Talk with us
1-855-284-1766

Learn more
bmo.com/mortgages

BMO

Your mortgage prepayment options.

BMO offers you ways to pay off your mortgage sooner and avoid prepayment charges.

BMO

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What type of **mortgage** is best for me?

Your home is likely your largest purchase and comes with a long-term financial commitment. At BMO, there are ways to become mortgage-free sooner, and save thousands of dollars in interest.

Our flexible prepayment options let you put extra funds towards your mortgage so you can pay down your mortgage faster.

Find the solution that's best for you.

You need to be comfortable with the mortgage you choose. Whether you're looking for security or flexibility, BMO has the right mortgage for you.

What is the difference between fixed rate mortgages and variable rate mortgages?

With a **fixed rate mortgage** or a **Homeowner ReadiLine® fixed rate instalment**, you get the security of knowing that the interest rate on your mortgage won't rise during the term, even if interest rates increase. Because the principal and interest are predictable, you'll know exactly how much you will owe at the end of the term.

With a **variable rate mortgage**, or a **Homeowner ReadiLine® variable rate instalment**, the interest rate changes with BMO's prime rate while your monthly payments remain the same throughout the term. If interest rates fall, more of your payment will be applied to the principal. If interest rates increase, more of your payment will go toward interest.

Interest rate fluctuations may also affect the length of your amortization period (number of years to repay the mortgage) and if a rate increase results in a higher amortization period, your payments may have to increase.

What is the difference between open mortgages and closed mortgages?

An **open mortgage** lets you repay all or part of your mortgage at any time without a prepayment charge. Interest rates are typically higher than those of a closed mortgage.

A **closed mortgage** limits your prepayment options, but usually offers a lower interest rate than an open mortgage. If you wish to make prepayments over and above what your prepayment options allow, a prepayment charge may apply.

What is the difference between long-term mortgages and short-term mortgages?

Long-term mortgages are generally three years and longer. **Short-term mortgages** are generally less than three years.

How can I pay off my mortgage faster without a prepayment charge?

Whether or not a prepayment charge will apply depends on the type of mortgage you choose.

For open mortgages and the revolving portion of the Homeowner ReadiLine:
You can prepay all or part of what is owed on your mortgage at any time without paying a prepayment charge.

For closed mortgages and the instalment portion of the Homeowner ReadiLine:
BMO has flexible prepayment options that let you put extra cash towards your mortgage principal without incurring prepayment charges. This can save you thousands of dollars in interest over the life of your mortgage.

Increase your mortgage payments:
You can increase the amount of your mortgage payment once each calendar year by up to:

- 10% of the current mortgage payment amount for a smart fixed closed mortgage
- 20% of the current mortgage payment amount for any other kind of closed mortgage

Make a lump sum payment:
You can make lump-sum prepayments (minimum of $100) each year without a prepayment charge. The maximum of all prepayments per calendar year is up to:

- 10% of the original mortgage amount for a smart fixed closed mortgage
- 20% of the original mortgage amount for any other kind of closed mortgage

Increasing your payment frequency:
By switching from monthly mortgage payments to an accelerated weekly or accelerated bi-weekly payment, you can save thousands of dollars in interest and become mortgage-free even sooner.

Example:
$250,000 mortgage @ 6% APR on a 5-year fixed term with different payment frequencies for a 25-year amortization*

Payment Frequency	Monthly (1 payment per month)	Bi-weekly (1 payment every 2 weeks)	Accelerated Bi-weekly (½ of the monthly payment)
Payment	$1,599.52	$734.73	$799.76
Total interest you pay	$229,907.59	$229,213.31	$185,839.34
Interest saved	N/A	$694.03	$44,068

*The Annual Percentage Rate (APR) is for a mortgage of $250,000 and a 25-year amortization. APR assumes no fee(s) will apply. If an appraisal is required, the appraisal fee would increase the APR. The interest for a fixed rate mortgage is calculated half yearly, not in advance. The rate shown is an example only and is not necessarily applicable to an actual mortgage. Assume same interest rate for entire amortization period. These results are based on the above example as well as a number of assumptions. While care is taken in the preparation of the illustration, no warranty can be made as to its accuracy or applicability for any particular case.

When does a prepayment charge apply?

A prepayment charge will apply on a closed mortgage:

- when you prepay more than your prepayment options allow
- when you prepay your entire mortgage prior to the end of your mortgage term (including if you prepay your mortgage to transfer to another financial institution)
- when you refinance or renew your mortgage prior to the end of your mortgage term

Note: If you have a smart fixed closed mortgage, in the first five years of the term, you will not be able to prepay more than your prepayment options allow or prepay your entire mortgage unless you are selling your property to an unrelated purchaser at fair market value or replacing your smart fixed closed mortgage with another BMO mortgage. If you are selling your home and repaying your smart fixed closed mortgage or replacing this mortgage with another BMO mortgage within the first five years of the term, a prepayment charge will apply. If the term of your smart fixed closed mortgage is greater than five years, you may prepay more than your prepayment options allow at any time after the 5th year of the term however, a prepayment charge will apply.

