At State Bank of India (Canada) (SBIC), we offer residential mortgages which provide you with flexibility to meet a wide range of financial goals and time frames. Before finalising your mortgage take a moment to review prepayment options to ensure your SBIC Mortgage suits your specific needs.

What are Open and Closed Mortgages?

Open Mortgage

An open mortgage provides the flexibility of being able to repay all or part of your mortgage at any time during the term 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 provides flexibility until you are ready to lock into a closed term.

Closed Mortgage

A closed mortgage limits your prepayment options but usually offers a lower interest rate than an open 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, some closed mortgages permit certain prepayment privileges, such as the right to make a prepayment of certain percentage of the original mortgage amount each year, without paying a prepayment charge.

At SBIC, we provide a privilege of prepaying every year up to 10% of original amount and additionally you have the privilege of increasing your periodical payments by 10% of original payments. These are non-cumulative every year.

What are Fixed Interest Rate and Variable Interest Rate Mortgages?

Fixed Interest Rate

If you want to protect your mortgage payment from potential interest rate increases, best option would be to choose a fixed rate mortgage, where interest rate on your mortgage is fixed or locked for the term of the mortgage. With a fixed interest rate, you will know the following at the time of issuance of the mortgage:

1. The interest rate of mortgage throughout the entire term of the mortgage,
2. The amount of your regular mortgage payments and how much of your mortgage will be paid off at the end of the mortgage term, and
3. The portion of your payment that will go toward principal and interest.

Variable Interest Rate

If you opt for a variable rate mortgage, your interest rate may fluctuate from time to time. This is because the interest rate is linked to the Prime Rate of the lender and whenever the lender's Prime Rate changes, your mortgage rate also changes. Because your monthly payments remain the same throughout the term, the amount applied to the principal versus interest may change as under with fluctuations in lender's Prime Rate.

1. If the interest rate decreases, and your payment amount remains the same, more of your mortgage payment is applied to the principal balance owing.
2. If the interest rate increases, and your payment amount remains the same, more of your mortgage payment will go towards the interest payment. However, If your payment amount is insufficient to cover the interest, your payment will be increased.

In view of the above, your amortization period (number of years to repay the mortgage) may vary and be longer if rates have increased or be shorter if rates have decreased since the start of the term. At certain times, you may be required to revise payment arrangements.

You can switch at any time and at no cost to a fixed rate mortgage, at the then applicable rate, provided the new term is the same or longer than the remaining term of your current closed variable rate term. Please contact one of our branches for more details

What are Long-term and Short-term Mortgages?

The mortgage term is the amount of time your mortgage contract is in effect. At the end of each term, you need to renew your mortgage for another term. This is an opportunity to consider whether you would like to make any changes to your mortgage.

Long-term Mortgage

- A long term mortgage is generally for **three years or more.**
- A long term mortgage is often the best choice when current rates are reasonable and you want the security of budgeting for the future.

Short-term Mortgage

- A short term mortgage is usually for two years or less.
- A short term mortgage is a good option if you believe interest rates will drop by your maturity date. Usually, the shorter the term, the lower the interest rate.

At SBIC, mortgage terms ranges from one (1) year to five (5) years. The agreed upon fixed interest rate is in effect for the entire term. At the end of the term, you can renegotiate the rate and other details of the contract for the next term.

You can pay Your Mortgage faster and save on Interest

A mortgage is a large financial commitment. Most mortgages are paid over 25 years but here are some tips to help you pay your mortgage faster. There are several ways to pay down your mortgage and get out of debt faster. Here are some tips:

> Note: All the examples in this section are for illustrative purpose only and are based on a 5 year closed; fixed-rate mortgage of $ 200,000 with a 25-year amortization and an annual interest rate of 4.25% over the entire life of mortgage compounded semi-annually, monthly payments of $ 1079.32.

1. If you have chosen a **closed mortgage**, you can, without paying a penalty,

    a. Make a lump-sum prepayment of up to 10% of the original principal amount of your mortgage ("Prepayment Privilege") once in every 12-month period. A lump-sum payment is applied directly to your outstanding principal if there is no outstanding interest owing.

