Understanding Mortgage Prepayment Penalties

Why the Lowest Rate Isn't Always the Lowest Cost?

Many homeowners focus on interest rates but overlook how mortgage penalties are calculated. Depending on the lender, breaking your mortgage early could cost thousands more.

Example Mortgage

Description	Value
Mortgage Balance	$229,000
Contract Rate	4.19%
Remaining Term	16 Months

Example 1 – Broker Lender

Rate Comparison

Description	Value
Your Contract Rate	4.19%
Current Comparable Rate	3.09%
Interest Rate Difference	1.10%

Formula: Mortgage Balance × Interest Rate Difference ÷ 12 × Remaining Months

Estimated Penalty: $3,358.67

Example 2 – Major Bank

Rate Comparison

Description	Value
Your Contract Rate	4.19%
Current Posted Rate	3.39%
Original Posted Rate	5.99%
Original Discount	1.80%
Interest Rate Difference	2.60%

Formula: Mortgage Balance × Interest Rate Difference ÷ 12 × Remaining Months

Estimated Penalty: $7,938.67

Side-by-Side Comparison

	Broker Lender	Major Bank
Mortgage Balance	$229,000	$229,000
Mortgage Rate	4.19%	4.19%
Remaining Term	16 Months	16 Months

INTEGRITY TREE
MORTGAGES
ROOTED IN INTEGRITY. FOCUSED ON YOU.

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Rate Difference	1.10%	2.60%
Estimated Penalty	$3,358.67	$7,938.67

Key Takeaway

The mortgage, balance, and remaining term are identical. The only difference is how the lender calculates the penalty. In this example, the difference is approximately $4,580.

Disclaimer: This example is for educational purposes only. Actual penalties vary by lender and mortgage terms. See the accompanying comparison example for details.