General Disclosure

Mortgage Default Insurance

Mortgage default insurance is an insurance policy that compensates a mortgage lender for losses due to the default of a mortgage. A mortgage default means the borrower has not done everything the borrower is required to do under the mortgage agreement. The most common type of default is not making payments.

Financial institutions may lend up to 80% of the lower of the purchase price of a residential property or its appraised value (often called the loan to value ratio) without requiring the mortgage to be insured by a mortgage default insurer. This type of mortgage is generally referred to as a conventional mortgage. If the principal amount of a mortgage would result in a loan to value ratio greater than 80%, the mortgage must be insured by a mortgage default insurer. A lender may also ask for mortgage default insurance on conventional mortgages that have unique risks such as a property in a remote location with limited or poor marketability or in a community supported by a single industry, regardless of the loan to value ratio.

Mortgage default insurance allows homebuyers to buy a home with a down payment less than 20%, provided they meet the lender's lending qualifications and the underwriting standards of the mortgage insurer. Mortgage default insurance protects the lender only. It does not protect a borrower or the borrower's interest in the property. Mortgage default insurance is not a type of insurance that pays the mortgage payment if the borrower can't pay it or dies.

The insurance premium is paid by the lender; the lender is then reimbursed by the borrower. If the borrower does not have enough money to pay the insurance premium, the amount of the premium is added to the amount borrowed from the lender. Once the mortgage is funded, the lender sends the insurance premium to the mortgage insurer and the remaining mortgage funds are given to the borrower or his/her lawyer/notary. If the insurance premium is added to the mortgage amount, the borrower will pay interest on the total amount borrowed, including the mortgage insurance premium. If the borrower requests to add additional funds to the mortgage in the future, an additional insurance premium applies if the loan to value exceeds 80% of the appraised value of the property at the time the additional funds are advanced.

Mortgage Default Insurance Premium

Mortgage default insurance cost is calculated by multiplying the amount of the funds borrowed by the default insurance premium. The premium rate will vary depending on the mortgage amount, the amortization period and the size of the down payment. The size of the down payment affects the premium because a higher loan-to-value (LTV) ratio results in a higher rate. The LTV ratio is determined by dividing the amount borrowed by the value of the property. The higher the LTV ratio, the higher the insurance premium will be. Other factors may also influence the premium calculation. The mortgage

default insurance provider determines the factors that are used in the calculation and the amount of the premium.
Examples of current default insurance premiums can be found at the following websites:

- www.cmhc-schl.gc.ca
- www.genworth.ca
- www.canadaguaranty.ca

Mortgage default insurance premiums are non-refundable

If you default and the insurer pays us, you will still remain liable under the mortgage, but your obligations will be to the insurer and not to us.

Our relationship with the insurers is at arm's length. We do not have any arrangements to receive payments or benefits from them because of the mortgage default insurance, other than claims.

Each mortgage insurer has its own criteria for evaluating the borrower and the property, and it decides whether or a mortgage can be insured, that decision is not made by Home Trust. While Home Trust may approve a mortgage application and issue a Commitment Letter, the application for mortgage insurance may be declined by the mortgage insurer. If this happens, Home Trust will not be able to originate the loan unless another mortgage insurer is prepared to insure the mortgage.

Example: Insurance premium calculation

The purchase of a property with a selling price of $200,000 and a down payment of $10,000 will result in a loan to value ratio of 95%. With an amortization of 25 years and assuming the default insurance premium rate is 4.00%, the insurance premium is calculated as follows:

Insurance premium* = $190,000 x 4.00% = $7,600

* The example assumes a default insurance premium rate of 4.00%. Example is strictly for illustrative purposes only and the actual client default insurance premium rate may differ.