Understanding Mortgage Default Insurance

What is mortgage default insurance?

Mortgage default insurance (or mortgage insurance) is an insurance policy that protects lenders (banks) if a borrower defaults on their mortgage. A mortgage is generally considered to be in default if a payment is not made on the scheduled due date, but there are other situations when a mortgage may be in default. If a property is sold as the result of a mortgage default but the sale does not generate enough money to pay the outstanding balance and all associated costs, fees and interest, the insurer will pay the shortfall to Equitable Bank, who will then have the right to enforce against each borrower personally for the deficiency.

When is mortgage default insurance required?

Under federal legislation, if the mortgage amount is more than 80% of the property value (e.g. the down-payment is less than 20% of the purchase price of the home), the mortgage is considered a "high-ratio" mortgage and must be covered by mortgage default insurance. If the mortgage amount is less than 80% of the purchase price of the home (e.g. the down payment is 20% of the purchase price or more), the borrower will qualify for a "low-ratio" (or conventional) mortgage which does not require mortgage default insurance. In some cases, a lender may require mortgage default insurance for low-ratio mortgages. Mortgage default insurance is not available for homes with a purchase price of a million dollars or more and/or an amortization of greater than 25 years.

Mortgage default insurance is a type of insurance that enables qualified borrowers to purchase homes with a down payment of less than 20%, provided they meet the Bank's lending qualifications and the mortgage insurer's underwriting standards.

Mortgage insurance only protects us; it does not protect you or your interest in the property.

Equitable Bank works with the following mortgage insurance companies:

- Canada Mortgage and Housing Corporation (CMHC)
- Sagen
- Canada Guaranty Mortgage Insurance Company (Canada Guaranty)

Who pays for the mortgage default insurance premiums?

Mortgage Insurance companies (mortgage insurers) charge an insurance premium for mortgage default insurance. We pay the insurance premium to the mortgage insurer for the mortgage default insurance and we pass the cost on to you. You can pay the premium up front in a lump sum or it can be added to the mortgage amount. If the insurance premium is added to the mortgage amount, you will pay interest on the total amount borrowed. You will also be charged applicable government sales taxes, which must be paid separately.

How are mortgage default insurance premiums calculated?

The mortgage insurance premium is calculated as a percentage of the amount borrowed. The insurance premium amount is dependent on a number of factors, including the size of your down payment, the loan to value ratio, the mortgage amortization period and your employment status.

The mortgage insurer determines the factors that are used in the calculation and the amount of the insurance premium. For additional information about mortgage default insurance premiums and rates, please visit these websites:

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

Some factors that may be considered by the mortgage default insurer when calculating the mortgage default insurance premium:

Stated Property Value	Lesser of purchase price or property value, as provided by you
Loan-to-value (LTV) Ratio	This is your principal amount (less the mortgage default insurance premium) divided by stated property value. The higher the mortgage loan amount is in relation to the stated property value, the higher the premium rate.
Amortization Period	Time required to pay off the mortgage, assuming the same interest rate throughout the entire duration of the mortgage.
Non-traditional down payment	The premium rate may be higher if the borrower uses non-traditional down payment sources, such as borrowed funds or gifts
Employment Status	The premium rate may be higher if the borrower is self-employed.
Type of Mortgage	For example, a second mortgage, mortgage for vacation home, refinance for an insured loan.

Here is an example of how the mortgage default insurance premium is calculated:

Stated Property Value	$200,000
Down payment	15% = $30,000
Mortgage loan	$200,000 - $30,000 = $170,000
Amortization	25 years
Loan-to-value ratio	$170,000 ÷ $200,000 = 85%
Premium rate	1.85 %
Mortgage Default Insurance Premium	$170,000 x 1.85% = $3,145.00

Equitable Bank charges borrowers the actual cost of the mortgage default insurance and any applicable taxes. The actual cost is equal to the amount incurred by the bank for the mortgage insurance premium. You will find the name of the insurer and premium of your mortgage in both your Commitment Letter and in your Credit Agreement and Statement of Disclosure.

Equitable Bank and Mortgage Default Insurers Payment/Benefits/Arrangements

Our relationship with the mortgage insurers is at arm's length. We do not receive any benefits or payments from any mortgage insurer and we do not have any arrangements that require disclosure to borrowers.

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

If you have any questions about mortgage default insurance, please contact us at 1-866-407-0004.