SBI Canada Bank – Mortgage Default Insurance Disclosure

Our duty to you

Financial institutions like SBI Canada Bank that charge borrowers for mortgage default insurance must explain the coverage to mortgage borrowers, including who is protected by the mortgage insurance, and who pays for it.

Financial institutions that charge borrowers for mortgage default insurance must also explain how the insurance premium amount is calculated and charged.

We must also provide any other information in respect of the mortgage default insurance that could reasonably be expected to have an impact on a borrower.

What is mortgage default insurance?

Mortgage default insurance is a type of insurance that enables qualified home buyers to buy a home with a down payment of less than 20%, down to as little as 5%.[*] Financial institutions may lend up to 80% of the purchase price of residential property without requiring the mortgage to be insured by a mortgage default insurance company. Lending more than 80%, however, would mean a mortgage insurer must insure the mortgage.

Practically, while mortgage default insurance protects a financial institution such as SBI Canada Bank from losing money if the home buyer/borrower defaults, this type of insurance also benefits Canadians by qualifying them for mortgages and to buy homes sooner and with lower down payments.

SBI Canada Bank has arrangements with one mortgage insurer, Canada Mortgage and Housing Corporation (CMHC). We do not receive any benefits or payments from CMHC, and we do not have any other arrangements that require disclosure to borrowers other than as set out herein.

Who is protected?

Mortgage default insurance protects the financial institution only. It does not protect a borrower or the borrower's interest in the property. Mortgage insurance is not a type of insurance that pays the mortgage payment if the borrower cannot pay it (e.g., due to disability) or if the borrower dies.

Mortgage default insurance helps protect financial institutions should a homebuyer/borrower default on a 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 the financial institution and the financial institution will then have the right to enforce against the borrower personally for the deficiency.

Why is it needed?

The Government of Canada requires mortgage default insurance when a borrower buys a home with a down payment of less than 20% of the purchase price. In other words, financial institutions like SBI Canada Bank cannot lend to customers more than 80% of the value of their residential property unless the mortgage is insured against default.

Who pays?

The borrower (i.e., the homebuyer), pays the mortgage default insurance premium to the financial institution, such as SBI Canada Bank. The financial institution then pays the premium to the insurer.

When do you pay?

When a borrower is approved for a mortgage that requires mortgage default insurance, the borrower has a choice of either paying the default insurance premium amount up-front or adding it to the principal portion of the mortgage loan. The borrower will pay applicable taxes separately, as tax is not added to the principal amount. If the premium is added to the principal amount of the mortgage loan, it is repaid over the same amortization period as the mortgage loan. Any applicable sales tax is paid separately (i.e., not added to the principal amount).

How do you know what the premium is?

Mortgage borrowers can see the amount of their mortgage default insurance premium by looking at their Commitment Letter. From time to time, the company providing the insurance may amend the calculations for the premiums. In that case, because of timing, any posted information may not reflect the most current percentages. However, your Commitment Letter will always reflect the correct premium amount to be paid. Depending on your province of residence, you may be charged a provincial sales tax on the mortgage premium amount, which you are required to pay.

For more information about the mortgage default insurance premiums and rates, please visit the following websites:

CMHC: https://www.cmhc-schl.gc.ca/en/buying/mortgage-loan-insurance-for-consumers

How much will it cost?

At SBI Canada Bank, we are required to provide specific information about mortgage applications to the mortgage insurer. This information is used by the mortgage insurer to calculate the premium amount that is charged to the borrower.

Mortgage insurance costs are calculated by a number of factors, including by multiplying the amount of funds borrowed by the default insurance premium. The exact amount of premium depends on the mortgage loan amount, the amortization period and the size of the down payment. The higher the loan-to-value ratio, the higher the premium will be. Further information on mortgage insurance costs and premiums charged by CMHC are available on CMHC's website [include link to https://www.cmhc-schl.gc.ca/en/finance-and-investing/mortgage-loan-insurance/mortgage-loan-insurance-homeownership-programs/mortgage-loan-insurance-quick-reference-guide].

* An additional down payment of 10% of the home value in excess of $500,000 is required for homes with a purchase price greater than $500,000 and you will need a down payment greater than 20% with a home valued over $1,000,000.

I. Sample Calculators

Sometimes banks include sample calculators for insurance cost(s). One example of such is set forth below.

Sample Insurance Premium Calculation

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%. This example is strictly for illustrative purposes only and the actual default insurance premium rate may differ.