Information on the types of mortgages available for purchasing a residential property

Buy a home with peace of mind

This document contains information on the various types of mortgages that can be used to secure a mortgage loan.[1] It will help you make an informed decision when obtaining financing for the purchase of your home.

What is a mortgage?

A mortgage (or charge, depending on the province) is granted by a borrower in favour of a lender to secure repayment of a loan. If the borrower fails to pay back the debt, the mortgage gives the lender the right to take possession or to sell the property. The mortgage must be registered (or published in Quebec) against the property at the appropriate registry. Each province has its own mortgage and registration rules.

What is a mortgage discharge?

A mortgage discharge (also known as a "release" or an "acquittance" in Quebec) is the removal of a mortgage from the registry in which it was listed. Once the mortgage has been discharged, the lender loses any rights it had against the property under the mortgage.

The borrower must pay the legal fees for preparing and registering the mortgage, as well as any administrative fees charged by the lender.

There are two types of mortgages: the collateral charge mortgage and conventional charge mortgage.

1 Please see National Bank's *Commitment to Provide Information on Mortgage Security*, which is available at nbc.ca.

Collateral charge mortgage

Registered mortgage amount

Both the maximum amount of debt secured by the mortgage and the maximum interest rate are registered in the appropriate registry. The registered mortgage amount can be higher than the initial financed amount in order to guarantee other debts in the future.

For example, if you apply for a $320,000 mortgage loan to buy a house worth $400,000, the registered mortgage amount can be up to $400,000.

The lender and borrower enter into a credit agreement separate from the mortgage in order to arrange the credit terms. As a result, the actual interest rate applied to the loan, the loan amount and the credit terms are set out in various credit agreements between the borrower and the lender.

Securing debt and possibility of additional funds

A collateral charge mortgage can be used to secure the borrower's existing and future debts. This mortgage allows the borrower to get additional funds up to the registered mortgage amount without granting a new mortgage every time. Because a new mortgage is unnecessary, the borrower does not have to pay any legal fees.

The borrower can request additional funds for projects other than the purchase of the property. However, additional funds are not automatically granted. The borrower must first requalify based on applicable credit standards and get approval from the lender. The request for additional funds could be denied if the borrower's financial situation has changed, for example due to the loss of a job. The request may also be denied if the value of the property is insufficient to secure the additional funds.

Possibility of transferring a mortgage to another lender (subrogation in Quebec)

If the borrower decides to switch lenders, the borrower may be able to transfer the mortgage to the new lender rather than getting a new mortgage. In the case of a collateral charge mortgage, the new lender may refuse to allow the switch through a transfer. In this case, the borrower will have to get a new mortgage and will therefore need to pay the legal fees associated with its preparation and registration.[1]

Generally, all debts secured by the initial mortgage must be repaid to the initial lender. Legal fees apply to discharge the initial mortgage.

Discharging the mortgage (also known as a "release" or "acquittance" in Quebec)

In the case of a collateral charge mortgage, the borrower can obtain a mortgage discharge once he or she has informed the lender and repaid all of the debts secured by the mortgage in full.

This is the type of mortgage used by National Bank.

1 The new lender may assume certain fees.

Conventional charge mortgage[1]

This type of mortgage is also called a "residential mortgage" by some lenders.

Registered mortgage amount

Unlike the collateral charge mortgage, this type of mortgage is registered by specifying the main credit terms. The registered mortgage amount is generally the financed amount.

For example, if you apply for a $320,000 mortgage loan to buy a house worth $400,000, the registered mortgage amount would be $320,000.

Securing debt and possibility of additional funds

Traditionally, a conventional charge mortgage is granted only to guarantee the repayment of a mortgage loan for the purchase of a property.

To obtain additional funds secured by the mortgage for other uses, the borrower must first re-qualify for a new mortgage loan based on the applicable credit standards. The borrower must pay the legal fees to prepare and register the new mortgage, unless the lender agrees to pay these fees.

Possibility of transferring a mortgage to another lender (subrogation in Quebec)

If the borrower decides to switch lenders, the borrower can generally transfer the mortgage to the new lender rather than getting a new mortgage. Only the balance of the mortgage loan may be transferred. It is not possible to obtain additional funds secured by the mortgage. Legal fees related to the transfer are applicable. Administration fees may also apply.

If the mortgage is not transferred to the new lender, the borrower must get a new mortgage and will need to pay the legal fees associated with preparing and registering it. Legal fees will also apply to discharge the initial mortgage.

Discharging the mortgage security (also known as a "release" or "acquittance" in Quebec)

In the case of a conventional charge mortgage, the mortgage may be discharged once the mortgage loan has been repaid in full. The discharge may be carried out either at the borrower's request or automatically, depending on the lender and the province concerned.

1 The "conventional charge mortgage" sometimes refers to a mortgage that is not insured by a mortgage insurer. The lender must purchase mortgage insurance when the financed amount is greater than 80% (or less, depending on the type of financing) of the mortgaged property's value.

Key differences between the two types of mortgages

	Collateral charge mortgage[1]	Conventional charge mortgage
Registered mortgage amount	› May be higher than the financed amount.[2] › No credit terms are registered in the registry.	› Generally matches the financed amount. › Some credit terms are registered in the registry.
Secured debt and possibility of additional funds	› Used to secure one or more existing or future debts. › No need to register a new mortgage to secure additional funds.[3] › No legal fees.	› Traditionally used to secure a mortgage to purchase a property. › A new mortgage must generally be registered to secure additional funds. › Legal fees apply to discharge the initial mortgage and to create the new mortgage.
Possibility of transferring the mortgage (subrogation in Quebec)	› A new mortgage must generally be granted to the other lender, and the initial mortgage discharged. › There are legal fees for discharging the initial mortgage and creating the new one. › Generally, all debts secured by the initial mortgage must be repaid to the initial lender.	› Generally possible if no additional funds are requested. › There are legal fees for completing the transfer. › It is not necessary to repay other debts prior to the transfer.
Discharging the mortgage	› Possible once all the debts secured by the mortgage are repaid in full. › At the borrower's request.	› Possible once the mortgage loan is repaid in full. › Automatic or at the borrower's request, depending on the lender and the province.

You can also consult the "Consumer Information" section of the Canadian Bankers Association's website at cba.ca.

Should you have any questions, do not hesitate to contact us.

514-394-5555
1-888-835-6281

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1 This is the type of mortgage used by National Bank.
2 National Bank generally requires that the mortgage registered amount be 100% of the property value or 100% of the purchase price, whichever is less.
3 Up to the registered mortgage amount.

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