



# MORTGAGES

705.626.8493

by Misty

## DEFINITIONS

### ACCELERATED BI WEEKLY MORTGAGE PAYMENTS

This is when your monthly mortgage payments are divided in two and your monthly payments are withdrawn every two weeks. You make 26 payments per year and the payment will be a bit higher than a bi-weekly mortgage payment, but you will be saving money on interest and reduce your amortization schedule.

### ACCELERATED WEEKLY MORTGAGE PAYMENT

This is when your monthly mortgage payments are divided by four and your monthly payments are withdrawn from your bank account weekly. In total, you make 52 payments per year and the payment will be a bit higher than a regular weekly mortgage payment. You will save money on interest and reduce your amortization schedule.

### AGREEMENT OF PURCHASE AND SALE

The written contract between the buyer and the seller of a property. The agreement of purchase and sale includes the purchase price, and conditions from both the buyer and the seller of the property, closing date etc. The Agreement becomes legally binding if the offer is accepted by the seller.

### AMORTIZATION

Refers to the process of paying off a mortgage loan debt over a period of time through regular payments. Typically show through a table detailing payments and balance over your term. The maximum amortization period in Canada is 25 years.

### APPRAISAL

The evaluation of the value of a particular property. Appraisals are used by buyers, sellers and financial institutions to determine the market value of the home.

### ASSUMABLE MORTGAGE

Is a financing agreement wherein the mortgage can be transferred from the seller to a buyer. In doing so, the buyer can avoid having to obtain their own mortgage, but they must pay the previous owner's remaining debt with their mortgage.

### BAD CREDIT MORTGAGE

A mortgage option for individuals who have credit scores below 680. Due to their credit scores they have been turned down by the major banks. Trust companies, private lenders are mortgage providers who can often assist in obtaining such a mortgage.



## BANK OF CANADA

Is Canada's central Bank. It is responsible for determining the overnight interest rates as well as the qualifying stress test rate. The key role of the Bank of Canada is to promote economic and financial welfare of Canada.

## BASIS POINT

A measurement for one hundredth of one percent (0.01%) namely used for expressing differentials of interest rates. If interest rates increase by 50 basis points this is the equivalent of 0.50% increase, for example.

## BI-WEEKLY MORTGAGE PAYMENT

When your mortgage payments are made every two weeks, as opposed to the traditional plan of paying once monthly. On this plan, you would make 26 payments per year when paying bi-weekly.

## BLENDED MORTGAGE

A blended mortgage is when you combine the interest rate from a new mortgage and blend it with the interest rate of the existing mortgage. Often blended rates are used to avoid breaking your mortgage early or to refinance previous loans that are charged a rate higher rate than the old loan's rate but lower than the new loan rate.

## BRIDGE FINANCING

Is a short-term loan that is typically taken out for a period of 2 weeks to 3 years, pending the arrangement of a larger or longer-term financing. Typically this type of arrangement is made when closing date for the home you're selling and the home you're buying do not line up.

## CASH BACK MORTGAGE

Is a certain type of mortgage product, where the lender allows you to receive an additional cash payment to the amount financed to purchase their home. Typically it is between 1-7% of the principal amount you are borrowing. Cash back mortgages always have fixed interest rates so lenders can compensate for the additional money paid out upfront to the borrower.

## CLOSED MORTGAGE

A mortgage that has a prepayment limit. You are only able to pay 15% of the original principal balance of the mortgage per year. Closed mortgages tend to have lower mortgage rates but you will have a hefty prepayment penalty if you go over the limit.

## CLOSING COSTS

Closing costs are all of the legal and administrative fees to be paid at the closing of a real estate transaction. Closing costs can include things such as: land transfer tax, deposit, title insurance, legal fees, prepaid property taxes, prepayment penalty, etc. Closing costs can be paid by either the buyer or seller as per the agreement between the two.



## CLOSING DATE

Is the date of the last day of a real estate transaction (ie. the day you get your keys, or the day your mortgage funds are advanced). The closing date is agreed upon between the buyer and the seller during the negotiation phase and is often set a few weeks after the offer is formally accepted. This is the day when all closing costs are to be paid and ownership of the property is transferred to the buyer.

## COLLATERAL MORTGAGE

A re-advanceable mortgage product that allows your lender to lend you more money as your property value increases, without having to refinance your mortgage. This type of mortgage allows you to avoid the costs and time of refinancing but if you switch lenders you will have to pay fees even if you're up for renewal.

