MORTGAGE PREPAYMENT INFORMATION

To assist you in understanding the consequences of prepaying a mortgage, please review the information below. Please see our Glossary for specific definitions of terms used below.

Mortgage Comparison

Fixed Rate	• With a fixed interest rate mortgage, your interest rate does not fluctuate during the mortgage term. Your regular mortgage payment amount does not change. • You know exactly what your regular payments will be and how much of the principal balance will be paid off during the term.
Adjustable Rate	• With an adjustable rate mortgage, your interest rate changes when RFA's Prime Rate changes. • Your payment amount adjusts automatically to reflect the changes in your interest rate. This means your payments may change from payment date to payment date.
Variable Rate	• With a variable rate mortgage, the interest rate changes when a lender's Prime Rate changes. Your regular mortgage payment amount is fixed and does not change. • When the lender's Prime Rate decreases, the amount of interest you pay will also decrease. A smaller portion of your regular mortgage payment will be applied to pay interest, and a larger portion will be applied to pay down the principal amount of your mortgage. • When the lender's Prime Rate increases, the amount of interest you pay will also rise. A larger portion of your regular mortgage payment will be applied to pay interest, and a smaller portion will be applied to pay down the principal amount of your mortgage.
Open Mortgage	• An open mortgage can be prepaid, in part or in full, during the term of the mortgage without paying a prepayment charge. The interest rate on an open mortgage is often higher than the interest rate on a closed mortgage. An open mortgage can provide flexibility until you are ready to lock into a closed term.
Closed Mortgage	• A closed mortgage is one that cannot be prepaid, renegotiated or

	refinanced before the end of the term without paying a prepayment charge. However, most closed mortgages contain certain prepayment privileges, such as the right to make a prepayment of 10-20% of the original principal amount each year, without paying a prepayment charge. A closed mortgage often has a lower interest rate than an open mortgage.
Short-Term	• A short-term mortgage is generally less than two years. A short-term mortgage generally offers a lower interest rate than a longer-term mortgage. When current rates are high, and you think rates may drop, choosing a short-term mortgage allows you to lock in for a shorter period. A short-term mortgage may also be a good option if you plan to sell your home or pay off the mortgage early.
Long-Term	• A long-term mortgage is generally between three and five years or longer. A long-term mortgage generally offers a higher interest rate than that of a shorter-term mortgage. When rates are reasonably low, and you do not anticipate making any changes to your mortgage for a few years, choosing a longer-term mortgage secures the interest rate for a longer period of time and makes budgeting easier.

Ways to Pay Off a Mortgage Faster Without Having to Pay a Prepayment Charge

Increased Payment	• You may increase the amount of your regularly scheduled payment by an amount up to but not exceeding 20%, once during any year.
Lump Sum Payment	• You may make a lump sum prepayment on any regularly scheduled payment date, provided the total of the prepayment made in the year does not exceed 20% of the original Principal Amount. If all or any portion of this privilege is not used in a particular year, it cannot be carried forward and used in a future year.
Accelerate Your Payment Schedule	• You can also change your payment frequency to an accelerated weekly or biweekly payment. In essence, you are making an additional monthly payment over a 12-month timeframe which will save interest costs and reduce your Amortization.
Prepay at Renewal	• You can prepay as much as you want on the maturity date of your mortgage.

The prepayment privileges above are available to you each year of the Term of your mortgage, provided you are not in default. Please refer to your specific mortgage documentation to determine features associated with these prepayment privileges.

Ways to Avoid Prepayment Charges

Portability	• If you're selling and buying a new home, your mortgage may have a portability option that allows you to Port your existing mortgage term, outstanding principal balance and Maturity Date to a new property or increase your mortgage balance with a new Blended Rate.
Assumption	• If you're selling your home, the purchaser may have the option of applying to assume your mortgage with the existing terms and conditions on closing. Please contact RFA to learn more about assuming someone else's mortgage, or having a potential purchaser assume your mortgage.
Open Mortgage	• An open mortgage can be prepaid, in part or in full, during the term of the mortgage without paying a prepayment charge.
End of Term	• Payout, prepay, or change the terms of your mortgage on the maturity date without any prepayment charges.

