How prepayment penalties work

Understanding mortgage types

Fixed-Rate or Variable-Rate Mortgages

Fixed-Rate:
Choosing a fixed-rate mortgage allows you to lock in your interest rate and protects you from rate increases. With it, you can take comfort knowing your mortgage payments and interest rate will always be the same.

Variable-Rate:
With a variable-rate mortgage, your payments and interest rate will fluctuate based on the CTC prime rate. A variable-rate mortgage is attractive if rates decline, which may help you save over the term of your mortgage. However, if the prime rate increases, so will your rate and payments.

Open or Closed Mortgages

Closed Mortgage:
You will receive a lower interest rate (compared to an open mortgage), but there is a maximum annual amount you can pay towards your mortgage balance without penalty.

Open:
You can pay off, refinance or re-negotiate your mortgage whenever you want with no penalty, in exchange for a higher interest rate (compared to a closed mortgage). An open mortgage may be right for you if you plan to sell your property within 12 months or pay off your mortgage quickly.

Short-Term or Long-Term Mortgages

Short Term:
A short-term mortgage generally offers a lower interest rate than a long-term mortgage. A short-term mortgage may be a good choice if you think interest rates may drop, as it allows you to lock in your rate for a shorter period.

Long Term:
A long-term mortgage allows you to lock in an interest rate for a longer period. A long-term mortgage generally offers a higher interest rate than a short-term mortgage. A long-term mortgage may be a better choice if you are comfortable with the interest rate and you want the security of budgeting your expenses for the future.

When do prepayment charges apply?

Prepayment charges only apply to Closed Mortgages. They are charged when you:

- Prepay more than your annual prepayment privilege of 20% per anniversary year
- Move your mortgage to another lender before the maturity date
- Renew, refinance or pay off your mortgage balance before the maturity date, if it’s a closed mortgage

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How are prepayment charges calculated?

Fixed rate (closed) mortgage: If you have a fixed rate mortgage, the prepayment charge is calculated as the greater of either:

- 3 months' interest (90 days), calculated on the amount you prepay. Interest is calculated at your current interest rate, **OR**
- An Interest Rate Differential (IRD) amount.

Interest Rate Differential (IRD) is the amount of interest payable, calculated as the difference between

1. The annual interest rate , and

2. Our current posted rate that is closest to the remaining term of the mortgage, determined by us, less 1%, and can be obtained by visiting our website at www.communitytrust.com or by calling us at 1-800-268-1576

If you have less than 3 months (90 days) remaining on your mortgage term, the prepayment charge will be the interest to maturity, which is calculated as the sum of the interest payments of your regular mortgage payments.

Open mortgage: If you are in an Open Mortgage, you can prepay in part or in full without any prepayment charges**.**

How to estimate prepayment charges

Below are examples of how to estimate your prepayment charges for a Fixed-Rate Closed Mortgage. You can obtain the exact amount by calling us toll free at 1-800-268-1576.

Assume the following scenario, as an example:

- Amount to prepay: $200,000
- Interest rate on your Mortgage: 5.00%
- Discount factor: 1.00%
- Number of months left in term: 24 months (or 2 years) left in a 5-year term
- The current posted interest rate for a mortgage with a 2-year term (term of the same length): 4%

How to estimate Three Months' Interest (90 days):

Step 1: Identify the amount you want to prepay	**$200,000**
Step 2: Multiply the amount you want to prepay by the annual interest rate of your mortgage, expressed as a decimal (For example, 5% = 0.05)	**$200,000 x 0.05 = $10,000**
Step 3: Divide the answer by 4 to get an estimate of 3 months' interest.	**$10,000 / 4 = $2,500**

Prepayment penalty estimate based on 3 months' interest:	**$2,500**

How to estimate the Interest Rate Differential Prepayment Charge:

1. Use the chart below to find the term for our current posted rate closest to the remaining term of the mortgage:

If the length of time between the prepayment date and the maturity date of your mortgage is:	Then we will use the posted interest rate for the following term:
Greater than 3 months and less than or equal to 18 months	1 Year
Greater than 18 months and less than or equal to 30 months	2 Years
Greater than 30 months and less than or equal to 42 months	3 Years
Greater than 42 months and less than or equal to 54 months	4 Years
Greater than 54 months and less than or equal to 78 months	5 Years
Greater than 78 months and less than or equal to 102 months	7 Years
Greater than 102 months and less than or equal to 120 months	10 Years

2. Determine our current posted interest rate closest to the remaining term of the mortgage by visiting www.communitytrust.com. This will be the rate used in Step 3 below.

