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

In this document, “you” and “your” mean the borrower and “we”, “us” and “our” mean B2B Bank (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 “penalty” means the fee charged for prepayment, refinancing or renewal before maturity.

1	**DIFFERENCE BETWEEN FIXED RATE AND VARIABLE RATE**	**<u>FIXED RATE</u>** This rate, determined when the loan is granted, will be fixed for the entire term chosen. The payments remain unchanged throughout the term. **<u>VARIABLE RATE (Formerly known as Adjustable Rate)</u>** 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”. The term “prime rate” means the annual interest rate announced by the Bank from time to time as being its reference rate then in effect. The interest rate will automatically be adjusted each time there is a change in the B2B Bank Prime Rate. The amount of the principal and interest payment will change after each change in the B2B Bank Prime Rate and will be recalculated after each change in the B2B Bank Prime Rate based on the current B2B Bank Prime Rate and the remaining amortization period on the Mortgage. New payments will become effective on the next payment date or the payment date immediately thereafter following each change in the B2B Bank Prime Rate.
2	**DIFFERENCE BETWEEN OPEN TERM AND CLOSED TERM**	“Open term” means that the loan may be repaid, renewed or refinanced at any time without penalty. “Closed term” means that you cannot renew, refinance or pay an amount greater than the amount specified under “Prepayment Privilege with no Penalty” (section 4).
3	**DIFFERENCE BETWEEN A SHORT-TERM AND A LONG-TERM MORTGAGE/ HYPOTHEC**	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.
4	**PREPAYMENT PRIVILEGES WITHOUT INCURRING A PENALTY**	**<u>FIXED-RATE OPEN-TERM LOANS</u>** Provided you are not in default, you may pay off some or the entire principal amount owing, at any time without any prepayment charges. **<u>FIXED-RATE OR VARIABLE-RATE CLOSED-TERM LOANS</u>** Provided you are not in default, you may: o pay up to twenty percent (20%) of the original principal amount in each twelve month period, and o increase your regular payment amount by up to twenty percent (20%) of the original payment amount in each twelve month period. These options apply to partial prepayments only. The options are available each year and cannot be saved or carried forward to use in a later year. Each year is defined as the 12-month period starting on the Interest Adjustment Date or the anniversary of that date. **<u>FIXED RATE OR VARIABLE RATE LOANS</u>** Furthermore, by switching from regular monthly 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.

5	**ACTIONS THAT RESULT IN A PENALTY**	You will be required to pay a penalty when you pay, prior to maturity, an amount greater than the amount specified under "Prepayment Privilege with no Penalty" (section 4). You will also be required to pay a penalty if you renew or refinance prior to maturity.
6	**HOW TO AVOID THE PENALTY**	You can take advantage of the portability program, which allows you to transfer all the conditions of your existing loan, such as the amount, term and interest rate, to the loan for your new residence, provided that the purchase of your new residence takes place within 90 days of the sale of your current residence. Furthermore, when refinancing before maturity and subject to certain conditions, the penalty can be avoided if you add a new loan facility or choose a blended rate. For additional information on choosing a new loan facility or a blended rate, contact B2B Bank at 1-800-263-8349.
7	**PENALTY CALCULATION METHOD**	**<u>FIXED-RATE, CLOSED-TERM LOAN 1-5 YEARS</u>** For fixed rate closed term mortgages with a term of 1 – 5 years the penalty calculation is the greater of: ***(i) Three (3) months' interest:*** Three (3) months of interest on the principal balance due, calculated using your existing mortgage interest rate. **<u>OR</u>** ***(ii) Interest rate differential:*** The interest rate differential means the difference between your existing mortgage rate and the applicable comparison rate, multiplied by the residual term of your loan, multiplied by the balance due. Your comparison rate is the B2B Bank rate for a term that is closest to the remaining term of your mortgage. If there is a partial year of 6 months or greater remaining in the term, round up to the nearest year to find the applicable rate. For example, if the remaining term is 2 years and 7 months, use the 3-year rate. To help determine the comparison rate or the term closest to your residual term that will be used in calculating your interest rate differential, please refer to the Reference Table in Schedule A or contact B2B Bank at 1-800-263-8349. **<u>FIXED-RATE CLOSED-TERM LOAN 10 YEARS (with more than 5 years remaining)</u>** The cost to pay off some, or the entire principal amount of your mortgage <u>before</u> the end of the 5th year is the sum of the following two amounts; ***(iii): Interest Rate Differential (IRD) to the 5th year (for terms of more than 5 years):*** The difference between your existing mortgage rate and the current annual interest rate charged by the Bank for a new mortgage with a 5 year term, multiplied by the residual term of the loan to the end of the 5th year, multiplied by the balance due. **<u>PLUS</u>** ***(iv): Three (3) months' interest method:*** Three (3) months of interest on the principal balance due, calculated using your existing mortgage interest rate. **<u>FIXED-RATE CLOSED-TERM LOAN 10 YEARS (with less than 5 years remaining)</u>** The cost to pay off some, or the entire principal amount of your mortgage <u>after</u> the end of the 5th year is; ***(v): Three (3) months' interest method:*** Three (3) months of interest on the principal balance due, calculated using your mortgage interest rate.

