# INFORMATION ABOUT THE PREPAYMENT INDEMNITY WHEN REIMBURSING A MORTGAGE/HYPOTHECARY LOAN IN ADVANCE

LAURENTIAN BANK

In this document, “you” and “your” mean the borrower and “we”, “us” and “our” mean Laurentian Bank of Canada (hereinafter referred to as the “Bank”).

Also, the word “loan” means the mortgage/hypothecary loan or the loan facilities.

In addition, the words “grant”, “granted” and “granting” refer to the initial granting, the refinancing, the modification or the renewal of the loan, whichever is most recent.

Lastly, the word “indemnity” means the fee charged for prepayment, refinancing or renewal before maturity.

<table>
<tr><td>1.</td><td>DIFFERENCE BETWEEN FIXED RATE AND VARIABLE RATE</td><td><u>Fixed rate</u><br>This rate, determined when the loan is granted, will be fixed for the entire term chosen. The payments remain unchanged throughout the term. The offered terms range from 6 months to 10 years.<br><br><u>Variable rate with fixed or variable payments</u><br>This rate varies according to the prime rate in effect plus or minus a certain percentage (P + x% or P – x %), referred to as the “interest rate spread or adjustment factor”, depending on the currently available mortgage/hypothec offers and products.<br>The term “prime rate” means the annual interest rate announced by the Bank from time to time as the reference rate in effect to determine the interest rates applicable to commercial loans, in Canadian dollars.<br><br>For fixed payments: The rate may be adjusted every month, on the anniversary date of the disbursement or most recent renewal. The payments are fixed for the duration of the term.<br><br>For variable payments: The rate and payments may be adjusted every month, on the anniversary date of the disbursement or most recent renewal.</td></tr>
<tr><td>2.</td><td>DIFFERENCE BETWEEN OPEN TERM AND CLOSED TERM</td><td>“Open term” means that the loan may be repaid, renewed or refinanced at any time without indemnity.<br><br>“Closed term” means that you cannot renew, refinance or pay an amount greater than the amount specified under “Prepayment privilege without incurring an indemnity” (section 4).</td></tr>
<tr><td>3.</td><td>DIFFERENCE BETWEEN A SHORT-TERM AND A LONG-TERM MORTGAGE/ HYPOTHEC</td><td>The amortization period of a loan is the number of years that you have to repay your loan in full. By choosing a shorter amortization period, you can save on interest and repay your loan more quickly. However, by choosing a longer amortization period, your mortgage/hypothecary payments will be better suited to your budget and thus you can better manage all your expenses.</td></tr>
<tr><td>4.</td><td>PREPAYMENT PRIVILEGES WITHOUT INCURRING AN INDEMNITY</td><td><u>Fixed-rate or variable-rate open-term loans with fixed payments</u><br>Provided you are not in default, you may, once during the term of your loan, increase the payment by up to 15%.<br>You may also pay all or part of the principal amount of your loan at any time during the term of the loan.<br><br><u>Fixed-rate or variable-rate closed-term loans with fixed payments</u><br>Provided you are not in default, you may, once per calendar year and non-cumulatively:<br>• Increase the payment by up to 15%;<br>• Make a principal payment of not more than 15% of the initial principal amount of the loan.<br><br><u>Fixed rate or variable rate loans with fixed payments</u><br>Furthermore, by switching from regular payments to accelerated weekly or biweekly payments, you will repay the principal amount of your loan faster and you will then reduce the amortization period as well as the amount of interest you will pay over the loan’s term. Please note that certain fees may apply in order to make this change.<br><br><u>Variable-rate closed-term loans with variable payments</u><br>Provided you are not in default, you may, once per calendar year, make a single payment of not more than 15% of the initial principal amount of the loan.</td></tr>
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| **5.** | **ACTIONS THAT RESULT IN AN INDEMNITY** | You will be required to pay an indemnity when you pay, prior to maturity, an amount greater than the amount specified under "Prepayment privilege without incurring an indemnity" (section 4).<br><br>You will also be required to pay an indemnity if you renew or refinance prior to maturity. |
| **6.** | **HOW TO AVOID THE INDEMNITY** | When refinancing before maturity and subject to certain conditions, the indemnity can be avoided<br>1. if you add a new loan facility;<br>2. if choose a blended rate; or<br>3. if you take advantage of the portability program. |
| **7.** | **INDEMNITY CALCULATION METHOD** | **<u>Fixed-rate, closed-term loan</u>**<br>The indemnity will be equal to the greater of the following amounts:<br><br>Three (3) months' interest method<br>• Three (3) months* of interest, calculated on the amount repaid, refinanced or renewed before maturity, using the Bank's posted annual interest rate for the chosen term when the loan was granted. *Please note that if the remaining term of your loan is less than three (3) months, the calculation of your indemnity will be based on the remaining term;<br><br>OR<br><br>Difference in rates method<br>• The sum of the following two amounts:<br>- One (1) month interest, calculated on the amount repaid, refinanced or renewed before maturity, at the client rate, up to $500.00; plus (+)<br>- The amount repaid, refinanced or renewed before maturity multiplied (×) by the *difference in rates* multiplied (×) by the *residual term* of the loan.<br>• The *difference in rates* corresponds to the difference between the Bank's posted annual interest rate in effect for the chosen term when the loan was granted and the *reference rate*.<br>• Determination of the *residual term* varies according to the frequency of your payments:<br>a. if your payment frequency is monthly or at the end of the month: count the number of payments remaining in your term from the day after your next payment; or<br>b. if your payment frequency is bi-weekly: count the number of payments remaining in your term from the day after your next payment and divide by 2.16; or<br>c. if your payment frequency is weekly: count the number of payments remaining in your term from the day after your next payment and divide by 4.33.<br>• The *reference rate* is the annual interest rate charged by the Bank on the date of repayment, refinancing or renewal before maturity for fixed-rate loans whose term is closest to the *residual term* of the loan to which the repayment, refinancing or renewal before maturity applies (see the Reference Table on next page). |