## CONVENTIONAL MORTGAGE

Is a mortgage that is not insured by the federal government. A buyer must put down 20% or more of the purchase price to qualify as a conventional mortgage. Conventional mortgages can have either fixed or variable rates.

## CREDIT SCORE

A number between 300 and 900 that lenders use to evaluate whether or not you will be able to repay the money they may potentially lend to you. A consumer's credit score is based on their credit history and shows how financially trustworthy a person may be. The higher your credit score, the better chances you will have at being able to borrow money.

## DEBT SERVICE RATIOS

There are two calculations that lenders use to determine how much you can afford to buy a home. Your Gross Debt Service (GDS) measures your month costs and Total Debt Service (TDS) measures the total of all your current debt.

## DEFAULT

When you fail to make your monthly mortgage payments and fail to meet the legal obligations of your mortgage loan.

## DEPOSIT

Is typically 1% of the purchase price that the seller's real estate agent will request while writing up the Offer to Purchase on behalf of the seller. The deposit is requested to ensure that the buyer is serious about buying the home.

## DOWN PAYMENT

The amount of money paid upfront before the home purchase can close. The minimum down payment you can make in Canada is 5% of the purchase price. A down payment of 20% or more qualifies you for a conventional mortgage. A down payment of less than 20% requires mortgage default insurance.



## EARLY MORTGAGE RENEWAL

If you have an outstanding balance on your mortgage at the end of your term you will have to renew your mortgage. Many lenders allow you to renew with them in the last 120 days of your current mortgage term, however, some lenders may charge a fee for renewing early. If you renew before the end of your current mortgage term, this is considered an early mortgage renewal.

## EQUITY AND EXIT MORTGAGE

This is the terminology that the industry uses when a temporary short-term mortgage loan is required as an interim solution to get to an end goal of a traditional, longer term mortgage. Homeowners in need of this type of a loan do not typically qualify with their current income or credit. They qualify for a short term, higher interest rate loan or mortgage solely on the amount of equity they have in their property. These loans assume typically higher risk and therefore charge a higher rate. These Equity strategies are generally interest-only for the term and only until the homeowner has a suitable credit score to pay out that higher rate loan (the exit) and qualify for a traditional, lower rate mortgage.

A short term, high interest mortgage loan typically used for self builds, renovation loans and credit build strategies.

## FIRST MORTGAGE

The primary mortgage in first position on the property. Typically, the mortgage used to buy the property is secured by the first mortgage. If the borrower defaults or the property is sold, the first mortgage is paid before any other mortgage lien on the property.

## FIRST-TIME HOMEBUYERS TAX CREDIT

At current taxation rates, is a \$750 rebate for all qualifying first time home buyers in Ontario. To receive your rebate, you must claim it with your personal income tax return within the year of purchase.

## FIXED MORTGAGE RATE

A mortgage rate that stays at the same rate for the entire duration of the mortgage term.

## GROSS DEBT SERVICE RATIO (GDS)

Is a debt service ratio calculation that lenders use to determine how much you can afford to pay each month to own a property. Your lender must add up the potential monthly mortgage payment, utilities and taxes and divide it by your gross monthly income. The ratio must equal less than the industry standard of 32% for the lender to see that the potential borrower has an acceptable level of debt.

## HIGH-RATIO MORTGAGE

A mortgage in which the borrower has put down less than 20% of the purchase price. High ratio mortgages must be insured against default by either Genworth Financial or CMHC to protect the lender in the event of a default.



## HOME BUYER'S PLAN (HBP)

The Home Buyer's Plan is a Canada wide program that allows you to withdraw \$25,000 from your RRSP's tax free to help you purchase a home.

## HOME EQUITY

The value of ownership built up in a home or property. The value is built over time as the owner makes payment on the mortgage. If you take the current market value of your home and subtract the current balance of your mortgage loan, this number will represent the current equity in your home.

## HOME EQUITY LINE OF CREDIT (HELOC)

A home equity line of credit, commonly referred to as a HELOC, is a loan that works similarly to a credit card. You are allowed to borrow up to a certain amount and time set by the lender wherein you can withdraw money as needed. In this type of product, as you pay off principal, you can use it again up to 65% of the value of your home, minus the outstanding balance of your mortgage. Your mortgage balance + HELOC cannot equal more than 80% of the value of your home.

## HOME INSPECTION

A visual inspection of the interior and exterior of a residential home performed for a fee by a home inspector. This is often included as a condition in the Offer to Purchase of a home. The report from the home inspection details whether or not your home is up to code and the features of your home that are broken or need repair.

