eqb evolution suite™

Early Mortgage Discharge Advantage

According to OBSI's (Ombudsman for Banking Services and Investments) 2018 Annual Report, mortgage prepayment penalties continue to be a leading consumer complaint. The EQB Evolution Suite mortgage discharge methodology is advantageous to borrowers pursuing a fixed rate mortgage, and could ultimately lead to cost savings for those who choose to pre-pay their mortgage before term completion[1].

Below is a comparison of how EQB Evolution Suite and the Big Banks[2] calculate mortgage discharge (prepayment) penalties. The Big Banks incorporate posted rates into their calculations (4.64% for the 5 year term, and 3.74% for the 2 year term). These rates differ considerably from a borrower's contract rate (2.59%), resulting in a larger Interest Rate Differential (IRD[3]). The EQB Evolution Suite does not follow the same approach—our posted rates are closer to actual contract rates, thus resulting in a smaller IRD and lesser discharge penalty.

Illustrative Example

		Big Bank	EQB Evolution Suite
Original Mortgage on 5 Year (May 24, 2016)	Contract Rate	2.59%	2.59%
	Original Term	5 Years	5 Years
	Posted 5 Year Rate	4.64%†	2.59%
	Implied Discount to Posted	2.05%	0%
New Terms on 2 Year (May 24, 2019)	Balance Remaining (Discharge Amount)	$250,000	$250,000
	Years Remaining in Mortgage Term	2 Years	2 Years
	Reference Rate (2 Year Posted)	3.74%‡	3.94%
IRD Calculation	Contract Rate	2.59%	2.59%
	Plus: Discount to Posted	2.05%	0%
	Less: Reference Rate *(2 Year Posted)*	(3.74%)	(3.94%)
	Interest Rate Differential (IRD)	0.9%	N/A*
Penalty is Greater of 3 Months Interest or IRD	**IRD Penalty[4]**	**$4,500**	**0**
	3 Month Interest Penalty	**$1,619**	**$1,619**

The discharge penalty is substantially lower through the EQB Evolution Suite methodology due to a smaller IRD.
*Since the contract rate (2.59%) is less than the 2 year reference rate (3.94%), the interest rate differential is 0.

What are the primary differences?

	Big Bank	EQB Evolution Suite
Discharge Penalty calculated on total payment amount	✓	✓
Reference rate for Discharge Penalty (IRD) based on	Posted Rate	EQB Evolution Suite Rate
Reference term for Discharge Penalty (IRD) rounded	Up or Down	Down

[1] Most commonly, Prime mortgage borrowers elect for a fixed rate mortgage.
[2] Big Banks refers to the Big 5 Banks of Canada.
[3] The Interest rate differential (IRD) is a calculation used by lenders to determine the penalty resulting from mortgage prepayment/discharge.
[4] IRD Penalty ($) = Discharge Amount x Years Remaining in Mortgage Term x IRD
† Posted 5 year rate extracted from ratehub.ca.
‡ Median Reference rate (posted) during May 2019.
Subject to change without notice.