Why does a prepayment charge apply?

When you choose a closed mortgage, you agree to a contract to pay us a specified interest rate for a specified term on the money we lend. The interest rates for closed mortgages are typically lower than interest rates for open mortgages because closed mortgages allow us to receive a predictable amount of interest for a predictable time period. This predictability helps us manage our business, including making decisions about entering into contracts with other customers. When you break your contract early, we incur economic costs and prepayment charges are applied to recover some of these costs.

How do we calculate prepayment charges?

Variable rate closed mortgage (including Homeowner ReadiLine variable rate closed instalments)
The prepayment charge will be equal to three months' interest calculated at the interest rate applicable to the mortgage on the day of prepayment (See Example 1).

Fixed rate closed mortgage (including Homeowner ReadiLine fixed rate closed instalments). The prepayment charge will be the higher of three months' interest calculated at the applicable fixed interest rate or an amount calculated using interest rate differential (IRD) (See Examples 1, 2 & 3). If the term is greater than five years, the prepayment charge will be equal to three months' interest after the 5th year of the term.

If you prepay any closed mortgage within the last three months before the end of the mortgage term, the prepayment charge will be equal to the interest on the amount you are prepaying from the date of prepayment to the end of the mortgage term calculated at the interest rate applicable on the date of prepayment.

Smart fixed closed mortgage
The prepayment charge calculation for a smart fixed closed mortgage is the same as for any fixed rate closed mortgage. The difference is that to prepay a smart fixed closed mortgage anytime within the first five years of the term, you must also be selling your property or refinancing into another BMO mortgage.
If the term is greater than five years, you can prepay a smart fixed closed mortgage at any time after the 5th year of the term without selling your property or refinancing into another BMO mortgage if you pay a prepayment charge equal to three months' interest.

Does the amount of the prepayment charge change?

If you ask us to calculate your prepayment charge based on a particular prepayment date and you don't prepay on that date, the amount of the prepayment charge will likely change if you want to prepay on a different date. This is because the variables involved in the calculation of your prepayment charge may have changed. For a variable rate closed mortgage, these variables include our prime interest rate on the date of prepayment and the amount to be prepaid. For a fixed rate closed mortgage, these variables include your remaining term, the fixed interest rate we charge for a mortgage similar to your mortgage for the remaining term of your mortgage and the amount to be prepaid. It is important that you contact us to obtain a new calculation of your prepayment charge if your prepayment date has changed.

What is the interest rate differential (IRD)?

If you have a fixed rate closed mortgage, the *interest rate differential* is the difference between: (i) your existing mortgage interest rate and (ii) the fixed interest rate we currently charge for a mortgage similar to your mortgage for the remaining term of your mortgage reduced by any rate discount you may have received (also known as the *comparison rate*).

A prepayment charge based on the *interest rate differential* is more likely to apply if fixed interest rates have decreased since you entered into the current term of your fixed rate closed mortgage. The greater the positive difference between your fixed interest rate and the *comparison rate*, the higher the prepayment charge based on the *interest rate differential*.

A prepayment charge based on the *interest rate differential* can be significant, especially if you receive a rate discount from our posted interest rate. This type of prepayment charge can also vary considerably depending on the length of the remaining term of your mortgage when you prepay since your remaining term is a factor in determining the *comparison rate* and the *interest rate differential*. For example, if you have a fixed rate closed mortgage with a 5 year term (i.e. 60 months) and want to prepay when you have 44 months left in your term, we will compare your fixed interest rate to our fixed interest rate for a 4 year (48 months) term to determine the *comparison rate* since 4 years is the mortgage term that is the closest to your remaining term. If you instead decide to prepay when you have 40 months left in your term, we will compare your fixed interest rate to our fixed interest rate for a 3 year (36 month) term to determine the *comparison rate* since 3 years is the mortgage term that is closest to your remaining term.

When selecting a closed mortgage, you should consider if flexibility to prepay the mortgage before the end of its term (above the prepayment options allowed under the closed mortgage) is imp ortant to you and make sure you understand how the prepayment charge for that closed mortgage will be calculated.

! Try our **Mortgage Prepayment Calculator** at **bmo.com/prepayments** to calculate your estimated prepayment charge or use the example below to manually calculate your estimated prepayment charge.

Example:

Julie and David are planning on prepaying their **fixed closed mortgage** in full on December15 Their mortgage was initially advanced on May15 in the same year and has a remaining balance of $99,008 (as of December15). They originally had a 5 year term (60 months) which means they have 53 months remaining.

A	Current interest rate: 6.30%
B	Current posted rate for a 4 year fixed term: 6.50%
C	Discount given on their existing mortgage: 2.00%
D	The amount to prepay: $99,008
E	Term remaining in months: 53 months

A: The current interest rate on your mortgage

B: The posted interest rate on a term that is closest in length to the term you have remaining i.e. if you have 53 months left in your term, you would use the posted rate on a 4 year fixed term. To help you determine the rate, visit **bmo.com/prepaymentstable**

C: The rate discount you may have received on your mortgage (To determine your rate discount, please contact your branch or our mortgage experts at 1-855-284-1766).

