

## **Glossary**

To make it easier to understand the process of buying a home, we've put together a list of common mortgage and home-buying terms.

### **Amortization**

The number of years that you take to fully pay off your mortgage (not the same as your mortgage term). Amortization periods are often 15, 20, or 25 years long.

### **Annual Statement**

A mortgage information statement sent out by the lender to all mortgagors. Statements are issued at the beginning of each year covering the period of the previous year January 1st to December 31st. Mortgage information statements are sent to the client once a year summarizing the balances on the mortgage. Information includes totals such as interest and principal paid and any taxes paid on the client's behalf during the year.

### **Application**

A document completed and signed by the client providing personal information and details of employment history, assets, liabilities and the property being purchased.

### **Appraisal**

The process of determining the lending value of a property. There is usually a fee to have an appraisal done.

### **Appraiser**

A certified professional who performs an assessment of a property to establish the current market value. Market value may be above or below the purchase price although in the majority of cases, it is the same.

### **Assuming a mortgage**

Taking over the obligations of the previous owner's (or builder's) mortgage when you buy a property.

### **BEACON Score**

"BEACON" and "Empirca" are used interchangeably within RSBL, as both are Credit Bureau Application scores. BEACON is calculated from a customer's Equifax credit file and is used to understand a customer's likelihood to repay. The score uses a mathematical equation that evaluates information on the customer's credit file

compared to information patterns in millions of past credit files. BEACON scores can range from 300 to 850. The higher the score, the lower the risk to creditors. The Trans Union (Canada's other main bureau provider) equivalent of the BEACON score is the Empirica score.

### **Blended Payment**

The method of repayment where periodic payments of principal and interest are made in such a way that the payments remain constant in amount.

### **Building Permit**

A certificate that must be obtained from the municipality by the property owner or contractor before a building can be erected or repaired. It must be posted in a conspicuous place until the job is completed and passed as satisfactory by a municipal building inspector.

### **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 is one potential source of mortgage insurance for high-ratio mortgages.

### **Capped rate**

An interest rate with a pre-determined ceiling - usually associated with a variable-rate mortgage.

### **Closed mortgage**

A mortgage which has a fixed interest rate (usually lower than an open mortgage rate) and a set, unchangeable term. You cannot pay off a closed mortgage before the agreed end date without paying a penalty.

### **Closing costs**

Costs that are in addition to the purchase price of a property and which are payable on the closing date. Examples include legal fees, land transfer taxes, and disbursements.

### **Closing date**

The date on which the sale of a property becomes final and the buyer takes possession of the property.

## **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.

## **Compounded**

Synonymous when used in connection with calculated interest paid on a mortgage.

## **Condominium**

All the property in a condominium plan except Common Elements. The common property in a registered condominium plan held by the owners of all the units as tenants in common, is shared proportional to the unit factors for the respective units.

## **Contractor**

An individual, partnership, corporation or other legal entity that manages the labour and materials necessary to improve a property (i.e., construction, renovation) under contract with the property owner. There are general contractors and sub-contractors. Both may further sub-contract portions of the respective contracts if that is not their particular area of expertise. A true general contractor subcontracts the entire project to a number of sub-contractors and essentially becomes an administrative agent arranging for the billing and payment process.

## **Conventional Mortgage Loan**

A mortgage loan up to a maximum of 75% of the lending value of the property. Mortgage loan insurance is not required for this type of mortgage. Covenant A clause in a legal document which, in the case of a mortgage, gives the parties to the mortgage a right or an obligation. For example, a covenant can impose the obligation on a borrower to make mortgage payments in certain amounts on certain dates. A mortgage document consists of covenants agreed to by the borrower and the lender.

## **Convertible mortgage**

A mortgage that you can change from short-term to long-term, depending on your financial needs.

## **Default**

When one or more mortgage payments go unmade.

## **Discharge**

The full repayment of the debt against a property, which allows for a full "release" of the mortgage. Also referred to as a payout or liquidation.

## **Discharge Documentation**

Documentation prepared by lender after the full repayment is received for a mortgage. These documents are sent to the client so they may be registered on the property to release the mortgage. In some areas the discharge is registered electronically on behalf of the client. The covering letter to the client will outline details of this.

## **Discharge Summary**

Summary of the balances on the mortgage as at a Statement specific date, sent to the client/or solicitor to establish the amount needed to pay off the mortgage in full.

## **Discretionary Pricing**

This is a Pricing rate discount offered by branches off of posted rates to clients. The branch receives less revenue the more pricing they authorize.

## **Down payment**

The money that you pay up front for a house. Down payments typically range from 10%-25% of the total value of the home.

## **Early Renewal**

The renegotiation of mortgage term and rate prior to the maturity date. (A prepayment cost would usually be due if the mortgage is closed).

## **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 outstanding principal of the mortgage is reduced through regular payments. Market values and improvements to the property also affect equity.

