GLOSSARY OF REAL ESTATE & MORTGAGE TERMS

A

Agreement of Purchase and Sale – A legal agreement that offers a certain price for a home. The offer may be firm (no conditions attached), or conditional (certain conditions must be fulfilled before the deal can be closed).

Amortization – The period of time, often a maximum of 25 years, 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 – The process of determining the value of property, usually for lending purposes. This value may or may not be the same as the purchase price of the home.

Appraisal Value – An estimate of the market value of the 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 mortgages that require mortgage loan insurance.

Assumption Agreement – A legal document signed by a homebuyer that requires the purchaser to assume responsibility for the obligations of a mortgage by the builder or the previous owner.

B

Blended Payments – Payments consisting of both a principal and an interest component, paid on a regular basis (e.g. weekly, biweekly, monthly) during the term of the mortgage. The principal portion of payment increases, while the interest portion decreases over the term of the mortgage, but the total regular payment usually does not change.

Building Location Certificate or Survey – A document specifying the exact location of the building on the property and describing the type and size of the building including additions, if any.

C

Canada Mortgage and Housing Corporation (CMHC) – The National Housing Act (NHA) authorized Canada Mortgage and Housing Corporation (CMHC) to operate a mortgage Insurance Fund which protects NHA Approved Lenders from losses resulting from borrower default.

Certificate of Search or Abstract of Title – A document setting out instruments registered against the title to the property, e.g. caveats, mortgages, etc.

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 – Various expenses associated with purchasing a home. These costs can include, but are not limited to, legal/notary fees and disbursements, property land transfer taxes, as well as adjustments for prepaid property taxes or condominium common expenses, if any.

Closing Date – The date on which the sale of a property becomes final and the new owner usually takes possession.

CMHC or GEMICO Insurance Premium – Mortgage insurance insures the lender against loss

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in case of default by the borrower. Mortgage insurance is provided to the lender by CMHC or GEMICO and the premium is paid by the borrower.

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.

Conditional Offer – An offer to purchase subject to conditions. These conditions may relate to financing, or the sale of an existing home. Usually a time limit in which the specified conditions must be satisfied is stipulated.

Conventional Mortgage – A mortgage that does not exceed 80% of the purchase price of the home. Mortgages that exceed this limit must be insured against default, and are referred to as high-ratio mortgages.

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 the counteroffer is presented, the individual has a specified amount of time to accept or reject.

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.

D

Debt-Service Ratio – The percentage of the borrower's gross income that will be used for monthly payments of principal, interest, taxes, heating costs and condominium fees.

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 – A sum of money deposited in trust by the purchaser when making an offer to be held in trust by the vendor's agent, broker, lawyer or notary until the closing of the transaction.

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 purchaser must pay the down payment from his/her own funds or other eligible sources before securing a mortgage. It generally ranges from 5% to 20% of the purchase price but can be more.

E

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.

F

Fire Insurance – Before a mortgage can be advanced, the purchaser must have arranged fire insurance with a "Standard Mortgage Clause" attached, and your lender being named as the loss payable of the policy. A certificate or binder from the insurance company may be required on closing.

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Firm Offer – An offer to buy the property as outlined in the offer to purchase with no conditions attached.

Fixed-Rate Mortgage – A mortgage for which the rate of interest is fixed for a specific period of time (the term).

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.

G

Gross Debt Service (GDS) Ratio – The percentage of gross income required to cover monthly payments associated with housing costs. Most lenders recommend that the GDS ratio be no more than 32% of your gross (before tax) monthly income.

Gross Household Income – Gross household income is the total salary, wages, commissions and other assured income, before deductions, by all household members who are co-applicants for the mortgage.

H

High Ratio Mortgage – If you don't have 20% of the lesser of the purchase price or appraised value of the property, your mortgage must be insured against payment default by a Mortgage Insurer, such as CMHC.

Holdback – An amount of money required to be withheld by the lender during the construction or renovation of a house to ensure that construction is satisfactorily completed at every stage.

Home Equity – The difference between the price for which a home could be sold (market value) and the total debts registered against it.

I

Inspection – The examination of the house by a building inspector selected by the purchaser.

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

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.

Interest Rate Differential Amount (IRD) – An IRD amount is a compensation charge that may apply if you pay off your mortgage principal prior to the maturity date or pay the mortgage principal down beyond the prepayment privilege amount. The IRD amount if calculated on the amount being prepaid using an interest rate equal to the difference between your existing mortgage interest rate and the interest rate that we can now charge when re-lending the funds for the remaining term of the mortgage.

Interim Financing – Short-term financing to help a purchaser bridge the gap between the closing date on the purchase of a new home and the closing date on the sale of the current home.

L

Lien – A claim against a property 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 of 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 of 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.

M

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.

Mortgagee or Mortgagor – The lender is the mortgagee and the borrower is the mortgagor.

Mortgage Life Insurance – Mortgage life insurance provides coverage of 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.

Mortgage Term - The number of years or months over which you pay a specified interest rate. Terms usually range from 6 months to 10 years.

N

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

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.

O

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

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 communication charges, maintenance and repairs.

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P

Payment Frequency – The choice of making regular mortgage payments every week, every other week, twice a month or monthly.

P.I.T.H. – Principal, interest, taxes, and heating. Together, these make up the regular payment on a mortgage if you elect to include property taxes in your mortgage payments.

Porting – This allows you to move to another property without having to lose your existing interest rate. You can keep your existing mortgage balance, term and interest rate, plus save money by avoiding early discharge penalties.

Prepayment Charge – A fee charged by the lender when the borrower prepays all or part of a closed mortgage more quickly than is set out in the mortgage agreement.

Prepayment Option – The ability to prepay all or a portion of the principal balance. Prepayment charges may be incurred on the exercise of prepayment options.

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.

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 (replacement cost) if it is destroyed by fire or other hazards listed in the policy.

Property Taxes – Taxes charged by the local government 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 local government on your behalf.

R

Refinancing – Renegotiating your existing mortgage agreement. May include increasing the principal or paying out the mortgage in full.

Renewal – At the end of a mortgage term, the mortgage may “roll over” on new terms and conditions acceptable to both the lender and the borrower. This is known as renewing the mortgage. Otherwise, the lender is entitled to be repaid in full. In this case, the borrower may seek alternative financing.

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.

S

Security – In the case of mortgages, real estate offered as collateral for the loan.

Status Certificate – A certificate that outlines a condominium corporation’s financial and legal state. Fees may vary and may be capped by law.

T

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 6 months and 10 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 lands and buildings for

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an indefinite period. A leasehold title gives the holder the right to use and occupy the lands and buildings for a defined period.

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

Transfer of Land – The document signed by the vendor transferring ownership of the home to the purchaser. This document is then registered against the title to the property as evidence of the purchaser's ownership of the property.

V

Variable Rate Mortgage – A mortgage for which the rate of interest may change if other market conditions change. This is sometimes referred to as a floating rate mortgage.

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 purchaser who makes mortgage payments directly to the vendor. These types of mortgages, sometimes referred to as take-back mortgages, can be helpful if you need a second mortgage to buy a home.

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