<u>VARIABLE-RATE CLOSED-TERM LOAN:</u>

If you pay more than your prepayment privilege allows, you must pay a prepayment charge in an amount equal to:

(vi) Three (3) months' interest method:

Three (3) months of interest on the principal balance due, calculated using the prime rate in effect on the date of the request.

To consult the posted annual interest rates charged by the Bank, please visit the Bank's website at: **www.b2bbank.com or contact us at 1-800-263-8349.**

8 **EXAMPLE OF PENALTY CALCULATION - Fixed rate, closed - term**

Below are three methods for calculating the cost of paying all or some of the principal amount of your mortgage before the maturity date for a closed mortgage.

- If the term of your mortgage is 5 years or less: You will use (i) and (ii) of section 7 and the larger amount will be closest to the actual amount.
- If the term of your mortgage is more than 5 years and you wish to pay off your mortgage before the end of the 5th year: You will use (iii) plus (iv) of section 7 and the total of the two amounts will be closest to the actual amount.
- If the term of your mortgage is more than 5 years and you wish to pay off your mortgage after the end of the 5th year: You will use (v) of section 7 and this amount will be closest to the actual amount.

The results of these calculations are estimates. For your exact costs, please call us. We use a precise formula that credits you for the amount of principal you would have paid off each month. We will also add the Discharge or Assignment Fee.

EXAMPLE 1 (1-5 Year Terms)
This example is based on a loan with an initial 5-year (60 months) term with a mortgage rate of 6.5%, a monthly payment frequency, a balance of $90,000 and 31 months remaining before the maturity date. The Bank offers a rate of 5% on 3-year fixed-rate, closed-term loans. Amount of prepayment, refinancing or renewal before maturity: $90,000.

The following is an example of the calculation of the penalty for prepayment, refinancing or renewal before maturity.

<u>(i): Three months' Interest Costs:</u>
Follow these steps to calculate three months' interest costs:

$90,000	(A)	The amount you want to pay off.
.065	(B)	Your mortgage interest rate expressed as a decimal; for example, 5% = 0.05.
$5,850	(C)	Equals A x B.
$1,462.50	(D)	Equals C ÷ 4 (estimated three months' interest costs).

<u>(ii): Interest Rate Differential (IRD) for terms of 5 years or less:</u>
Follow these steps to estimate the interest rate differential amount for terms of 5 years or less:

.065	(A)	The annual interest rate on your mortgage.
.05	(B)	The current annual interest rate for a new mortgage with a term that is closest to the remaining term of your mortgage (less any discount being offered on such new mortgages).
.015	(C)	Equals A – B, which is the difference between your existing interest rate and the discounted current rate. Write (C) as a decimal, for example 2% = 0.02.
$90,000	(D)	The amount you want to pay off.
31	(E)	The number of months left until your mortgage maturity date (rounded up).
$3,487.50	(F)	Equals (C x D x E) ÷ 12 (estimated interest rate differential amount).

Penalty:

<u>$3,487.50</u> Enter D of calculation (i) or F of calculation (ii), whichever is greater.

In this example, the penalty would be $3,487.50, i.e. the greater of the amounts obtained using calculation (i) and calculation (ii).

