Glossary of Mortgage Terms

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 period
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.

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.

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

Buy down rate
The portion of the interest rate on a buyer's mortgage that you assume when they buy your home. If you're selling your home and the prospective buyer doesn't like the interest rate on their mortgage, you can offer to add a certain percentage of it onto your existing mortgage

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.

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 Location 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.

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

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 prepayment cost.

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.

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

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 75% 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 (see below).

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

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.

Deed (Certificate of Ownership)
The document signed by the seller 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.

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.

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.

Equity
The interest of the owner in a property over and above all claims against the property. It is usually the difference between the market value of the property and any outstanding encumbrances.

Fire Insurance
Before a mortgage can be advanced, the purchaser must have arranged fire insurance. A certificate or binder from the insurance company may be required on closing.

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 - A legal procedure whereby the lender eventually obtains ownership of the property after the borrower has defaulted on payments.

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.

GE Capital Mortgage Insurance Company of Canada (GEMI)
A private mortgage insurance company. One potential source of mortgage insurance for high-ratio mortgages.

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 GEMI

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.

Home insurance
Insurance to cover both your home and its contents (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
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 aren't accounted for in your first mortgage payment. You have to make an extra payment to make 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 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 is 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 buyer 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.

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).

Lump sum payment
An extra payment that you make to reduce the amount of your mortgage.

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

Maturity Date
Last day of the term of the mortgage agreement

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 Life Insurance
A form of reducing term insurance recommended for all mortgagors. If you die, have a terminal illness, or suffer an accident, the insurance can pay the balance owing on the mortgage. The intent is to protect survivors from the loss of their homes.

Mortgage Critical Illness Insurance
Mortgage Critical Illness Insurance is available as an enhancement to Mortgage Life Insurance. It is recommended for all mortgagors. It can pay off your mortgage -- up to $300,000 -- if you are diagnosed with life-threatening cancer, heart attack or stroke.

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.

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

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

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

Multiple Listing Service (MLS)
A computerized listing of the properties available in your area, including information and pictures of each property.

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 can be prepaid at any time, without penalty.

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

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

Posted rate
This is the interest rate, which we charge on lending you money for your mortgage.

Pre-approved mortgage certificate
A written agreement 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 Option
The ability to prepay all or a portion of the principal balance. Prepayment charges may be incurred on the exercise of prepayment options.

Prepayment Penalty
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.

Principal
The amount of money borrowed for a new mortgage.

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.

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

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 sales tax exempt (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.

Service charges
The extra costs incurred when hooking up hydro, gas, phone, etc. to a new address
Security - In the case of mortgages, real estate offered as collateral for the loan.

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 than 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).

Total Debt Service (TDS) Ratio
The percentage of gross income needed to cover monthly payments for housing and all other debts and financing obligations. The total should generally not exceed 37% of gross monthly income.

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 payment that goes towards interest may go up or down each month. But your total payment will stay the same.

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