



Mega International Commercial Bank (Canada)

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Mortgage Prepayment Information

provided by Mega International Commercial Bank (Canada)

Date: April 30, 2012

Effective from May 1, 2012, the mortgage prepayment charge is three months interest if borrowers are natural persons and mortgages are not entered into for business purposes.

● Impact of prepayment on borrowers

Generally speaking, we all want to be debt-free or mortgage-free faster. The faster you pay down your mortgage, the less interest you have to pay to your lender. That is, you can reduce your interest expenses and/or save money through prepayment of your mortgage.

In addition, actions by a borrower that may result in the borrower having to prepay his/her mortgage include the following:

- Partially/fully prepaying amounts higher than allowed by the borrower's mortgage
- refinancing their mortgage
- transferring their mortgage to another lender

● Impact of prepayment on lenders

When borrowers prepay their mortgage, lenders are subject to interest rate risk.

Interest rate risk is the risk (variability in value) borne by an interest-bearing asset, such as a loan (mortgage) or a bond, due to variability of interest rates. For example, the interest rate of Mr. A's mortgage is fixed at 3% from 2012/1/1 to 2012/12/31, and Mr. A's lender hedged against interest rate risk on 2012/1/1 when the mortgage was advanced to Mr. A. If the market rate decreased by 0.25% on 2012/4/16 and Mr. A prepaid his mortgage in the amount of C\$200,000 on 2012/4/18, Mr. A's lender would not be able to gain interest income on C\$200,000 at the rate as high as 3% and



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terminate the above-mentioned hedge that will mature until the end of 2012.

Therefore, lenders have to collect mortgage prepayment charges from borrowers of closed mortgages (as defined below) to mitigate their risks and partially/wholly offset the relevant costs.

Closed mortgages are mortgage agreements that place restriction on borrowers to refinance or prepay the outstanding balance before the end of the term.

- What kind of mortgage are subject to prepayment charges (penalties)

In terms of mortgages, Mega International Commercial Bank (Canada) offers the following products:

1. Closed Term Credit Agreement for a Fixed Interest Loan for a Fixed Amount (mortgage)
2. Closed Term Credit Agreement for a Variable Interest Loan for a Fixed Amount (mortgage)
3. Open Term Credit Agreement for a Fixed Interest Loan for a Fixed Amount (mortgage)
4. Open Term Credit Agreement for a Variable Interest Loan for a Fixed Amount (mortgage)
5. Six-Month Convertible Mortgage

The first two kinds of product are subject to prepayment charges (penalties). Simply put, for closed mortgages, borrowers are asked to compensate lenders for loss due to prepayment. On the other hand, the third, fourth and fifth kind of product can be prepaid without prepayment charges.

- What kind of mortgage are not subject to prepayment charges (penalties)

Open Term Credit Agreement for a Fixed Interest Loan for a Fixed Amount (mortgage),
Open Term Credit Agreement for a Variable Interest Loan for a Fixed Amount



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(mortgage), and Six-Month Convertible Mortgage are not subject to prepayment charges (penalties). Simply put, open mortgages are not subject to prepayment charges. Open mortgages can be prepaid in part or in full at any time, without prepayment penalties. In other words, borrowers of open mortgages are permitted to make lump-sum prepayments, or increase the regular monthly payment amount.

However, interest rates for open mortgages are generally much higher than that for closed mortgage due to the prepayment flexibility. That is, borrowers have to pay for the prepayment flexibility. For the same reason, the longer the mortgage term is, the higher the interest rate is.

- How to calculate mortgage prepayment charges (penalties)

Borrowers of closed mortgage will be charged a penalty if they would like to pay an amount greater than the regular monthly payment. If they want to pay out all or part of their mortgage before the end of the term, they also have to pay a penalty.

Effective from May 1, 2012, the mortgage prepayment penalty applicable to individual borrowers of closed residential mortgage is three months interest on the amount to be prepaid. The formula to calculate the above-mentioned prepayment penalty (**three months interest on the amount to be prepaid**) is listed below:

$$\text{prepayment penalty} = \text{amount to be prepaid} \times \text{applicable interest rate} \times 0.25$$

That is, the three components to calculate the prepayment penalty are amount to be prepaid (*It is outstanding balance if fully prepaid), applicable interest rate, and 0.25 (3 months ÷ 12 months).

To know the outstanding balance, borrowers can refer to the installment payment schedule, monthly payment advice, or call us at 416-9472800 (if in Greater Toronto Area) / 604-6895650 (if in Greater Vancouver Area).



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To know the applicable interest rate, borrowers can refer to the loan agreement, installment payment schedule, monthly payment advice, or call us at 416-9472800 (if in Greater Toronto Area) / 604-6895650 (if in Greater Vancouver Area).

The following are three examples for your reference:

- The amount to be prepaid is C\$50,000 and the applicable interest rate is 4%, the prepayment penalty is C\$500 ($C\$50,000 \times 4\% \times 0.25$).
- The amount to be prepaid is C\$80,000 and the applicable interest rate is 5%, the prepayment penalty is C\$1,000 ($C\$80,000 \times 5\% \times 0.25$).
- The amount to be prepaid is C\$200,000 and the applicable interest rate is 3%, the prepayment penalty is C\$1,500 ($C\$200,000 \times 3\% \times 0.25$).

If you have any questions about calculating prepayment charges, please feel free to contact us. Our contact person and phone number are stated below.

- How to get information about mortgage prepayment charges (penalties) and know your actual prepayment charge

The above information is posted in our website shown below and at our offices, and will be sent to borrowers annually:

<https://www.megabank.com.tw/abroad/canada/canada01.asp>

In addition, if you have any questions about mortgage prepayment charges, please feel free to contact Ms. Helen Leung at 416-9472805 (if you are in Greater Toronto Area) or Mr. James Wu at 604-6895650 (if you are in Greater Vancouver Area). Mega International Commercial Bank (Canada) is willing to provide you with the actual prepayment charge that would apply to your mortgage at that point in time by phone or in writing. We will not proceed to take steps to pay out a mortgage until you have confirmed that your intention is to pay out the mortgage.