## **Fire Insurance**

Property insurance that the mortgage customer must purchase to protect the property against any damages that may be caused by a fire. Customer must ensure that full replacement value is purchased and that if there is any fire damage the lender will be paid first on the loss.

## **First Mortgage**

The mortgage agreement, which has first claim on the asset.

## **Fixed Rate**

A mortgage loan in which the rate of interest is set for the term of the mortgage so that the regular payments of principal and interest will remain the same throughout the term.

## **Genworth Financial Canada (Genworth)**

A private mortgage insurance company. One potential source of mortgage insurance for high-ratio mortgages.

## **Gross Debt Service Ratio (GDSR)**

The percentage of the total of annual mortgage Ratio (GDSR) payment (principal, interest, taxes, heat and half of condominium common element costs, if applicable, plus secondary financing payment and ground rent if applicable) relative to annual household income.

## **High-ratio mortgage**

The mortgage you obtain when you have less than 25% of the total purchase price to put down as your down payment. This type of mortgage must be insured (through sources such as CMHC or Genworth Financial Canada).

## **Home insurance**

Insurance to cover both your home and its contents in the event of fire, theft, vandalism etc. (also referred to as property insurance). This is different from mortgage life insurance, which pays the outstanding balance of your mortgage in full if you die.

## **Inspection**

The process of having a qualified home inspector identify potential repairs to the property you are interested in and their estimated cost.

## **Interest adjustment**

This is the amount of interest due between the date your mortgage starts and the date the first mortgage payment is calculated from. Sometimes there is a gap between the closing date of your home purchase and the first payment date of your mortgage. Let's say that the closing date on your new house is August 10th - but

your mortgage payments are on the 15th of each month (so your first payment is calculated from August 15th and paid on September 15th). That leaves four days (August 10th to 14th) that are not accounted for in your first mortgage payment. Interest adjustment is the extra payment that makes up for these four days; the payment is generally due on your closing date. You can avoid all this by arranging to make your first mortgage payment exactly one payment period (e.g., one month) after your closing date.

### **Interest, Adjustment Date**

The date from which interest is first calculated (i.e. set at inception, renewal, early renewal, and payment frequency change). Sets up the interest accrual period for all future payments under the same frequency and terms. Must be at least one full payment period prior to the first payment date based on frequency.

### **Investor**

A person or person(s) who invest in securities (i.e. Mortgage-Backed Securities).

### **Land Draw**

Most lenders will provide financing on a conventional basis for the land based on the client, property, type of financing, etc. to a maximum of 75% of the land value in urban areas and 60% of the land value in rural areas. The land draw will create another advance (increasing the number from 3 traditional advances to 4) and will reduce the amount of each advance. Clients should be aware that because the advances are smaller, they may need to draw on an approved line of credit to ensure trades people are paid promptly between draws.

### **Land transfer tax**

A tax that is levied (in some provinces) on any property that changes hands.

### **Legal fees and disbursements**

Some of the legal costs associated with the sale or purchase of a property. It's in your best interest to engage the services of a real estate lawyer (or a notary in Quebec).

### **Lien Holdbacks**

A pool of funds held by the Solicitor for a prescribed period of time from date of final advance (Approximately 41 days) to provide payment of any charges/liens that may be placed on the property title due to non payment of material or labour or related disputes.

**Loan-to-value Ratio**

The ratio of the loan 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 payment**

An extra payment that you make to reduce the amount of your mortgage. This is the same as pre-paying, which you cannot do if you have a closed mortgage.

**Mailing Address**

The mortgager's address, which may or may not be equal to the property address.

**Maturity Date**

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

**Mortgage**

A loan that you take out in order to buy property. The collateral is the property itself.

**Mortgagee**

The person(s) /institution who lends the money (Lender) for a mortgage.

**Mortgagor**

The person(s) or company who borrow the (Borrower) money for a mortgage.

**Mortgage Insurance**

An insurance premium paid by the borrower, (CMHC or Genworth Financial Canada) which protects the lender against loss due to default by the borrower. Also referred to as NHA (National Housing Act) insurance.

**Mortgage life insurance**

This form of insurance pays the outstanding balance of your mortgage in full if you die. This is different from home or property insurance, which insures your home and its contents.

**Mortgage payment**

A regularly scheduled payment that is blended to include both principal and interest.

**Mortgage rate**

The percentage interest that you pay on top of the loan principal. For example, you may take out a mortgage of \$100,000 at a rate of 12%. Your monthly payments will consist of a portion of the original \$100,000, plus 12% interest.

**Moving expenses**

The cost of hiring packers, movers or renting a van.

**Offer to Purchase**

A legally binding agreement between you and the person who owns the house you want to buy. It includes the price you are offering, what you expect to be included with the house, and the financial conditions of sale (your financing arrangements, the closing date, etc.).

**Open mortgage**

A mortgage which you can pay off, renew or refinance at any time. The interest rate for an open mortgage is usually higher than a closed mortgage rate.