D: The amount you want to prepay.

E: The number of months from the date of your prepayment until the end of your mortgage term.

For a fixed closed term, the prepayment charge will be the higher of three months' interest calculated at your current fixed interest rate or an amount calculated using interest rate differential.

Please note that if any of the above variables change, the amount of the prepayment charge will also change.

Three months' interest = (your current interest rate) x (the amount you want to prepay) divided by four.

Example 1: To estimate 3 months' interest	
Step 1	Convert the current interest rate from a percent to a decimal. **For example, 6.30% = 0.0630**
Step 2	Multiply this decimal by the amount you want to prepay. **(0.0630 x 99,008) = 6,237.5**
Step 3	Divide by four **(6,237.5 ÷ 4) = 1,559.37**
Three months' interest = (A x D) ÷ 4 = **(0.0630 x 99,008) ÷ 4 = $1,559.37**	

Interest rate differential (IRD) = [(your current interest rate – (current posted rate – rate discount)]

Example 2: To calculate IRD	
Step 1	Convert all interest rates from a percent to a decimal. **For example 6.30% = 0.0630, 6.50% = 0.0650 and 2.00% = 0.0200**
Step 2	Subtract rate discount from current posted rate **(0.0650 – 0.0200) = 0.0450**
Step 3	Subtract the result of Step 2 from the current interest rate. **(0.0630 – 0.0450) = 0.0180**
IRD = [A – (B – C)] **IRD = [0.0630 – (0.0650 -0.0200)] = .0180**	

! If the **IRD calculation** is equal to zero or a negative number, the prepayment charge will equal three months' interest. If the answer is a positive number, the prepayment charge will be either three months' interest or based on IRD, whichever is higher.

Estimated Prepayment charge using IRD

= (your IRD x the amount you want to prepay x your term remaining/12)

Example 3: To estimate prepayment charge based on IRD	
Step 1	Multiply your IRD number x the amount you want to prepay. **(.0180 x 99,008) = 1,782.14**
Step 2	Multiply the result from Step 1 by the term remaining then divide by 12. **(1,782.14 x 53 ÷ 12) = 7,871.12**
Estimated Prepayment Charge Based on IRD = **IRD x D x E ÷ 12 = 0.0180 x 99,008 x 53 ÷ 12 = $7,871.12**	

The prepayment charge will be either three months' interest or IRD, whichever is higher. Based on the example above, the IRD prepayment charge would apply.

Any prepayment charges calculated using these formulas or our online prepayment calculator are estimates only.

The actual IRD prepayment charge using the same variables would be lower than the estimate because we use a formula that credits our customers for the fact that we receive the prepayment charge immediately instead of receiving payments over the term of the mortgage. Please call **1-855-284-1766** or visit your branch to find out your actual prepayment charge.

How can I reduce or avoid prepayment charges?

Take advantage of BMO's mortgage options to help you avoid unnecessary prepayment charges.

Portable mortgage option

If you want to refinance your mortgage or purchase another home and would like to avoid paying a prepayment charge, you can transfer the existing terms of your fixed rate mortgage or your Homeowner ReadiLine fixed rate closed instalment to a new mortgage of the same type. If you require an increase in your mortgage amount, your existing interest rate will be blended with the current interest rate applicable to the additional mortgage amount (subject to qualification).

Mortgage assumption

When you are selling your home, your purchaser may have the option to assume your BMO mortgage terms with BMO's approval. BMO will release you from any personal liability on the mortgage if your purchaser meets our usual credit requirements and if your lawyer has completed the necessary paperwork.

! This option is not available for Homeowner ReadiLine.

Use your prepayment options before paying your mortgage off in full

If you intend to pay off your mortgage prior to the end of the mortgage term, take advantage of your allowable mortgage prepayment options to reduce your prepayment charges prior to requesting a payoff statement.

Consider an open term mortgage

If you intend to sell the property or refinance within a short period of time, choose a mortgage with an open term instead of a closed term if this makes financial sense given applicable interest rates. This will help you avoid prepayment charges.

Pay down your mortgage at renewal time

You can make any lump sum payment amount at renewal without a prepayment charge.

Additional charges that may apply

When you repay your entire mortgage, you may be required to pay a discharge or assignment fee which may consist of the government fee payable to register a discharge of your mortgage and our administration costs related to processing your mortgage discharge or assignment. The amount of the fees vary by province and may change at any time.

Cashback reimbursement

If you received cashback in connection with your mortgage or the renewal of your mortgage and you sell your property or pay off your mortgage within five years after the beginning of the term or renewal term of your mortgage, you will be required to repay a pro-rated amount of the cashback. The cashback reimbursement will be calculated based on the following formula:

Cashback reimbursement = (months remaining in term) ÷ 60 months x (amount of cashback received)

For example: If you received $5,000 as cashback and you repay your mortgage with 15 months remaining before the end of your term, then your cashback reimbursement would be as follows:

15 months ÷ 60 x $5,000 = $1,250