EXAMPLE 2 (10 Year Term with more than 5 years remaining)
This example is based on a loan with an initial 10-year (120 months) term with a mortgage rate of 6.5%, a monthly payment frequency, a balance of $90,000 and 72 months remaining before the maturity date. The Bank offers a rate of 5% on 5-year fixed-rate, closed-term loans. Amount of prepayment, refinancing or renewal before maturity: $90,000.

The following is an example of the calculation of the penalty for prepayment, refinancing or renewal before maturity.

(iii): Interest Rate Differential (IRD) to the 5th year (for terms of more than 5 years:)
Follow these steps to estimate the interest rate differential amount for terms of greater than 5 years when you want to pay off your mortgage before the end of the 5th year.

.065	(A)	The annual interest rate on your mortgage.
.05	(B)	The current annual interest rate for a new mortgage for a 5 year term (less any discount being offered on such new mortgages).
.015	(C)	Equals A – B, which is the difference between your existing interest rate and the discounted 5 year rate. Write (C) as a decimal, for example 2% = 0.02.
$90,000	(D)	The amount you want to pay off.
12	(E)	The number of months left until the 5th anniversary date of your mortgage (rounded up).
$1,350	(F)	Equals (C x D x E) ÷ 12 (estimated interest rate differential amount to the 5th year).

(iv): Three months' Interest Costs:
Follow these steps to calculate three months' interest costs:

$90,000	(A)	The amount you want to pay off.
.065	(B)	Your mortgage interest rate expressed as a decimal; for example, 5% = 0.05.
$5,850	(C)	Equals A x B.
$1,462.50	(D)	Equals C ÷ 4 (estimated three months' interest costs).

Penalty:

$2,812.50 Enter the sum of F of calculation (iii) and D of calculation (iv).

In this example, the penalty would be $2,812.50, i.e. the sum of the amounts obtained using calculation (iii) and calculation (iv).

EXAMPLE 3 (10 Year Term with less than 5 years remaining)
This example is based on a loan with an initial 10-year (120 months) term with a mortgage rate of 6.5%, a monthly payment frequency, a balance of $90,000 and 48 months remaining before the maturity date. Amount of prepayment, refinancing or renewal before maturity: $90,000.

The following is an example of the calculation of the penalty for prepayment, refinancing or renewal before maturity.

(v): Three months' Interest Costs:
Follow these steps to calculate three months' interest costs:

$90,000	(E)	The amount you want to pay off.
.065	(F)	Your mortgage interest rate expressed as a decimal; for example, 5% = 0.05.
$5,850	(G)	Equals A x B.
$1,462.50	(H)	Equals C ÷ 4 (estimated three months' interest costs).

Penalty:

$1,462.50 Enter the value of H of calculation (v).

9	**EXAMPLE OF PENALTY CALCULATION – Variable rate, Closed-term**	Here is how you can estimate three months interest costs. You can obtain the exact cost by contacting us. We will also add the Discharge or Assignment Fee. This example is based on a variable-rate loan with an initial 5-year (60 month) term at an interest rate of 4.5% (client rate) and a balance of $90,000. The Bank's prime rate is currently 4%. Amount of prepayment, refinancing or renewal before maturity: $90,000. The following is an example of the calculation of the penalty for prepayment, refinancing or renewal before maturity. ***(vi): Three months' Interest Costs:*** Follow these steps to calculate three months' interest costs: $90,000 (A) The amount you want to pay off. Amount of the prepayment, refinancing or renewal before maturity. .04 (B) Bank Prime Rate in effect as of the discharge statement date expressed as a decimal; for example, 5% = 0.05. $3,600 (C) Equals A x B. $900 (D) Equals C ÷ 4 (estimated three months' interest costs). Penalty: $900.00 Enter the value of D of calculation (vi).

Schedule A: Reference table to determine the rate applicable to the residual term

Residual term	Reference rate	Residual term	Reference rate
Less than 12 months	1-year rate	36 months to **less** than 42 months	3-year rate
12 months to **less** than 18 months	1-year rate	42 months to **less** than 48 months	4-year rate
18 months to **less** than 24 months	2-year rate	48 months to **less** than 54 months	4-year rate
24 months to **less** than 30 months	2-year rate	54 months to **less** than 60 months	5-year rate
30 months to **less** than 36 months	3-year rate	60 months to **less** than 120 months	5-year rate