Peoples Bank of Canada (PBC):
Mortgage Default Insurance Disclosure Notice

What is mortgage default Insurance?

Mortgage default insurance is an insurance policy that compensates a mortgage lender for losses due to borrowers who default on their mortgage. A mortgage is generally considered to be in default if a borrower stops making mortgage payments or breaches any other term of their mortgage. Peoples Bank of Canada (Peoples Bank) may take legal action to sell the property to recover what the borrower owes under the mortgage, plus unpaid interest and legal fees. If the sale does not generate enough money to pay the outstanding balance, the mortgage default insurer will pay the shortfall to Peoples Bank. The mortgage default insurer may then take legal action to collect the shortfall from the borrower.

When is mortgage default insurance required?

In Canada, mortgage default insurance is mandatory for mortgages that exceed 80% of the property value (e.g. the down-payment is less than 20% of the purchase price of the home). These are known as high-ratio mortgages and must be covered by mortgage default insurance. Default insurance may also be required when a borrower has less than 80% of the purchase price of the home (e.g. the down payment is 20% of the purchase price or more), if the mortgage has unique risk factors (i.e. property is in a remote location or when a borrower does not meet minimum credit requirements). Mortgage default insurance is not available for homes with a purchase price of a million dollars or more and/or an amortization period over 25 years.

Mortgage default insurance helps homebuyers purchase a home with a smaller down payment of less than 20% and allows the borrower to receive a high-ratio mortgage with favourable terms and a competitive interest rate.

Mortgage default insurance only protects Peoples Bank. It does not protect a borrower or guarantor. Mortgage Default Insurance is not a type of optional creditor life insurance. It will not cover a mortgage payment or outstanding balance if the borrower is unable to pay due to illness or death.

Peoples Bank's mortgage default insurance providers are:

- Canada Mortgage and Housing Corporation (CMHC)
- Genworth Financial Canada (Genworth)
- Canada Guaranty Mortgage Insurance Company (Canada Guaranty)

Who pays for the mortgage default insurance premium?

Peoples Bank pays an insurance premium to the mortgage default insurance provider. This cost is then passed on to the borrower. The borrower can pay the premium in a single lump sum or it can be added to the mortgage amount. If the insurance premium is added to the mortgage amount, the borrower will pay interest on the total amount borrowed. Provincial sales taxes may be charged on premiums.

How are the mortgage default insurance premiums calculated?

The mortgage insurance premium is calculated as a percentage of the amount borrowed. The premium rate will vary depending on the mortgage amount, the amortization period and the size of the down payment. The size of the down payment affects the premium because a higher loan-to-value (LTV) ratio results in a higher rate. The LTV ratio is determined by dividing the amount borrowed by the value of the property. The higher the LTV ratio, the higher the insurance premium will be. Other factors such as whether the property is owner-occupied or rented, and the borrower's employment status, may also influence the premium calculation. The mortgage default insurance provider determines the factors that are used in the calculation and the amount of the premium.

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

- CMHC
- Genworth
- Canada Guaranty

Peoples Bank has not entered into any arrangements with its mortgage default insurance providers to receive payments or benefits from them relating to mortgage default insurance, other than the insurance payment that will be paid if any claims arise.