**Payment Frequency**

How often payments are made. Payment frequency options: Monthly, Semi-monthly, Bi-weekly, and Weekly.

**Porting**

Transferring an existing mortgage from one home to a new home when you move. This is known as a "portable" mortgage.

**Pre-approved mortgage certificate**

A written agreement stating that you will get a mortgage for a set amount of money at a set interest rate. Getting a pre-approved mortgage allows you to shop for a home without worrying how you'll pay for it.

### **Prepaid property tax and utility adjustments**

The amount you will owe if the person selling you the home has prepaid any property taxes or utility bills. The amount to reimburse them will be calculated based on the closing date.

### **Prepayment Cost**

A charge made by the lender when the borrower prepays all or part of the mortgage prior to the agreed upon terms of the mortgage. (I.e. Discharge, Early Renewal, or additional payments above the allowable amount).

### **Prepayment Privilege (option)**

A set amount of additional principal that can be made on a mortgage as set out in the mortgage agreement. This amount will directly reduce the principal balance.

### **Principal and Interest Payment (P & I)**

This is a set amount designated to be collected at regular intervals according to the established frequency. Of this amount, a portion will be allocated to interest, based on the rate and the loan amount, and the remaining will be allocated to principal. The client has the option to vary this amount depending on the type of mortgage they have chosen.

### **Principal Balance**

The current amount outstanding on the mortgage.

### **Property Address**

The address the mortgage is placed against. (Civic address)

### **Property survey**

A legal description of your property and its location and dimensions. An up-to-date survey is usually required by your mortgage lender. If not available from the vendor, your lawyer can obtain the property survey for a fee.

### **Refinance**

The process of paying out the existing mortgage for purposes of establishing a new mortgage on the same property under new terms and conditions. This is usually done when a client requires additional funds. The client may be subject to a prepayment cost.

### **Refinance Statement**

Summary of the balances on the mortgage as at a specific date, sent to the solicitor/or the client to establish the amount required for the purpose of refinancing the mortgage to a new mortgage.

### **Renewal/renewing**

Once the original term of your mortgage expires, you have the option of renewing it with the original lender or paying off all of the balance outstanding.

### **Sales taxes**

Taxes applied to the purchase cost of a property. Some properties are exempt from sales tax (GST and/or PST), and some are not. For instance, residential resale properties are usually GST exempt, while new properties require GST. Always ask before signing an offer.

### **Seasonal Holdback**

Specific amount of funds not advanced (held back) as inspection indicates particular portion of construction has not been completed. This is restricted to exterior work on the property that can't be completed due to weather conditions. It must be minor in nature and not prevent occupancy.

### **Service charges**

The extra costs incurred when hooking up hydro, gas, phone, etc. to a new address.

### **Sweat Equity**

If part of the equity is being derived from the customer providing part or all of the "sweat labour" construction and project management expertise, the underwriter must be satisfied that the customer has the necessary skills and time to do the work. An allowance for sweat and project management equity must not exceed half the required minimum equity amount.

### **Taxes**

Mortgage customers are offered the choice to either pay their own property taxes directly to the municipality or have the lender collect taxes as part of their regular payment and remit it to the municipality on their behalf.

**Term**

The length of time during which you pay a specific rate on the mortgage loan (i.e., the number of years in your mortgage contract). This is different from the amortization period. A mortgage is usually amortized over 20-25 years, with a shorter term (typically 6 months to 5 years). After the term expires, the interest rate is usually renegotiated with the lender (your bank, for example).

**Title**

A freehold title gives the holder full and exclusive ownership of land and buildings for an indefinite period of time. In condominium ownership, land and common elements of buildings are owned collectively by all unit owners, while the residential units belong exclusively to the individual owners. A leasehold title gives the holder a right to use and occupy land and buildings for a defined period of time.

**Title Transfer**

When one or more clients on the mortgage are being added, deleted, or being replaced with a new person, or if the mortgagor's status is being changed to or from Co-borrower, or to or from Guarantor. This may happen in situations of marriage or divorce, or for tax purposes.

**Total Debt Service Ratio (TDSR)**

The percentage of gross annual income required to cover all other debts and loans in addition to the cost of servicing the property and the mortgage (principal, interest, taxes, heat etc.)

**Transfer Mortgage**

The process of moving the mortgage debt to a new Financial Institution. A mortgage may be moved to or from one mortgage company to another.

**Turn Key**

A Builder construction package, from groundbreaking to ribbon cutting, handled completely so that all that is left to do, is to turn the keys over to the buyer.

**Variable rate mortgage**

A mortgage with an interest rate that changes with the market. The rate changes each month, meaning that the portion of your monthly payment that goes towards interest may go up or down each month. However, your total monthly payment will probably stay the same.

## **Zoning Bylaws**

Municipal or regional laws that specify or restrict land use.

**For More Information Contact your Mortgage Broker Team at MBT Mortgages. (403) 394-7511**