payment from Monthly to Weekly, or Bi-weekly (using $150,000.00 mortgage balance, 5 year term at 4.00%)			
Payment frequency	**Monthly**	**Accelerated Weekly**	**Accelerated Bi-weekly**
Principal & Interest payment	$789.03	$197.26	$394.52
Interest paid over term	$27,922.70	$27,440.06	$27,461.74
Principal paid	$19,419.10	$23,847.54	$23,825.86
Closing mortgage balance	$130,580.90	$126,152.46	$126,174.14

Can I avoid being charged a prepayment penalty if I decide to end my current agreement prior the maturity?
You may minimize a prepayment penalty by choosing to refinance your current mortgage which allows you to renegotiate your current agreement for a increased mortgage balance amount, with a new interest rate and term. Another option available is to port your current mortgage to another property, where all details of your agreement remains the same.

What type of prepayment penalty could I be charged should I decide to pay off my mortgage early (prior to maturity)?
The two prepayment penalty types commonly charged are either a 3 month interest penalty, or an Interest Rate Differential (IRD). IRD is sometimes referred to as Loss of Interest (LOI). The lender will charge the greater of these two (for terms longer than 5 years, the lender can only charge a 3 month penalty).

How is the 3 month interest penalty calculated?
It is calculated by applying the interest rate being charged on your current mortgage, to the outstanding mortgage principal balance, for a 3 month period.

Here is an example:

3 months interest penalty			Sample calculation
Step 1	(A)	Amount you are paying out	$120,000.00
Step 2	(B)	Interest Rate on your Loan expressed as a decimal (ie. 3.25% = .0325)	3.89% = .0389
Step 3	(C)	A x B = C	$4,668.00
Step 4	(D)	C ÷ 4 = D, D is the estimated Three Months Interest Cost	$4668.00/4= $1167.00
Step 5	(E)	D + Reinvestment Fee (if applicable) = E, E is your estimated Early Payout Penalty	$1167.00 + 400.00 = $1567.00

How does my lender calculate my IRD penalty?
IRD is calculated by taking the difference between your current mortgage's interest rate and the lender's reinvestment rate for the term
closest to the length of time remaining in your term. This difference is then multiplied to the mortgage balance and term. For exact IRD
penalty amounts, contact our Customer Service Centre (1-800-265-2624).

Here is an example (estimating the IRD penalty; the lender uses a precise formula):

IRD penalty estimate			Estimated calculation
Step 1	(A)	Interest Rate on your Loan	3.89%
Step 2	(B)	Current reinvestment rate in effect at the time, for a loan offered by us with a term that is closest, to the remaining term of your Loan (call our Customer Service Centre for rates)	3.19% (current 3yr reinvestment rate)
Step 3	(C)	A – B = C, which is the difference between your Interest Rate and the current rate for a loan with a term that is similar to your remaining term, expressed as a decimal (ie. 1.13% = .0113)	3.89%-3.19%=0.70% = .0070
Step 4	(D)	Amount you are paying out	$120,000.00
Step 5	(E)	Number of months remaining in the Term of your Loan	36 months
Step 6	(F)	(C x D x E) ÷ 12 = F, F is the estimated Interest Rate Differential Amount	(.0070 X $120,000 X 36)/12 = $2520.00
Step 7	(G)	F + Reinvestment Fee (if applicable) = G, G is your estimated Early Payout Penalty	$2520.00 + 400.00 = $2920.00