Scotiabank®

What you need to know about Mortgage Default Insurance

What is mortgage default insurance and why does the bank require it?

By law, Canadian banks can only provide mortgage financing to qualified homeowners with at least a 20% down payment, unless the mortgage is insured against default. Mortgage default insurance helps buyers purchase a home and begin building equity sooner. Default insurance may also be required by Scotiabank when a borrower has more than a 20% down payment, if the property is in a remote location or if the borrower is qualifying under a special program considered a higher risk.

Mortgage default insurance protects lenders in the event a borrower defaults on their mortgage. It does not protect the borrower or a guarantor. If a borrower defaults, the insurer may oversee all legal proceedings and payment enforcement. In addition, the insurer compensates the lender should there be a shortfall after the property has been sold and expenses paid. The defaulting borrower remains responsible for any shortfall on the mortgage and the lender or mortgage insurer may pursue the borrower for any deficiency following sale of the property.

Scotiabank's approved mortgage default insurance providers are:

- Canada Mortgage Housing Corporation
- Sagen and
- Canada Guaranty

What is the minimum down payment?

The minimum down payment for a default insured mortgage is 5% for a purchase price up to $500,000 and 10% for the portion of the purchase price between $500,000 and $999,999. Currently mortgage default insurance is not available if the purchase price is $1,000,000 or higher.

Mortgage Default Insurance Premium

Who Pays the Premium?

The mortgage default insurance premium is paid by the borrower(s) to the lender. The premium is added by Scotiabank to the principal amount of the loan and repaid over the same amortization period (in which case the interest rate on the mortgage will apply to the premium) unless you pay it as a lump sum up front. Sales tax, if applicable, is paid separately by the borrower (it is not added to your principal amount). On the closing date, Scotiabank pays the insurer by deducting both the sales tax and premium from the principal amount advanced. For any mortgage default insurance costs that are not added to the principal amount of the loan, the borrower must make up any resulting shortfall between the principal amount advanced and the purchase price.

How is the Premium Calculated?

The default insurance provider calculates the standard premium as a percentage of the principal amount of the loan. The percentage is determined based on the Loan to Value ratio of your mortgage. The Loan to Value ratio is your principal amount (excluding premium) divided by the lower of the purchase price or appraised value (the lending value). A larger down payment will result in a lower Loan to Value ratio. The premium amount can also be impacted by other factors such as the amortization period and the size of your down payment.

If you port the terms (interest rate, remaining term, remaining amortization and balance) of your mortgage to a new home or switch your mortgage to another lender, you may be eligible for the insurer's portability program provided that the lender uses the same default insurance provider. You may save money by reducing or eliminating the premium on the new mortgage.

If you port or switch your mortgage with no change to the Loan to Value ratio, loan amount or amortization period, an additional premium may not be required.

The following table is an example of the current premium percentages for a typical purchase transaction of a residential property:

Loan to Value Ratio	Premium on Total Loan Amount
Up to and including 65%	0.60%
65.01% to 75%	1.70%
75.01% to 80%	2.40%
80.01% to 85%	2.80%
85.01% to 90%	3.10%
90.01% to 95%	4.00%

Example of a premium calculation for a new home purchase:

Mortgage Loan Amount	$400,000
Loan to Value Ratio	90%
Premium on Total Loan Amount (%)	3.10%
Premium Payable (assuming no sales tax)	3.10% x $400,000 = $12,400

Notes:

1. Assumes a 25-year amortization period.
2. Higher premiums may apply for mortgages under specialty programs offered by Scotiabank.
3. The premium information is provided for illustrative purposes only and exact premium and any applicable sales tax will be calculated when you are approved for a mortgage.
4. The mortgage default insurance premiums are not refundable if your mortgage is repaid early.
5. If you purchase an energy-efficient home or make energy-saving renovations, you could be eligible for refund of a percentage of your mortgage insurance premium. Please visit the mortgage default insurers' websites for details.

Please visit the insurer websites for details of the various mortgage default insurer programs.
www.cmhc.ca, www.sagen.ca, or **www.canadaguaranty.ca.**

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