

# Mortgage default insurance

When a borrower intends to finance a home purchase, with a down payment that is less than 20% of the value of the property, mortgage default insurance is required by the Government of Canada. Loan insurance protects the lending institution in the event that borrowers are unable to make their mortgage payments.

To obtain mortgage default insurance, a minimum down payment is required. The amount depends on the home's purchase price:

- If the home costs \$500,000 or less, a minimum down payment of 5% is required.
- If the home costs more than \$500,000, minimum of 5% down on the first \$500,000 and 10% on the remainder is required
- If the home costs \$1,000,000 or more, mortgage default insurance is not available.

Mortgage default insurance allows borrowers to purchase homes much faster than if a 20% down payment were required and helps secure a competitive interest rate by protecting the lending institution.

- Motusbank works with the following mortgage insurance companies:
- Canada Mortgage and Housing Corporation (CMHC)
- Sagen (formerly known as Genworth Financial Canada)

The relationship between motusbank and the insurers above is arms-length. motusbank does not have arrangements to receive payments or benefits from any insurer, other than default insurance claims.

## Who approves mortgage default insurance?

Mortgage insurers determine if a mortgage can be insured. While motusbank works with the borrower/insurers on the default insurance approval and submits the application, the decision rests solely with the mortgage insurers. Each insurer has their own criteria for evaluating borrowers and properties. motusbank will work to ensure mortgage default insurance applications meet insurers' guidelines and are optimal for its members.

## Who and what is covered by mortgage default insurance?

Mortgage default insurance covers motusbank in case the borrower defaults on the mortgage. It does not protect borrowers or their interest in the property. It is put in place to protect motusbank if a borrower defaults on their mortgage. Borrowers will continue to remain liable to the mortgage regardless of payments from an insurer to motusbank.



## Mortgage insurance premium

Mortgage insurers charge an insurance premium for mortgage default insurance.

Borrowers are required to pay the non-refundable insurance premiums, plus applicable sales tax. They can pay the premium up front in a lump sum, or it can be added to the mortgage amount. If the premium is added to the mortgage amount, interest will be added to the total amount borrowed, in addition to applicable government sales taxes, which must be paid separately. Motusbank applies for the purchase of mortgage insurance during the approval process and facilitates payment of the premium.

## How are mortgage insurance premiums calculated?

Mortgage insurance premiums/costs are calculated by the mortgage insurers and depend on a number of factors. These include the size of the down payment relative to purchase price, mortgage amortization period.

[Information on mortgage default insurance costs can be found on the CMHC website](#)

An example mortgage default insurance premium calculated is below:

Property value/Purchase price	\$500,000
Down payment	10% = \$50,000
Mortgage loan	\$500,000 - \$50,000 = \$450,000
Amortization	25 years
Loan-to-value ratio	\$450,000 / \$500,000 = 90%
Premium rate	3.10%
Insurance premium	\$450,000 x 3.10% = \$13,950 + tax

## Contact us

If you have any questions regarding mortgage default insurance, please contact the motusbank memberservice team toll-free 1 (833) 696-6887 from Monday to Sunday, 8:00 AM to 12:00 AM (EST).