Steps	Example
Step 1: Identify the amount you want to prepay	**$200,000**
Step 2: Identify the annual interest rate on your mortgage, expressed as a decimal (For example, 5% = 0.05)	**0.05**
Step 3: Identify the current posted interest rate for the term closest to the remaining time left on your current term, less 1%, expressed as a decimal (For example, 4% - 1% = 0.03)	**0.03**
Step 4: Get the difference in interest rates by subtracting the answer in step 3 from the answer in step 2 to get the difference in interest rates.	**0.05 – 0.03 = 0.02**
Step 5: Multiply the answer from step 4 by the amount you want to prepay on your mortgage in step 1.	**0.02 x $200,000 = $4,000**
Step 6: Divide this answer by 12 to get the monthly interest cost.	**12 = $333.34**

Step 7: Multiply the answer from step 6 by the number of months left on the term, including full and partial months. **Note:** Any fraction of a month will be rounded down to a full month (e.g. 24 months and 1 day is considered 24 months)	**$333.34 x 24 = $8,000.16**
Prepayment penalty estimate based on interest rate differential	**$8,000.16**

Conclusion:

The prepayment charge is the greater of the estimated 3 months' interest costs of $2,500 and the estimated interest rate differential (IRD) amount of $8,000.16. The estimated prepayment charge for the above scenario, if the payout statement were prepared today, would be $8,000.16. The above is a simplified calculation that will only provide an estimate of the prepayment charge. This estimate will be an amount higher than the actual prepayment charge calculated by us using a more complex formula. The timing of your prepayment, changes in the interest rate and changes in your payment amount can affect the IRD calculation. To get an estimate and find out how these changes can impact your prepayment costs, you can use our prepayment penalty calculator by visiting www.communitytrust.com.

What additional charges may apply?

If you prepay the mortgage in full, you must also pay a reinvestment fee of $300.00, statement fee of $100, and the applicable provincial mortgage discharge registration fee indicated in the Schedule of Additional Costs.

How to avoid prepayment charges:

Open Mortgage:
An open mortgage can be paid down or paid off in full at any time without a prepayment charge.

Closed Mortgage:
Once in a calendar year on the anniversary of the Interest Adjustment Date of the mortgage, you may prepay without penalty an amount not greater than 20% of the principal amount at the anniversary date of the mortgage. You cannot carry forward any unused portion to a future year.

Each prepayment amount must be equal to or higher than $500.00 to avoid Prepayment Charges

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How to pay off your mortgage faster without prepayment charges:

There are several options for you to pay down your mortgage faster without paying any prepayment charges:

Accelerated Payment Option:
The Accelerated Payment option can help you pay off your mortgage faster with weekly and bi-weekly payment options. With either option, your payments will be slightly higher, but you will make at least one extra payment a year, therefore paying off your mortgage

faster, while saving on interest costs. We calculate the amount of your accelerated payment as follows:

- Weekly: we multiply your monthly payment by 12, divide it by 48, and collect the result 52 times each year.
- Bi-weekly: we multiply your monthly payment by 12, divide it by 24, and collect it 26 times each year.

Prepayment Privilege:
A Prepayment Privilege gives you the opportunity to make ad-hoc lump sum payments to your mortgage anytime throughout the year, in addition to your regular mortgage payments. You can make as many extra payments as you would like (as long as the remaining amortization is not lower than the length of the term), but there is a limit on the maximum amount you can prepay annually. These payments apply directly to your mortgage principal and may shorten your amortization period.

The maximum you can prepay will depend on the type of mortgage you have:

Closed Mortgages:
You can make lump sum payments of up to 20% of the original balance per anniversary year without penalty. Generally, any payments over 20% per year would be accepted but would have a prepayment charge.

Open Mortgages:
There is no Prepayment Charge for you to prepay the mortgage.

If you have any questions or want more information on your mortgage prepayment charge, call us at 1-800-268-1576.

For more information about mortgage options and prepaying your mortgage, please visit the Financial Consumer Agency of Canada (FCAC) to learn more about FCAC mortgage details.

Understanding Your Annual Statement

Principal Balance – is the amount owed on the loan, not including interest.

Principal Payment – is the dollar amount of principal included in the monthly payment.

Interest Payment – is the dollar amount of interest included in the monthly payment.

Interest Rate – is the amount of interest charged for the use of borrowing money for your mortgage, expressed as a percentage of the principal.

Maturity Date – is the date on which the final payment of your mortgage is due. On the maturity date, the mortgage must either be paid off or renewed into a new term.

Interest Adjustment Date – is the day your payment period begins.

Reinvestment Fee – is payable for paying off a loan in full prior to the maturity date.

Pre-payment Privileges – is the right, to be exercised at the borrower’s option once in each year on the anniversary of the interest adjustment date of the loan, to prepay without pre- payment penalty charges, an amount not greater than a certain percentage set out in the commitment of the original principal of the loan.