    For example by paying a lump-sum amount of $5000 in the first year, total interest saving during amortization period will be $ 8957.84 and this will also allow your mortgage to be paid off in 24 years instead of 25 years.

    b. Increase the amount of your regular mortgage payments by as much as 10%, and the increased payment amount goes directly toward reducing your principal. You can continue these increased payments for the remainder of the term, unless you wish to increase them again after another 12 months.

    For example by increasing the monthly payment of $ 1079.32 by 10% ($ 108) you can pay off the mortgage in 21.4 years instead of 25 years resulting in a total savings of $ 20,597.

2. If you have chosen an **open mortgage**, you can pay any amount toward your mortgage at any time, without having to pay a prepayment charge for doing so.

3. You can make payments more frequently which saves you money on interest charges over the long run as it allows you to pay down your principal faster. By switching from monthly mortgage payments to an accelerated weekly or bi-weekly schedule, you can become mortgage-free sooner and save thousands. For example by switching to an accelerated bi-weekly payment from a monthly payment you can save as much as $ 18,139.94 on interest during amortization period and mortgage will be paid off in 21.8 years instead of 25 years.

Payment Frequency	Monthly (1 payment per month)	Bi-Weekly (1 Payment per 2 weeks)	Accelerated Bi-Weekly (1/2 of monthly payment – total 26 payments in a year)
Payment	$ 1079.32	$ 497.68	$ 539.66
Total interest you pay during amortization period	$123,796.10	$123,489.37	$ 105,656.16
Interest Saved (compared to monthly payment)	N/a	$ 306.73	$ 18,139.94

4. All Mortgages become open at renewal. This means you can pay as much as you want on your mortgage before you renew for the remaining amount of mortgage.

Ways to avoid prepayment charges

- Porting (transferring or moving your mortgage) your mortgage over to a new home can help save you money when your existing mortgage rate is lower than current mortgage rates.
- Porting lets you transfer the interest rate of your current mortgage to your new home, subject to a credit review and property appraisal when you make the new home purchase.
- Depending on current rates and your final blended rate with the hike in mortgage amount your modified monthly payment could be more economical than they would be with a new mortgage.

When does a prepayment charge apply?

- Renewing your mortgage before the maturity date
- Prepaying more than the amount of your annual prepayment privilege (more than 10% of the original principal amount of the mortgage).
- Refinancing your mortgage and selecting a new term
- Transferring your mortgage to another lender
- Paying off your mortgage before the maturity date

In all of the above scenarios, the mortgage balance is being prepaid before the maturity date, which may result in a prepayment charge.

Why is there a prepayment charge for a closed-term mortgage?

The purpose of a prepayment charge is to compensate the lender for the economic costs it incurs when a prepayment amount exceeds the prepayment privileges permitted under the mortgage. These costs include prepayment transaction costs, plus the full term amount of interest that was designed, in part, to acquire the mortgage which the lender will not recover when a mortgage is prepaid.

How is prepayment charge calculated for a fixed rate closed mortgage?

The prepayment charge for a **closed, fixed-rate mortgage** is the greater of

(i) three months' interest on the amount prepaid at the interest rate;
or
(ii) interest for the remainder of the term on the amount prepaid, calculated using the "interest rate differential" (IRD)

The IRD is the difference between the interest rate and our posted rate on the prepayment date for a mortgage with a term similar to the time remaining in the term and having the same prepayment options. It is important to note that because the IRD calculation is the difference between your existing mortgage rate and today's rate, if today's rate changes, your IRD will also change. Payment timing, payment amount and interest rate changes can have a big impact on your IRD amount calculation.

For a full prepayment, the prepayment charge is calculated on the full amount of the prepayment. For a partial prepayment, the prepayment charge is calculated on the amount of the prepayment that is more than your annual "prepayment privilege" amount.

How prepayment charge is calculated for variable rate closed mortgages?

If you have a variable rate closed mortgage, your prepayment charge will be three months interest on the amount you are prepaying. Interest will be calculated at the existing Interest Rate on your mortgage.

Examples of prepayment charge calculations

Example of estimating the prepayment charge for a **closed, variable-rate mortgage**

You have a variable rate mortgage and you wanted to pay off the entire principal amount of $ 100,000. In this scenario the prepayment charge would be equal to three months interest on the entire amount you are prepaying, calculated at the existing Interest Rate on your mortgage.