**7.** **INDEMNITY CALCULATION METHOD (cont.)**

Reference Table to Determine the Rate Applicable to the Residual Term

| Residual term | Reference rate | Residual term | Reference rate |
|---|---|---|---|
| **Less** than 12 months | 6-month rate | 66 months to **less** than 72 months | Average of 5-year and 6-year rates |
| 12 months to **less** than 18 months | 1-year rate | 72 months to **less** than 78 months | 6-year rate |
| 18 months to **less** than 24 months | Average of 1-year and 2-year rates | 78 months to **less** than 84 months | Average of 6-year and 7-year rates |
| 24 months to **less** than 30 months | 2-year rate | 84 months to **less** than 90 months | 7-year rate |
| 30 months to **less** than 36 months | Average of 2-year and 3-year rates | 90 months to **less** than 96 months | Average of 7-year and 8-year rates |
| 36 months to **less** than 42 months | 3-year rate | 96 months to **less** than 102 months | 8-year rate |
| 42 months to **less** than 48 months | Average of 3-year and 4-year rates | 102 months to **less** than 108 months | Average of 8-year and 9-year rates |
| 48 months to **less** than 54 months | 4-year rate | 108 months to **less** than 114 months | 9-year rate |
| 54 months to **less** than 60 months | Average of 4-year and 5-year rates | 114 months to **less** than 120 months | Average of 9-year and 10-year rates |
| 60 months to **less** than 66 months | 5-year rate | --- | --- |

However, when the term of the loan is greater than five (5) years, you may, if five (5) years have passed since the beginning of the term and provided you are not in default, repay, refinance or renew before maturity all or part of the principal amount then outstanding upon payment of an indemnity equal to three (3) months of interest calculated on the amount repaid, refinanced or renewed before maturity using the Bank's posted annual interest rate in effect for the chosen term when the loan was granted. This prepayment privilege is granted for the term of the loan but does not apply to the renewal, refinancing or subsequent extensions of the loan.

**Variable-rate, closed-term loan:**

The Indemnity will be three (3) months* interest on the amount repaid, refinanced or renewed before maturity, calculated using the rate appearing on the latest Rate Adjustment Confirmation or the prime rate in effect on the date of repayment, refinancing or renewal before maturity, whichever is greater. *Please note that if the remaining term of your loan is less than three (3) months, the calculation of your Indemnity will be based on the remaining term.

