Information on Mortgage Default Insurance

Canadian Imperial Bank of Commerce

What is mortgage default insurance?

Mortgage default insurance protects the lender and not the borrower from losses that may result if the borrower defaults on their mortgage. For example, if the borrower defaults on their mortgage and the proceeds from the sale of the property are not enough to pay the lender the amount owing on the mortgage, the mortgage default insurer will pay the lender all or part of the difference. The borrower would still lose title to the property, and the lender or the mortgage insurer may still take legal action against the borrower for any amount that is not repaid from the sale of the property.

When is mortgage default insurance required?

If the mortgage amount is more than 80% of the property value, the mortgage is considered a "high-ratio mortgage," and Canadian federal law requires that the mortgage must be covered by mortgage default insurance. In other words, if the amount of money a borrower pays for the down payment is less than 20% of the purchase price of the home, mortgage default insurance is required. If the down payment is 20% of the purchase price or more, the borrower will qualify for a low-ratio (conventional) mortgage which does not require mortgage default insurance. In some cases, a lender may require mortgage default insurance for low-ratio mortgages.

If mortgage default insurance is required, the lender will arrange for the coverage and the borrower will be required to pay for it.

Mortgage default insurance is currently offered by the federal government through the Canada Mortgage and Housing Corporation (CMHC) and various private insurers such as Genworth Financial Canada (Genworth) and Canada Guaranty Mortgage Insurance Company (Canada Guaranty).

How are mortgage default insurance premiums calculated?

The insurer calculates the mortgage default insurance premium based on the mortgage amount, the loan to value ratio and a number of other factors (see below). Usually mortgage default insurance premium rates for new mortgages range between 0.6% and 4.50% of the mortgage amount.

If a mortgage is being ported or refinanced and was previously insured, the insurer generally calculates the mortgage default insurance premium based on the increase in the principal amount of the mortgage and the loan to value ratio for the total mortgage amount. In some cases, the mortgage default insurance premium is less if it is calculated on the full principal amount of the new mortgage than if it is calculated only on the amount of the increase. Premium rates usually range between 0.6% and 6.60% of the increase in the mortgage amount or between 0.6% and 4.50% of the total mortgage amount, whichever is less.

If a mortgage being ported or refinanced was previously uninsured, it may be necessary for the new mortgage to be insured. In this case, mortgage default insurance premiums are based on the total mortgage amount.

Some of the factors considered by the mortgage default insurer in determining the mortgage default insurance premium rate include:

Loan to value ratio	The higher the mortgage amount is in relation to the value of the property, the higher the premium rate.
Self-employed	The premium rate may be higher if the borrower is self-employed.
Non-traditional down payment	The premium rate may be higher if the borrower uses non-traditional down payment sources, such as borrowed funds, gifts or 100% "sweat equity".

Example of how the mortgage default insurer calculates the mortgage default insurance premium:

Tina is considering buying a $200,000 home with a $35,000 down payment. Tina's down payment is 17.5% of the purchase price of the home.

$35,000 ÷ $200,000 x 100 = 17.5%

Because Tina's down payment is less than 20% of the purchase price, mortgage default insurance is required for her mortgage of $165,000.

In Tina's case:

- the mortgage default insurance premium will be added to the mortgage amount, rather than paid before closing
- the mortgage default insurance premium rate is 2.80 %
- the mortgage will be amortized over 25 years
- the mortgage interest rate is 5% compounded semi-annually

Therefore the mortgage default insurance premium is $165,000 x 2.80%= $4,620

The total mortgage amount will be $165,000 + $4,620 = $169,620

In the above example, the mortgage default insurance premium is $4,620 and is added to the principal amount of the mortgage. Adding the premium to the mortgage increases the monthly payment from $960 to $987 and over the amortization period of 25 years, the mortgage default insurance will cost Tina an additional $3,441 in interest. Tina can make arrangements to pay the premium before closing if she does not want the premium amount added to the mortgage amount.

Please note that premiums are subject to provincial sales tax where applicable. The provincial sales tax cannot be added to the mortgage amount and the borrower must pay the applicable provincial sales tax.

For additional information on CMHC, Genworth, or Canada Guaranty, please visit:

- www.cmhc.ca
- www.genworth.ca
- www.canadaguaranty.ca

You can also talk to a CIBC Advisor at your nearest branch, or call CIBC Telephone Banking Centre toll free at 1 800 465-2422.