Scotiabank®

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 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
Fixed Rate	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 "How to Calculate Your Prepayment Charge" on the Page 2 or more details)
Variable Rate*	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 [1] changes. If paying out the mortgage before the end of the term, typically a 3 months' interest prepayment charge calculated using the current interest rate on the mortgage, or cap rate if there is one, will apply.
Closed Term	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.
Open Term	You anticipate having to payout the mortgage before the end of its term.	An open mortgage permits prepayment/repayment at any time without a prepayment charge but an administration fee may apply if you prepay your entire mortgage within the first year of the term.
Short Term	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.
Long Term	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…
Prepayment privileges	Depending on the mortgage solution that applies to your mortgage, prepay up to 10%, 15% or 20% of your original principal [2] each year and increase your scheduled monthly payment [3] by up to 10%, 15% or 20% each year without incurring a prepayment charge. This will help you pay off your mortgage faster.
Match-a-Payment®	Depending on the mortgage solution that applies to your mortgage, double your mortgage payment on any scheduled payment date without a fee or prepayment charge.
Increase your payment frequency	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.
Amortization period	Choose the shortest amortization with the largest payment amount you can afford. This will help you pay off your mortgage faster.
Increase your payments	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	Take your Scotiabank mortgage with you. If you move to a new home, may be able to keep the same interest rate for the remainder of the current term [4].
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 [5].

Reasons why you may have to pay a prepayment charge

You make a partial prepayment greater than the amount that is allowed in your contract.
You break your mortgage term before the maturity date. For example, you early-renew, refinance or transfer your mortgage to another lender.

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How to Calculate Your Prepayment Charge [6]

If you have a closed term mortgage and you prepay some, or the entire principal of your mortgage before the end of your term, you will incur a prepayment charge unless the partial prepayment is within your applicable prepayment options.

Variable Rate Closed Term Mortgage

If you have a variable rate closed mortgage, your prepayment charge will be 3 months' interest costs on the amount you want to prepay. The interest rate used to calculate the 3 months' interest cost will be your variable interest rate at the time of the prepayment or your cap rate (if there is one).

You can follow Method 1 in the Example below in order to estimate 3 months' interest costs using your variable interest at the time of prepayment or your cap rate, as applicable, for B.

Fixed Rate Closed Term Mortgage

If you have a fixed rate closed term mortgage, we use the following process to calculate your prepayment charge:

Step 1: We calculate the amounts that equal (A) and (B):

A) *3 months' interest* costs at the mortgage rate on the amount you want to pre-pay.

B) *The interest rate differential.* This means the difference between the amounts calculated in (1) and (2):

(1) The present value of all interest you would have paid from the date of prepayment until the maturity date on the amount you want to prepay at the mortgage interest rate.

(2) The present value of all interest that would be paid from the date of prepayment until the maturity date on the amount you want to prepay at the Current Interest Rate, less any rate discount you received on your existing mortgage.

Where:

The present value is calculated based on the remaining term to maturity in months (rounded up to the nearest month) and the number of monthly payments remaining in the term. When calculating the present value in connection with (2), we adjust the principal and interest payment amounts because they would have been different using the Current Interest Rate.

The Current Interest Rate is the current posted interest rate offered by us for a new fixed rate closed term mortgage with a term that is closest to the remaining term of your existing mortgage (rounded up if exactly between 2 terms), which can be located at www.scotiabank.com. As noted above, the Current Interest Rate will be discounted by any rate discount you received on your existing mortgage.

Step 2: We determine which amount is higher. The prepayment charge to pay out some, or the entire principal amount of your fixed rate closed mortgage early, is the **higher** of the amounts calculated for (A) and (B).

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 the amount in (A) above.

Example

Below is an example of a prepayment charge calculation for 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 us at your servicing branch or call us at **1-877-268-4228**.

For method 2, we use a present value formula that credits you for the amount of principal you would have paid off each month. The calculation provided below is a simplified calculation so that you may calculate an estimate of the interest rate differential amount. The estimate generated by method 2 will be higher than the actual amount calculated by us when we use the actual interest rate differential mathematical formula.

Since this example uses a fixed rate mortgage, the prepayment charge for paying out some, or the entire principal amount of your mortgage, early, is the higher of:

- 3 months' interest costs; and
- the interest rate differential.

Assume a 5-year fixed rate closed term mortgage at an Annual Interest Rate of 9%. The principal amount owing and being prepaid in full is $100,000. There are 36 months (3 years) left before the mortgage maturity date. The posted rate for a 5 year fixed rate closed term mortgage at the beginning of this term was 9.5% so a rate discount of 0.5% was received. At the time of prepayment, the Current Interest Rate for a new 3-year fixed rate closed term mortgage is 6.5%.

Method 1: Three Months' Interest Costs

Follow these steps to calculate three months' interest costs:

• $100,000	**A** The principal amount you want to pay out.
• 9% = 0.09	**B** Your mortgage interest rate (the Annual Interest Rate) expressed as a decimal.
• $9,000	**C** Equals A x B (100,000 x 0.09 = 9,000).
• $2,250	**D** Equals C ÷ 4 (9,000 ÷ 4 = 2,250) (estimated three months' interest costs).

Method 2: Interest Rate Differential (Simplified Calculation)

Follow these steps to estimate the interest rate differential amount:

• 9%	**A**	Your mortgage interest rate (the Annual Interest Rate).
• 6%	**B**	The Current Interest Rate (described above), less the rate discount received on the existing mortgage (6.5% - 0.5% = 6%).
• 3% = 0.03	**C**	Equals A – B, which is the difference between the mortgage interest rate and the discounted Current Interest Rate. Use the decimal form for calculation; thus, 3% = 0.03.
• $100,000	**D**	The principal amount you want to pay out.
• 36 months	**E**	The number of months left until the mortgage maturity date.
• $9,000	**F**	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 prepayment charge is $9,000, which is the higher of the two amounts in methods 1 and 2.

The exact interest rate differential amount would be lower than the amount estimated above. Please call us for the exact prepayment charge that would be applicable to you. You can also use our Mortgage Prepayment Calculator on scotiabank.com to estimate your prepayment charge.

This document is for information purposes only and does not replace the Terms of your Mortgage Contract. Please refer to your Mortgage Contract, Cost of Borrowing Disclosure and Repayment Terms Confirmation letter, or Renewal Agreement and Renewal Confirmation letter as applicable for your mortgage prepayment terms and conditions.

[1] Scotiabank Prime Rate is the prime lending rate of The Bank of Nova Scotia as published by Scotiabank from time to time.

[2] This is the principal 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. If your mortgage solution allows you to prepay 10% of your original principal, this option can be exercised once each year.

[3] This is the principal and interest payment originally set for the term of your mortgage. If you have a variable rate and payment mortgage, this is the principal and interest payment at the time of prepayment. If your mortgage solution allows you to increase your scheduled monthly payment by 10%, this option can be exercised once each year.

[4] Subject to the home meeting Scotiabank residential standards and maximum permitted loan amounts. The portability option may not be available for all mortgage solutions.

[5] Open terms may not be available for all mortgage solutions.

[6] The calculations in this document 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 or your current term began prior to January 2010.