

Code of Conduct for Federally Regulated Financial Institutions

Mortgage Prepayment Information

Purpose

The purpose of the Code is to ensure that federally regulated financial institutions (“**lenders**”) provide enhanced information in respect of credit agreements secured by mortgages where a prepayment charge could apply (“**mortgages**”) to assist borrowers in making decisions about prepayment of their mortgage.

Lenders currently provide substantial amounts of information relevant to mortgage prepayments to consumers in accordance with the requirements in the applicable federal regulations, including but not limited to federal cost of borrowing disclosure regulations and credit business practices regulations. The information that will be provided under this Code is in addition to existing information provided by lenders to borrowers.

Application and Implementation

Lenders will implement the policy elements of the Code with respect to new mortgages no later than six (6) months from date of adoption of the Code for Element 3 and Element 4; and no later than twelve (12) months from adoption of the Code for Element 1, Element 2 and Element 5. Lenders will apply the Code to existing mortgages where it is feasible to do so. The Code does not apply to mortgages that are entered into for business purposes or to mortgages entered into by borrowers who are not natural persons.

Compliance with the Code

The Financial Consumer Agency of Canada will monitor and report on compliance with the Code.

Manner of Presenting Information

Lenders will provide the information in language, and present it in a manner, that is clear, simple and not misleading.

Policy Elements

1. Information Provided Annually

Lenders will provide the following mortgage prepayment information to borrowers annually:

- Prepayment privileges that the borrower can use to pay off their mortgage faster without having to pay a prepayment charge. Examples include making lump-sum prepayments, increasing the regular payment amount, and increasing the frequency of the payment to weekly or bi-weekly.
- The dollar amount of the prepayment that the borrower can make on a yearly basis under the terms of their mortgage without having to pay a prepayment charge.
- Explanation of how the lender calculates the prepayment charge for the borrower’s mortgage (for example, a certain number of months’ interest or the Interest Rate Differential (IRD)).
- Description of the factors that could cause prepayment charges to change over time.
- Customized information about the mortgage, valid as of the date the information is produced, for the purposes of the borrower estimating the prepayment charge. The customized information will include, depending on the type of mortgage product held by the borrower:
 - The amount of the loan that the borrower has not yet repaid

- The interest rate of the mortgage and other factors (for example, rate discount or posted interest rate) that the lender uses to calculate the prepayment charge
- The remaining term or maturity date of the borrower's mortgage

For mortgages where the prepayment charge may be based on the IRD:

- How the lender determines the comparison rate to use to calculate the IRD
- Where the borrower can find the comparison rate (for example, on the lender's website)
- Where the borrower can find the lender's financial calculators that the borrower can use, along with the information above, to estimate the prepayment charge.
- Any other amounts the borrower must pay to the lender if the borrower prepays their mortgage and how the amounts are calculated.
- How the borrower can speak with a staff member of their lender who is knowledgeable about mortgage prepayments. For example, borrowers may contact a staff member through a toll-free number as described in section 5.

2. Information Provided When the Borrower Is Paying a Prepayment Charge

If a prepayment charge applies and the borrower confirms to the lender that the borrower is prepaying the full or a specified partial amount owing on their mortgage, the lender will provide the following information in a written statement to the borrower:

- The applicable prepayment charge.
- Description of how the lender calculated the prepayment charge (for example, whether the lender used a certain number of months' interest or the IRD).
- If the lender used the IRD to calculate the prepayment charge, the lender will inform the borrower of :
 - the outstanding amount on the mortgage
 - the annual interest rate on the mortgage
 - the comparison rate that was used for the calculation
 - the term remaining on the mortgage that was used for the calculation
- The period of time, if any, for which the prepayment charge is valid.
- Description of the factors that could cause the prepayment charge to change over time.
- Any other amounts the borrower must pay to the lender when they prepay their mortgage and how the amounts are calculated.

3. Enhancing Borrower Awareness

To assist borrowers in better understanding the consequences of prepaying a mortgage, lenders will make available to consumers information on the following topics:

- Differences between:
 - Fixed-rate mortgages and variable-rate mortgages
 - Open mortgages and closed mortgages
 - Long-term mortgages and short-term mortgages
- Ways in which a borrower can pay off a mortgage faster without having to pay a prepayment charge. Examples include making lump-sum prepayments, increasing the regular payment amount, and increasing the frequency of the payment to weekly or bi-weekly.
- Ways to avoid prepayment charges (for example, by porting a mortgage).
- How prepayment charges are calculated, with examples of the prepayment charges that would apply in specific circumstances.

- Actions by a borrower that may result in the borrower having to pay a prepayment charge, such as the following actions:
 - partially prepaying amounts higher than allowed by the borrower's mortgage
 - refinancing their mortgage
 - transferring their mortgage to another lender

Lenders may make this information available on their publicly accessible Canadian website where products or services are offered and upon request by consumers at the lender's places of business in Canada, including when consumers are pre-approved for a mortgage. In addition, each lender will provide on its publicly accessible Canadian website links to information on mortgages provided on the website of the Financial Consumer Agency of Canada.

4. Financial Calculators

Each lender will post calculators on its publicly accessible website for borrowers, and provide guidance to borrowers on how to use the calculators to obtain the mortgage prepayment information they want. Borrowers will be able to enter information about their mortgage into the calculator to get an estimate of the current prepayment charge. Borrowers will also be able to change the information they enter, such as the amount of the mortgage that has not yet been repaid or the remaining term, so that they can see how the payment choices they make affect the prepayment charge.

5. Borrower Access to Actual Prepayment Charge

Each lender will make available a toll-free telephone line through which borrowers can access staff members who are knowledgeable about mortgage prepayments. These staff members will be able to orally provide a borrower with the actual prepayment charge that would apply to the borrower's mortgage at that point in time. These staff members will also be able to provide to a borrower, on request, a written statement of their prepayment charge, accurate as at the time the statement is produced. A lender will not proceed to take steps to pay out a mortgage until the borrower has confirmed that the borrower's intention is to pay out the mortgage.