The Mortgage Centre

We work for **you**, not the lenders.

GLOSSARY

Amortization: The period of time required to reduce the mortgage debt to zero when all regular blended payments are made on time and provided the terms (payment and interest rate) remain the same.

Appraisal: A process for estimating the market value of a particular property.

Appreciation: The increase in value of something because it is worth more now than when you bought it.

Approved Lender: A lending institution authorized by the Government of Canada through CMHC to make loans under the terms of the National Housing Act. Only Approved Lenders can negotiate CMHC insured mortgages.

Assumption Agreement: A legal document signed by a home buyer that requires the buyer to assume responsibility for the obligations of a mortgage by the builder or the previous owner.

Blended Payment: A mortgage payment that includes principal and interest. It is paid regularly during the term of the mortgage. The payment total remains the same, although the principal portion increases over time and the interest portion decreases.

Closed Mortgage: A mortgage that cannot be prepaid or renegotiated before the term's end unless the lender agrees and the borrower is willing to pay an interest penalty. Many closed mortgages limit prepayment options such as increasing your mortgage payment or lump sum prepayment (usually up to 20% of your original principal amount).

Closing Costs: Costs in addition to the purchase price of the home, such as legal fees, transfer fees and disbursements, that are payable on the closing day. They range from 1.5% to 4% of a home's selling price.

Closing Date: The date at which the sale of a property becomes final and the new owner takes possession.

CMHC: Canada Mortgage and Housing Corporation. A Crown corporation that administers the National Housing Act for the federal government and encourages the improvement of housing and living conditions for all Canadians. CMHC also develops and sells mortgage loan insurance products.

Conditional Offer: An Offer to Purchase that is subject to specified conditions, for example, the arrangement of a mortgage. There is usually a stipulated time limit within which the specified conditions must be met.

Commitment Letter/Mortgage Approval: Written notification from the mortgage lender to the borrower that approves the advancement of a specified amount of mortgage funds under specified conditions.

Conventional Mortgage: A mortgage loan up to a maximum of 80% of the lending value of the property. Typically, the lending value is the lesser of the purchase price and market value of the property. Mortgage loan insurance is usually not required for this type of mortgage.

Counteroffer: If your original offer to the vendor is not accepted, the vendor may counteroffer. This means that the vendor has amended something from your original offer, such as the price or closing date. If a counteroffer is presented, the individual has a specified amount of time to accept or reject.

343 Waterloo Avenue • Guelph, Ontario • Canada, N1H 3K1
Phone: (519) 763-3900 • Toll Free: (866) 838-4366 • Facsimile: (519) 763-5233

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Credit Report: The main report a lender uses to determine your creditworthiness. It includes information about your ability to handle your debt obligations and your current outstanding obligations.

Curb Appeal: How attractive the home looks from the street. The first impression you have of a home is important. A home with good curb appeal will have attractive landscaping and a well-maintained exterior.

Deed: A legal document that is signed by both the vendor and purchaser, transferring ownership. This document is registered as evidence of ownership.

Default: Failure to abide by the terms of a mortgage loan agreement. A failure to make mortgage payments (defaulting the loan) may give cause to the mortgage holder to take legal action to possess (foreclose) the mortgaged property.

Delinquency: Failing to make a mortgage payment on time.

Deposit: Money placed in trust by the purchaser when an Offer to Purchase is made. The sum is held by the real estate representative or lawyer/notary until the sale is closed and then it is paid to the vendor.

Depreciation: The decrease in value of something because it is now worth less than when you bought it.

Down Payment: The portion of the home price that is not financed by the mortgage loan. The buyer must pay the down payment from his/her own funds or other eligible sources before securing a mortgage.

Easement: This is where someone else has the right for access to or over another person's land for a specific purpose, such as a driveway or public utilities.

Equity: The difference between the price for which a home could be sold and the total debts registered against it. Equity usually increases as the mortgage is reduced through regular payments. Market values and improvements to the property may also affect equity.

Estoppel Certificate: Also called a certificate of status, it is a certificate that outlines a condominium corporation's financial and legal state. Fees may vary and may be capped by law (does not apply in Quebec).

Foreclosure: The legal process where the lender takes possession of your property and sells it to cover the debts you have failed to pay off. When you default on a loan and the lender feels that you are unable to make payments, you may lose your home to foreclosure.

Gross Debt Service Ratio (GDS): The percentage of the borrower's gross monthly income that will be used for monthly payments of principal, interest, taxes and heating costs (P.I.T.H.) and half of any condominium maintenance fees.

High-Ratio Mortgage: A mortgage loan higher than 80% of the lending value of the property. This type of mortgage may have to be insured – for example by CMHC or a private company – against payment default.

Interest: The cost of borrowing money. Interest is usually paid to the lender in regular payments along with repayment of the principal (loan amount).