If the mortgage payout statement were prepared today, and if the current interest rate on your Mortgage is 3.000%, here is how you estimate the prepayment charge to pay off the entire mortgage of $ 100,000

Step 1:

The total amount of the prepayment

$100,000.00

Step 2:

The current interest rate on the mortgage of 3.000% becomes 0.0300

0.0300

Step 3:

You multiply the total amount of the prepayment by the interest rate. This is equal to an estimate of one year's interest.

$3,000.00

Step 4:

You divide the annual interest cost by twelve to get an estimate of one month's interest.

$3,000/12 = $250.00

Step 5:

You multiply one month's interest by three to get an estimate of three months' interest. This is an estimate of the prepayment charge.

$250.00 X 3 = $750.00

When you pay off your mortgage, you will need to pay an estimated additional amount of $750.00 to pay for the prepayment charge. This is only an estimate.

Example of estimating the prepayment charge for a closed, fixed-rate mortgage

You have a 5-year fixed-rate closed mortgage and your existing annual interest rate on the mortgage is 6.000%.

The principal amount you still owe is $100,000 and you have two years (or 24 months) left in the term of this mortgage. However, you have inherited some money and want to pay off the mortgage.

In this case, the prepayment charge will be the higher of the following two amounts:

(i) three-months interest at your interest rate of 6.000%; or
(ii) the interest rate differential amount

The following shows an estimated prepayment charge for prepaying the full amount of your mortgage:

(i) Estimate of 3-Months Interest

Step 1:

The amount you want to pay off is $100,000.00.

$100,000.00

Step 2:

Your current interest rate is 6.000%. Written as a decimal, this becomes 0.0600.

0.0600

Step 3:

The amount you wish to prepay multiplied by interest rate ($100,000.00 x 0.060) equals the estimated annual interest costs.

$6,000.00

Step 4:

The estimated annual interest costs divided by 12 equals an estimate of one month's interest.

$ 6,000/12 = $ 500

Step 5:

1 month's interest costs multiplied by 3 equals an estimate of 3 months' interest.

$ 500.00 x 3 = $1,500

So, an estimate of 3 months' interest would be $1,500.00

(ii) Estimate of the Interest Rate Differential (IRD) Amount

Step 1:

Your current interest rate is 6.000%. Written as a decimal, this becomes 0.0600.

Step 2:

In your case, we determine that the comparison mortgage is the SBIC 2-year fixed-rate closed mortgage. On the date we prepare the mortgage payout statement, the posted rate for this product is 3.5000%.

0.0350

Step 3:

The difference between your existing interest of 6.000% and posted rate for the similar mortgage of 3.5000%

6.00% - 3.50% = 2.50% Written as decimal, this becomes 0.02500

Step 4:

The amount you wish to prepay multiplied by interest rate differential ($100,000.00 x 0.0250) equals the estimated annual interest costs

$100,000 X 0.025 = $ 2,500

Step 5:

1 year's interest costs multiplied by 2 equals an estimate of 2 years' interest. (as the remaining term on the mortgage is 2 years)

$ 2,500 x 2 = $ 5,000

The Estimated Prepayment Charge

Your prepayment charge is the higher of the estimated three months' interest costs of $1,500.00 and the estimated interest rate differential amount of $5,000.00

So, if your mortgage payout statement was prepared today, an estimate of your prepayment charge would be $5,000.00

The timing of your prepayment, changes in the interest rate and changes in your payment amount can have an impact on the IRD calculation. You can use the SBIC Mortgage Prepayment Charge Calculator to see how these changes affect your prepayment costs, available on our Website:

http://www.sbicanada.com/Calculator.aspx

You can also call on our Toll free number **1 866 724 2669** for information regarding your mortgage prepayment charges.

What additional charges may apply when prepaying a mortgage?

There are sometimes additional charges that may apply when prepaying a mortgage in full before the maturity date:

Mortgage Discharge Fee/Assignment Fee

A discharge fee and/or assignment fee for document preparation and registration when the mortgage is prepaid in full.
If you ask us to transfer your mortgage to another lender, an assignment fee will apply.

Where can I get additional information?

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

FCAC Home Page: http://www.fcac-acfc.gc.ca/eng/index-eng.asp

FCAC Mortgage Details: http://www.fcac-acfc.gc.ca/eng/consumers/mortgages/index-eng.asp