When a Prepayment Charge May Apply

- Renewing your mortgage before the maturity date
- Prepaying more than the amount your prepayment privileges allow
- Refinancing your mortgage and selecting a new term
- Transferring your mortgage to another lender
- Paying off your mortgage before the maturity date
- Porting your mortgage to a new home and decreasing the loan amount
- Partial Discharge – selling a portion of your property

How to Calculate Your Prepayment Charge for an RFA Standard Fixed Rate Closed Mortgage

If you have a fixed rate closed mortgage, your estimated prepayment charge will be the greater of the following:

a) three months interest, at the interest rate set out in the mortgage form or last renewal, conversion or amendment thereto and calculated by the lender as the remaining principal amount multiplied by the interest rate and divided by four; **OR**

b) the interest rate differential (IRD) calculation for the remaining term of the mortgage. The IRD is the amount of money the lender requires, on the prepayment date, to compensate the lender for the loss of interest income which results from a lower rate of interest on a replacement loan for the remainder of the term. The remainder of the term is the length of time from the payment due date of the last full loan payment made under this mortgage to the maturity date of the mortgage. The IRD is calculated by determining the difference between the rate in effect on the mortgage at the time such IRD calculation is made and the lender's regular rate in effect for the term closest to the remaining term, as determined by the lender, at the time such IRD calculation is made. The difference in these two rates is used to calculate the loss of interest income.

   The prepayment charge may be calculated up to 30 days prior to the prepayment date and may not be adjusted for any change in posted rates in that period.

   If the term of the mortgage is longer than five years, you may prepay the mortgage in full after the fifth year of the term upon payment of 3 months interest on the amount being prepaid calculated at the interest rate of the mortgage.

How to Calculate Your Prepayment Charge for a RFA Standard Adjustable Rate Closed Mortgage

If you have an adjustable rate closed mortgage, your prepayment charge will be three months simple interest, at the interest rate set out in the mortgage form or last renewal, conversion or amendment and calculated by RFA as the remaining principal amount multiplied by the interest rate and divided by four.

How to Calculate Your Prepayment Charge for a Street Solutions Standard Fixed Rate Closed Mortgage

If you have a Street Solutions fixed rate closed mortgage, your estimated prepayment charge will be the greater of the following:

a) three months interest, at the interest rate set out in the mortgage form or last renewal, conversion or amendment and calculated by the lender as the remaining principal amount multiplied by the interest rate and divided by four; **OR**

b) the interest rate differential (IRD) calculation for the remaining term of the mortgage. The IRD is the amount of money the lender requires, on the prepayment date, to compensate the lender for the loss of interest income which results from a lower rate of interest on a replacement loan for the remainder of the term. The remainder of the term is the length of time from the payment due date of the last full loan payment made under this mortgage to the maturity date of the mortgage. The IRD is calculated by determining the difference between the rate in effect on the mortgage at the time such IRD calculation is made and the lender's Solutions posted rate in effect for the term closest to the remaining term, as determined by the lender, at the time such IRD calculation is made. The difference in these two rates is used to calculate the loss of interest income.

The prepayment charge may be calculated up to 30 days prior to the prepayment date and may not be adjusted for any change in posted rates in that period.

If the term of the mortgage is longer than five years, you may prepay the mortgage in full after the fifth year of the term upon payment of 3 months interest on the amount being prepaid calculated at the interest rate of the mortgage.

Examples of Prepayment Charge Calculations

The following illustrates how prepayment charges are calculated. To estimate your prepayment charge, use the RFA Prepayment Charge Calculator here. The timing of your prepayment, changes in the interest rate, and changes in your payment amount can have an impact on the Interest Rate Differential calculation. There are also additional fees associated with paying off your mortgage in full. Please refer to our standard fees here. The results below are estimates. If you have further questions and would like to obtain the exact amount of your Prepayment Charge please contact us.

Example of Estimating the Prepayment Charge for a Standard RFA Fixed-Rate Closed Mortgage

This example is based on a fixed-rate closed RFA mortgage with an initial 5-year (60 month) term at an interest rate of 5.5% (client rate), current balance of $200,000 and 4 years and 2 months (50 months) remaining before the maturity date. The closest term RFA offers is for a 4-year, fixed rate, closed mortgage, with an interest rate of 4.45% (current rate). The following is an example of the calculation of the penalty for prepayment before maturity.

The prepayment charge will be the greater of the following two amounts:

- three months' interest at the client interest rate of 5.500%; **OR**
- the interest rate differential amount

Estimate of Three Months' Interest

A $200,000	**A = The total amount of the prepayment before maturity.**
B 0.055	**B = Client Interest Rate** The client rate set out in the mortgage form or last renewal, conversion or amendment (written as a decimal) - 5.500% becomes 0.055
C $2,750	**C = A x B ÷ 4** Multiply the total amount of the prepayment by the interest rate and divide by 4. $200,000 x 0.055 = 11,000 ÷ 4 = $2,750
Using this calculation, the estimated prepayment charge would be $2,750.	

