

LONGER AMORTIZATIONS

FEATURES AND BENEFITS



Innovation
Flexibility
Excellence

What is the standard amortization for a mortgage in the Canadian mortgage market?

The standard amortization is 25 years. On average, most Canadians tend to pay off their mortgages in 18 years or less, through prepayments and accelerated payment plans.

Why has AIG decided to offer extended amortizations to Canadian consumers?

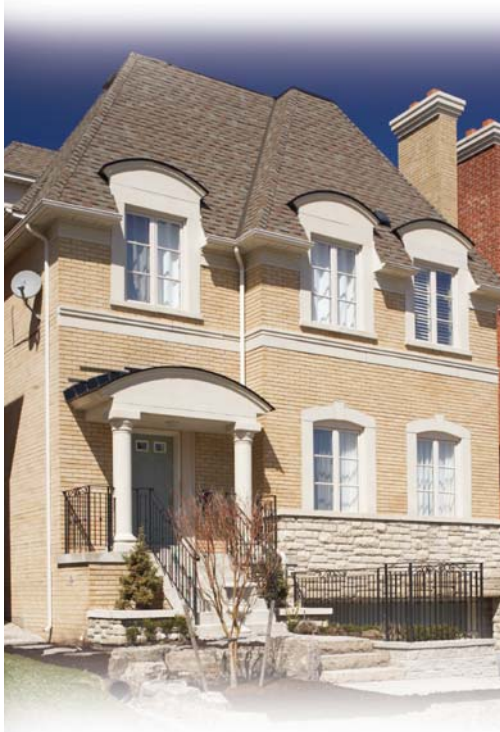
Longer amortizations provide many benefits to Canadian consumers, including the following:

1. **Lower monthly costs.** Affordability has been an issue for consumers in many areas of Canada. Longer amortizations help reduce monthly costs, especially in the short term.
2. **One mortgage insurance fee, even if you refinance.** For example, if a customer with a 25-year amortization wants to refinance five years down the road and extend the amortization, that customer would have to re-pay the mortgage insurance premium. By taking a longer initial amortization, the customer can refinance and stay on the same amortization schedule without having to pay the entire premium again.
3. **Financial flexibility.** By extending the mortgage amortization and lowering payments, consumers may have additional funds for current and future financial needs.
4. **Ability to purchase a home sooner.** With a more affordable payment, consumers can purchase a home and immediately take advantage of home value appreciation in today's real estate market.

What is the incremental insurance cost to the customer when taking a longer amortization?

The cost for each additional five years of amortization is an incremental (or additional) 20 basis points (a basis point is one one-hundredth of one percent; 100 basis points equal 1 percent). For a 30-year amortization, the incremental cost would be 0.20% and for 35 years it would be 0.40%. The following table illustrates the incremental costs for a 90% LTV loan with a 35-year amortization.

90% LTV 25-year premium	2.00%
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What is the financial impact to the customer, in the short and long term, of taking a longer amortization?

The table below compares the principal repayment within the first three and five years of a mortgage, at various amortization rates:

Loan amount: \$100,000 Interest rate: 5.00%

Amortization	30 year	25 year	Difference
Monthly payment	\$534	\$582	(\$48)
Principal paid in 3 years	\$4,697	\$6,552	(\$1,855)
Principal paid in 5 years	\$8,549	\$11,926	(\$3,377)
Amortization	35 year	25 year	Difference
Monthly payment	\$501	\$582	(\$80)
Principal paid in 3 years	\$3,448	\$6,552	(\$3,105)
Principal paid in 5 years	\$6,275	\$11,926	(\$5,651)

On a \$100,000 mortgage with a 5% interest rate and 25-year amortization, the customer would have a monthly payment of \$582 and would pay down the mortgage principal by \$11,926 after 5 years. By taking a 35-year amortization, the mortgage payments would be reduced by \$81 each month.

Keep in mind, however, that with a longer amortization, principal repayment during the first five years is reduced by more than half, as compared with a traditional 25-year amortization. Even so, this product provides greater flexibility, more options, and at least some principal repayment in comparison to an interest only product.

What happens if a customer who purchased a longer amortization from AIG pays off the mortgage in 25 years or less?

Even though all mortgage insurance premiums are non-refundable, home buyers have the satisfaction of being debt-free and of having chosen a product that safeguards their personal finances and home equity.

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