## INSURED MORTGAGE

A mortgage transaction where the mortgage premium is paid by the client and is insured by one of Canada's three mortgage insurance providers: CMHC, Genworth or Canada Guaranty. This applies to mortgages with less than 20% down payment. Interest rates are typically lower for this type of transaction. Not available for homes with purchase prices of 1 million or more.

## INTEREST

Interest is the amount of money you have to pay the lender to borrow money. It is charged as a percentage on the mortgage and must be paid in addition to the principal being paid on the mortgage.

## LAND TRANSFER TAX

A tax charged all provincial governments, with the exception of Alberta and Saskatchewan, for the transfer of a property one homeowner to another. The tax amount ranges from 0.5 to 4.0 per cent and is paid by the purchaser at the time of closing.

## LAND TRANSFER TAX REBATE

Is a tax rebate for first time homebuyers in Ontario, British Columbia and Prince Edward Island, offered from the government to help offset the land transfer tax cost.



## LENDER/PROVIDER

Banks or other financial institutions that issue loans and lend you the money to purchase your home.

## LIEN

Is essentially a notice attached to the title of your property that says you owe money to a creditor. If you fail to keep up with your payment obligations, you will risk your property going into foreclosure. You need to repay the debts to the creditors to clear the title of any liens against your property.

## LOAN-TO VALUE RATIO (LTV)

A financial term used to express the ratio of your mortgage loan to the value of the property. The higher your LTV is, the riskier your loan is for the lender. To calculate your loan to value, divide your borrow amount by the purchase price. For example, if you borrow \$200,000 to purchase a \$250,000 home, your LTV ratio would be 80%.

## LUMP SUM PAYMENT

A one-time payment made by the borrower to reduce the amount of principal of a mortgage. It can be for the partial or total value of your outstanding mortgage balance and is in addition to the regular instalments that are made on the loan.

## MARKET VALUE (OR ASSESSED VALUE)

An educated opinion of how much your property is worth in the current marketplace. In order to determine the market value of your home, you must have an appraisal done.

## MATURITY DATE

The final payment date of your current mortgage loan term. At maturity, all agreed payments, as specified in your original mortgage paperwork has been paid.

## MONTHLY MORTGAGE PAYMENT

When your mortgage payment is made once monthly on the same day of each month. In total, you will make 12 payments per year.

## MORTGAGE

The loan you borrow from a financial institution to purchase a property.

## MORTGAGE APPLICATION

A document completed and submitted by one or more individuals to apply to borrow money to purchase a property.

## MORTGAGE APPROVAL

Once your Offer to Purchase has been accepted by the seller, your completed mortgage application will be submitted to the lender for approval. If the lender approves the completed application, the mortgage is approved and they will send back a commitment to be signed by the borrower. Don't confuse a mortgage approval with a mortgage pre-approval.



## MORTGAGE BROKER

A licensed mortgage specialist who works as an intermediary between the borrower and the lender. The broker gathers all of the documents necessary for assessing the borrower's ability to secure financing. A broker will negotiate on your behalf to get you the best mortgage product for your needs.

## MORTGAGE DEFAULT INSURANCE

Is an insurance policy that will compensate the mortgage lender should the mortgage default. Mortgage insurance is mandatory for Canadians who have a down payment less than 20% of the purchase price. Two of the largest default insurers are CMHC and Genworth.

## MORTGAGE PRE-APPROVAL

After a careful evaluation of your credit score, debt service ratios and your down payment, a broker or lender will determine the maximum purchase price you can afford and subsequent payment that would go along with it. At the time of pre-approval the broker or lender can get a rate hold for up to 120 days, which guarantees the lowest rate during that time. Once you are pre-approved you may begin house shopping in the agreed upon price range.

## MORTGAGE RATE

The rate of interest charged by a lender when you borrow money to purchase a property.

## MORTGAGE RENEWAL

Is an agreement to extend or renew mortgage terms with your lender. At the end of your current mortgage term, if there is still a balance owing, you must choose to either renew your mortgage with your existing lender, or move to a different lender and incurring a penalty. It's important to assess your financial goals and product before you renew with your current lender and determine the best option for your needs.

## MORTGAGE TERM

The length of time you commit to in which the parameters of a mortgage have legal effect. Once the term is over, if there is a remaining balance on the mortgage it will need to be renewed, paid in full or refinanced.

## NEW TO CANADA MORTGAGE

Mortgage financing process for those who are new to Canada. The type of mortgage the New to Canada resident will qualify for depends on the supporting documentation they provide, status of residency, credit rating and down payment. New to Canada mortgages may need to use one of the mortgage default insurers New to Canada programs.