Estimate of the Interest Rate Differential Amount

A $200,000	**A = The total amount of the prepayment before maturity.**
B 0.0105	**B = Client Interest Rate minus Current Interest Rate** 5.5% (client rate) - 4.45% (current rate) = 1.05% (written as a decimal) 1.05% becomes 0.0105
C 4.17	**C = Remaining term of the loan (in months) ÷ 12** Residual term of the loan is 4 years and 2 months. Expressed in months it is 50 months. 50 ÷ 12 = 4.17
D $2,100	**D = A x B Balance Multiplied by Interest Rate Difference** $200,000 (balance) x 0.0105 (interest rate difference) = $2,100
E $8,750	**E = C x D** Multiply the penalty amount by the remaining term of the mortgage 4.17 x $2,100 = $8,750
Using this calculation, the estimated prepayment charge would be $8,750.	

In this example, the estimated prepayment charge would be $8,750 because it is the greater of the Interest Rate Differential calculation and Three Months' Interest calculation.

Example of Estimating the Prepayment Charge for a Standard RFA Adjustable Rate Closed Mortgage

This example is based on a 5-year adjustable rate RFA mortgage at an interest rate of 5.5%. The principal amount owing and being prepaid is $200,000. The prepayment charge in this example would be equal to three months' simple interest on the entire amount being prepaid, calculated at the client rate divided by 4.

A $200,000	A = The total amount of the prepayment before maturity.
B 0.055	B = Client Interest Rate The interest rate set out in the mortgage form or last renewal, conversion or amendment (written as a decimal) - 5.500% becomes 0.055.
C $2,750	C = A x B ÷ 4 Multiply the total amount of the prepayment by the interest rate and divide by 4. $200,000 x 0.055 = 11,000 ÷ 4 = $2,750
In this example, the estimated prepayment charge would be $2,750.	

Example of Estimating the Prepayment Charge for a Standard Solutions Fixed Rate Closed Mortgage

This example is based on a fixed-rate closed Solutions mortgage with an initial 3-year (36 month) term at an interest rate of 4.0% (client rate), current balance of $100,000 and 2 years (24 months) remaining before the maturity date. The closest Solutions term RFA offers is for a 2-year, fixed rate, closed mortgage, with an interest rate of 3.39% (current rate). The following is an example of the calculation of the penalty for prepayment before maturity. Please note that a Solutions mortgage for terms less than or equal to 3 years can only be prepaid upon the confirmation of the closing of a bona fide arms-length sale of the property along with the prepayment charge payment.

The prepayment charge will be the greater of the following two amounts:

- three months' interest at the client interest rate of 4.000%; **OR**
- the interest rate differential amount

Estimate of Three Months' Interest

A $100,000	**A = The total amount of the prepayment before maturity.**
B 0.040	**B = Client Interest Rate** The client rate set out in the mortgage form or last renewal, conversion or amendment (written as a decimal) - 4.000% becomes 0.040
C $1,000	C = A x B ÷ 4 Multiply the total amount of the prepayment by the interest rate and divide by 4. $100,000 x 0.040 = 4,000 ÷ 4 = $1,000
Using this calculation, the estimated prepayment charge would be $1,000.	

Estimate of the Interest Rate Differential Amount

A $100,000	**A = The total amount of the prepayment before maturity.**
B 0.0061	**B = Client Interest Rate minus Current Interest Rate** 4% (client rate) – 3.39% (current rate) = 0.61% (written as a decimal) 0.61% becomes 0.0061
C 2	**C = Remaining term of the loan (in months) ÷ 12** Residual term of the loan is 2 years. Expressed in months it is 24 months. 24 ÷ 12 = 2
D $610	**D = A x B Balance Multiplied by Interest Rate Difference** $100,000 (balance) x 0.0061 (interest rate difference) = $610
E $1,220	**E = C x D** Multiply the penalty amount by the remaining term of the mortgage 2 x $610 = $1,220
Using this calculation, the estimated prepayment charge would be $1,220.	

In this example, the estimated prepayment charge would be $1,220 because it is the greater of the Interest Rate Differential calculation and Three Months' Interest calculation.

IRD Calculations for Applicable Street Loyalty Mortgages

If you have a Street Loyalty mortgage, please refer to your mortgage documentation as in some cases the IRD calculation depends in part on the applicable Government of Canada bond rate as opposed to RFA's regular/posted rates.

If you need assistance in calculating your IRD or if you have a Street Loyalty mortgage that bases its IRD calculation using the applicable Government of Canada bond rate, please contact us.

What additional charges may apply when prepaying a mortgage?

Please refer to our fees for additional charges that may apply or contact us directly.

Where can I get additional information?

For additional information regarding Mortgage Options and Prepaying Your Mortgage, visit the Financial Consumer Agency of Canada website:

- FCAC Home Page
- FCAC Mortgage Details

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. Additionally, some of the items described above only apply to certain RFA mortgage products. As a result, we would encourage you to review your mortgage documents, or contact us directly to determine applicability.