## Penalties

## Why do you Pay a Penalty?

This is a great question. If you chose a closed mortgage (majority of mortgages are this type) you are locked into a contract term. This is similar to canceling your cell phone contract early. The cell phone provider will charge you a penalty to cancel your contract due to lost revenues, and so will your lender. If you are trying to break the contract early for any reason, they are losing revenue. Therefore the lenders try to recoup some of their losses before releasing the contract.

## You are selling your house and not porting it or having it assumed.

## You want to Refinance

## Why you would pay a Penalty

## When do you Pay a Penalty

There are two main scenarios that would cause a lender to charge you a penalty. Both of them are based around you buying out your current mortgage term early. Scenario number one would be you selling your house and not porting it or having it assumed by the new buyer. This means you dont move your current mortgage to your new property. Scenario number two would be applying for refinancing before your term was up. Since both of these scenarios attempt to break your contract, you would be charged a penalty based on your monthly payments and your interest rate, explained on the next page.

Big Banks charge penalties in bizarre and expensive ways. Our job is to educate and save you as much money as possible.

## Variable Rate Penalty (most cases):

3 Month Interest Penalty: (Mortgage Balance * Current Rate / 12 * 3)


## Closed Fixed Rate Penalty:

## 3 Month Interest Penalty

(Mortgage Balance * Current Rate / 12 * 3)
Or Interest Rate Differential (IRD).
This varies from lender to lender.

## Types of Penalties

The penalty varies on if you are in a fixed or variable rate mortgage. . If you are locked into a fixed rate you may be charged an Interest Rate Differential (IRD) or 3 month interest penalty. Now here is the tricky part, because this all depends on if the rate you locked into is higher or lower than the current rates. If your locked in rate is lower than the current rates you will be charged with an IRD, and if your rate is higher you will be charged with a 3 month panalty.

IRD's are extremely complex. Don't worry about figuring our your IRD, talk to your Mortgage Expert.

## 3 Month Interest Penalty

## The most common penalty you will encounter

If your rate is higher than current rates, then you will be charged with a three month interest penalty and is usually cheaper than an Interest Rate Differential penalty. If you have a variable rate this is how to calculate your penalty. If you are in a closed fixed rate you could be charged with a 3 month interest penatlty or an IRD.


## Interest Rate Differential (IRD)

## IRD's are very hard to explain for a very good reason.

## Banks don't want you to understand...

If you are charged an Interest Rate Differential penalty, the math can be a bit tricky. Remember that each lender has a different way of coming to their penalty and it varies depending on:

## The amount you are pre-paying

Your current interest rates

Outstanding balance on your mortgage

## IRD's Continued

Here is how the calculations work to estimate your mortgage penalty


## Things to note with an IRD penalty

As we said before, Interest Rate Differentials vary from lender to lender, and can be quite expensive. Here are five notes to remember if you are applying for refinancing.

## Each lender has its own formula for calculating penalties

Some lenders do not use the discount you received in their calculation. This decreases the IRD and can lower your penalty considerably.

When determining the comparison rate, some lenders round up your remaining months. Some round down. Again this varies from lender to lender

The Interest Act prohibits IRD penalties on terms over 5 years.

A small number of lenders prohibit breaking mortgage early - Regardless of the penalty - unless in the case of an approved sale.

Mortgage No.

Preparation Date : FEB. 25, 2014
Time : 18:22:24 EST
Proposed Settlement Date : FEB. 25, 2014
Name:

Servicing Branch: 05660
Conventional

Interest Rate:
$2.99000 \%$

Maturity Date: APR. 01, 2016
Property
Address: BC CAN
Repayment: (PPL + INT) BLENDED + SEPARATE TAX + MMP
BI-WEEKLY
$\$ 1,367.00$

You have requested a Discharge.
This statement is only valid for 30 days from the Proposed Settlement Date. Please confirm the Total Payable prior to remitting funds.
The Total Payable is subject to the following:

1. Balances are projected and are based on the assumption that all outstanding amounts/payments due up to the Proposed Settlement Date are paid. This amount has been calculated to be $S 0.00$. You must continue making any required regularly scheduled payments up until the Proposed Settlement Date. If any such payments have not been made and honoured, or if any subsequent changes are processed, the figures given in this statement may not be relied upon and a new Statement must be obtained. We will not action the mortgage as requested until the entire outstanding balance, including interest and costs, has been paid and cleared.
2. Total Property Taxes paid by TD Canada Trust as of the Preparation Date are $\$ 0.00$. Property Taxes will continue to be collected by us but will not be paid to the municipality. You are responsible to make such payments.
3. We will not process the requested action until all amounts due have been received and cleared. Where other TD Canada Trust personal or business credit facilities are secured by the same collateral security, the collateral security will not be discharged until full payout of all facilities has been received.

The amount required to discharge this mortgage as of the Proposed Settlement Date, assuming all amounts in paragraph 1 have been paid, is as follows:

| Principal owing | FEB. 21, 2014 |  |
| :--- | ---: | ---: |
| Accrued Interest to FEB. 25, 2014 | $\$$ | $557,119.16$ |
| Prepayment Charge IRD (for more details see below) | $\$$ | 181.23 |
| Casliback Repayment Amount | S | $17,317.61$ |
| Property Tax Account Balance (Surplus) | S | 0.00 |
| Reinvestment Fee | $\$$ | $1,823.29)$ |
| Discharge Fee | $\$$ | 0.00 |
| Government Charge for Discharge (if applicable) | $\$$ | 75.00 |
| TOTAL PAYABLE to The Toronto-Dominion Bank | $\$$ | 0.00 |

PER DIEM RATE:
$\$ 45.37$
If Total Payable is not received by the Proposed Settlement Date, then a per dien rate set out above will be charged.
Important: All rcgular payments set up on pre-authorized payment will be cancelled after the Proposed Settlement
Date. You must notify us immediately if you decide to not proceed with this discharge.

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What is the IRD amount?
The IRD (Interest Rate Differential) amount means an amount, calculated at an interest rate equal to the IRD, on the amount you prepay, for the remaining term of your mortgage. The IRD is the difference between:
a. the Interest Rato on the mortgage and
b. the posted interest rate for a Similar Mortgage, less tho rate discount received by you under this mortgage. A Similar Mortgage is a mortgage offered by us which has a fixed interest rate and a closed term that is closest to the remaining term of your Mortgage as determined by us.

How we calculated your IRD amount:
You have 25 months remaining on your mortgage which is equivalent to a term of 2 years for the purposes of calculating IRD (see chart at www.tdcanadatrust.com/mortgagerates). The posted rate for this term as of the Preparation Date of Statement is $3.040 \%$. We take this interest rate Iess the discount you received on your mortgage interest rate of $1.65000 \%$ to calculate the comparieous rate of $1.39000 \%$ used in the IRD amount calculation.

Factors that affect the IRD amonnt:
Changes to the following will impact the IRD calculation, and the final IRD amount may be different at any moment in time:

- the timing of your prepayment, which impacts:
- the remaining term for the Similar Mortgage
- the remaining number of months in the IRD calculation
- our posted rates
- the prepayment amount
- the regular payment amount and/or frequency

The IRD amount shown above will not change if:

1. all amounts in paragraph 1 have been paid, and
2. the full balance shown is paid by the Proposed Settlement Date, or the full balance shown plus any per diem is paid within 30 days of the Proposed Settlement Date.