To consult the posted annual interest rates charged by the Bank, please visit the Bank's website at: [www.laurentianbank.ca](http://www.laurentianbank.ca)

**8.** **EXAMPLE OF INDEMNITY CALCULATION – Fixed rate, closed term**

This example is based on a mortgage/hypothecary loan with an initial 60 months (5-year) te at the posted rate of 7% when the loan was granted and a client rate of 6.5%, with a mont payment frequency, a balance of $90,000 and 31 months remaining before the maturity da For the purpose of this example, the Bank currently offers a rate of 4.5% on two-year, fixe rate, closed-term loans and 5% on three-year terms.

Method No. 1: Three months' interest

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| A | $90,000 | Amount of the repayment, refinancing or renewal before maturity |
| B | 0.07 | Posted rate, as a decimal fraction (posted fixed rate: 7% = 0.07) |
| C | $1,575 | C = A × B ÷ 4 (C = 90,000 × 0.07 ÷ 4) |

Method No. 2: Difference in rates

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|---|---|---|
| A | $90,000 | Amount of the repayment, refinancing or renewal before maturity |

Step (i)

| | | |
|---|---|---|
| B | 0.065 | Client rate, as a decimal fraction (client rate: 6.5% = 0.065) |
| C | $487.50 | C = A × B ÷ 12 (C = 90 000 × 0,065 ÷ 12) |
| D | $487.50 | If C is less than $500.00, enter the amount shown on Line C. Otherwis enter $500.00. |

Step (ii)

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| E | 31 | Residual term of the loan (e.g. 31 months on an initial 60-month term) |
| F | 0.07 | Posted rate, as a decimal fraction (posted rate: 7% = 0.07) |
| G | 0.0475 | Reference rate, written as a decimal fraction, i.e. the annual interest ra charged by the Bank on the date of repayment, refinancing or renew before maturity for fixed-rate loans whose term is closest to the residu term of the loan to which the repayment, refinancing or renewal befo maturity applies (see the Reference Table in section 7) e.g. 31 mont remaining, calculate the average rate,i.e. (2-year rate + 3-year rate) ÷ (4.5% + 5% = 9.5%, then 9.5% ÷ 2 = 4.75% or 0.0475) |
| H | 0.0225 | H = F – G (if the result is negative, enter 0) (H = 0.07 – 0.0475, i. 0.0225 or 2.25%) |
| I | $5,231.25 | I = A × E × H ÷12 (I = 90,000 × 31 × 0.0225 ÷ 12) |
| J | $5,718.75 | J = D + I (J = 487.50 + + 5,231.25) |

Indemnity:

$5,718.75 Enter C of Method No. 1 or J of Method No. 2, whichever is greater

In this example, the indemnity would be approximately $5,718.75, i.e. the greater of the amounts obtained using Method No. 1 and Method No. 2.

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| **9.** | **EXAMPLE OF INDEMNITY CALCULATION – Variable rate, closed term** | This example is based on a variable mortgage/hypothecary loan with an initial 60 months (5-year) term at an interest rate of 4.5% (rate appearing on the latest Rate Adjustment Confirmation) and a balance of $90,000. For the purpose of this example, the Bank's prime rate is currently 4%.<br><br>Method: Three months' interest<br><br>A $90,000 Amount of the repayment, refinancing or renewal before maturity<br><br>B 0.045 The greater of the rate appearing on the latest Rate Adjustment Confirmation and the prime rate in effect on the date of prepayment (i.e. 4.5% = 0.045)<br><br>C $1,012,50 C = A × B ÷ 4 (C = $90,000 × 0.045 ÷ 4)<br><br>In this example, the indemnity would be approximately $1,012.50. |
| **10.** | **ADDITIONAL INDEMNITIES FOLLOWING THE GRANTING OF A MORTGAGE/ HYPOTHECARY PROMOTION** | If you have taken advantage of one or more mortgage/hypothecary promotions in the form of a cashback on your current loan or carried over from an earlier loan or line of credit, you must, when reimbursing, refinancing or renewing your loan in advance, reimburse the Bank the total amount of the cashback or a portion of said cashback in proportion to the term remaining on your loan, as indicated in the Promotion Agreement(s) you signed when your loan was granted. Please consult your Promotion Agreement(s) in order to determine the additional indemnity that shall apply. |