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Interest Adjustment Date (IAD): A date from which the accrued interest on the mortgage advance is calculated and paid in your first regular payment. This date is usually one payment period before the first regular mortgage payments begin.

Lien: A claim against a property for money owing. A lien may be filed by a supplier or a subcontractor who has provided labour or materials but has not been paid.

Loan-to-Value Ratio: The ratio of the loan amount to the lending value of a property expressed as a percentage. For example, the loan-to-value ratio of a loan for $90,000 on a home which costs $100,000 is 90%.

Lump Sum Prepayment: An extra payment, made in lump sum, to reduce the principal balance of your mortgage, with or without penalty. A closed mortgage typically restricts the amount and frequency of the prepayments you can make. With an open mortgage, however, you can make a lump sum prepayment at any time without penalty. Making prepayments can help you pay off your mortgage sooner and ultimately save on interest costs over the life of your mortgage.

Maturity Date: The last day of the term of the mortgage. On this day, the mortgage loan must either be paid in full or the agreement renewed.

MLS - Multiple Listing Service: A multiple listing service is a real estate agents' cooperative service that contains descriptions of most of the homes that are for sale. Real estate agents use this computer-based service to keep up with properties they are listing for sale in their area.

Mortgage: A mortgage is a security for a loan on the property you own. It is repaid in regular mortgage payments, which are usually blended payments. This means that the payment includes the principal (amount borrowed) plus the interest (the charge for borrowing money). The payment may also include a portion of the property taxes.

Mortgage Life Insurance: Mortgage life insurance provides coverage for your family should you die before your mortgage is paid off. This insurance can be purchased through your lender and the premium added to your mortgage payments. However, you may want to compare rates for equivalent products from an insurance broker.

Mortgage Loan Insurance: If you have a high-ratio mortgage (more than 80% of the lending value of the property) your lender will probably require mortgage loan insurance, which is available from CMHC or a private company.

Mortgage Payment: A regularly scheduled payment that is often blended to include both principal and interest.

Net Worth: Your financial worth, calculated by subtracting your total liabilities from your total assets.

Warranty (New Home Warranty Program): A guarantee that if something covered under the warranty needs to be repaired it will be. If the builder doesn't repair it, the repair will be made by the organization that provided the warranty. All provinces and Yukon Territory have New Home Warranty programs for newly built homes. However, there are currently no such programs in Nunavut or the Northwest Territories.

Offer to Purchase: A written contract setting out the terms under which the buyer agrees to buy the home. If the Offer to Purchase is accepted by the seller, it forms a legally binding contract that binds those who have signed it to certain terms and conditions.

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Open Mortgage: A mortgage that can be prepaid or paid off or renegotiated at any time and in any amount without interest penalty. The interest rate on an open mortgage is usually higher than a closed mortgage with an equivalent term.

Operating Costs: The expenses that a homeowner has each month to operate a home. These include property taxes, property insurance, utilities, telephone and communications charges, maintenance and repairs.

Principal: The amount that you borrow for a loan. Each monthly mortgage payment consists of a portion of the principal that must be repaid plus the interest that the lender is charging you on the outstanding loan balance. During the early years of your mortgage, the interest portion is usually larger than the principal portion.

P.I.T.H.: Principal, interest, taxes and heating – costs used to calculate the Gross Debt Service ratio (GDS).

Property Insurance: Insurance that you buy for the building(s) on the land you own. This insurance should be high enough to pay for the building to be re-built if it is destroyed by fire or other hazards listed in the policy.

Property Taxes: Taxes charged by the municipality where the home is located based on the value of home. In some cases the lender will collect a monthly amount to cover your property taxes, which is then paid by the lender to the municipality on your behalf.

Reserve Fund: This amount is set aside by the homeowner on a regular basis so that funds are available for emergency or major repairs. Setting aside 5% of your monthly take-home pay will give you a well-funded reserve.

Survey or Certificate of Location: A document that shows property boundaries and measurements, specifies the location of buildings on the property and states easements or encroachments.

Term: The term of a mortgage is the length of time that the mortgage conditions, including the interest rate you pay, are carried out. Terms are usually between six months and ten years. At the end of the term, you either pay off the mortgage or renew it, possibly renegotiating its terms and conditions.

Title: A freehold title gives the holder full and exclusive ownership of the land and building for an indefinite period. A leasehold title gives the holder the right to use and occupy the land and building for a defined period.

Title Insurance: Insurance against loss or damage caused by a matter affecting the title to immovable property, in particular by a defect in the title or by the existence of a lien, encumbrance or servitude.

Total Debt Service Ratio (TDS): The percentage of gross monthly income required to cover the monthly housing payments and other debts, such as car payments.

Vendor Take Back Mortgage: This is where the vendor rather than a financial institution finances the mortgage. The title of the property is transferred to the buyer who makes mortgage payments directly to the seller. These types of mortgages, sometimes referred to as take-back mortgages, can be helpful if you need a second mortgage to by a home.

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