## OFFER TO PURCHASE

A document drafted by the buyer's real estate agent that details the description of the property, deposit amount, conditions, closing date etc. The Offer to Purchase is then given to the seller to either accept or decline.



## OPEN MORTGAGE

A mortgage that permits that the borrower can prepay principal, even in full, at anytime throughout the mortgage term, without penalty. Open mortgages repayment terms are more flexible than a closed mortgage, however they often come with higher interest rates.

## PORTABLE MORTGAGE

A mortgage that allows the borrower to transfer their mortgage balance from their current property to a new property with the same lender without penalties.

## PREPAYMENT OPTIONS

Increase your monthly mortgage payments or make lump sum payments to pay off the principal of your mortgage balance. Lump sum payments can partially pay off the principal or pay it off entirely.

## PREPAYMENT PENALTY

Your lender may allow you to add a prepayment penalty to your mortgage balance. If they allow this, it means you'll pay interest on your prepayment penalty. You can also pay your prepayment penalty up front if that better suits your needs.

## PRIME RATE

Prime rate is the interest rate lenders charge their best customers. When pertaining to mortgages, prime rate affects those in a variable rate mortgage term which is quoted to you as Prime +/- a percentage. When you are in a variable mortgage, you must be advised that if Prime rate goes up or down, your mortgage rate and payment will reflect this change.

## PRINCIPAL

The amount owing on a mortgage loan, not including interest.

## PRIVATE MORTGAGES

Usually these mortgages come from private funds or private lending companies. They are short term, interest only loans, typically taken by someone who doesn't qualify at a traditional financial institution or has bad credit. Private mortgages have very high interest rates so the hope is that at the end of the term, the borrower will be able to transfer their private, high interest mortgage to a traditional lender at a better rate.

## PROPERTY TAX

A tax rate assessed by and paid to the municipal government based on the market value of the property. The amount is due once per year but can be arranged to be lumped into your monthly mortgage payments.

## PURCHASE PRICE

Is the price that you purchase a home for. The purchase price may differ from the actual market value of the home.





## RATE HOLD

The time period that a lender will guarantee a mortgage loan interest rate. Typically, a rate hold will be held between 30-120 days.

## REAL ESTATE AGENT/REALTOR

A licensed professional who works on your behalf to aid in the purchase or selling of a property or land.

## REVERSE MORTGAGE

A mortgage product for mortgage free homeowners who want to borrow money against the value of their home. No repayment is required until the homeowner either sells the home or dies.

## SECOND MORTGAGE

An additional loan taken out on a property while an original mortgage is still in effect. A second mortgage loan is riskier for the lender because should the property default, the first mortgage is would receive all proceeds of liquidation until it is paid off. The second mortgage would only receive repayments if the first mortgage was paid in full which is why second mortgages always have higher interest rates.

## SELF-EMPLOYED MORTGAGE

Mortgage financing for individuals who are self-employed often requires submitting personal Notices of Assessment. In addition, the lender may require some type of third-party income validation. Self-employed individuals able to provide proof of income are often able to have access to the same mortgage products and rates as traditional mortgages.

## SKIPPED PAYMENT

Many lenders allow for borrowers to have the option of skipping between 1-4 monthly mortgage payments per calendar year. When the payment is skipped, the principal remains on the balance and interest is still added to your mortgage balance.

## TOTAL DEBT SERVICE RATIO (TDS)

One of two debt service ratios used to determine how much you can afford to pay each month to own a property while still fulfilling your current debt commitments. To calculate your Total Debt Service Ratio, your lender will add up the mortgage payment, utilities, property taxes and minimum debt repayments and divide that by your gross monthly income. The TDS ratio must be under the maximum allowed of 44% in order to qualify, preferably under the industry standard of 40%.

## UNINSURED MORTGAGE

Is a Mortgage transaction that is ineligible for insurance. This applies to mortgages with more than 20% down payment. Interest rates are typically higher for this type of transaction.



## VARIABLE MORTGAGE RATE

A mortgage rate that is attached to and will fluctuate depending on the Prime rate. If your lender's Prime rate goes up or down, this will be reflected in your mortgage rates and payments. Variable rates are typically lower than fixed rates, however they do carry more risk than fixed rates.

## WEEKLY MORTGAGE PAYMENT

When your monthly mortgage payment is withdrawn from your bank account every week so you make 52 payments per year.

