mortgage guide

Glossary

The definitions in the following glossary do not cover all terms used in this publication. You will, however, come across most of them at some stage while reading through a contract of sale for a property, a letter of offer for a loan, or the mortgage documents from the lender's solicitor. If you're unclear on any term, seek a satisfactory explanation from the relevant experts or authorities.

Accelerated bi-weekly mortgage payments: Mortgage payments which are made every two weeks for a total of 26 payments per year. Not to be confused with semi-monthly mortgage payments.

Adjustable rate mortgage: A mortgage with a variable interest rate, which adjusts monthly, biannually, or annually. Option-arms and hybrid mortgages are also considered adjustable-rate mortgages.

Amortization period: The actual number of years it will take to repay a mortgage loan in full. This can be well in excess of the loan's term. The standard amortization is 25 years and the maximum amortization period available in Canada is 40 years.

Bi-monthly payments: A mortgage payment plan where half the scheduled monthly payment is made twice a month rather than one payment per month.

Bi-weekly payments: Bi-weekly payments speed up the repayment of your mortgage since you're making the equivalent of one extra monthly payment each year.

Blended payments: Payments consisting of principal and interest components, paid during the amortization period of a mortgage.

Buyer brokerage agreement: A written agreement between the buyer and the buyer's agent, outlining the agency relationship between the two parties and the manner in which the buyer's agent will be compensated. In some provinces, a buyer agency relationship evolves automatically without a written agreement.

Closed mortgage: These lenders offer a mortgage product that locks you into a specific payment schedule. A penalty usually applies if you repay the loan in full before the end of a closed term. A closed mortgage can also be referred to as a fixed mortgage.

Closing: The day that the legal title to the property changes hands.

Commission: An amount agreed to by the seller and the real estate broker/agent and stated in the listing agreement. It's payable to the broker/agent on closing and shared, if applicable, among the salespeople involved.

Compound period: The number of times per year in which the interest rate is compounded. In Canada, mortgages are generally compounded semi-annual, which is twice per year.

Condominium fee: A common payment among owners that's allocated to pay expenses associated with the development.

Conventional mortgage: A loan issued for up to 75% of the property's appraised value or purchase price, whichever is less.

Credit union: A cooperative which operates similarly to a bank, but is owned and controlled by people who use its services.

Debt-service ratio: The measurement of debt payments to gross household income which may include, in addition to the main wage earner's salary, salaries of other wage earners, commissions, bonuses, overtime, etc.

Down payment: An upfront payment to the seller of a property for a portion of the sales price, usually 5–25%. The remainder of the sales price makes up the mortgage amount.

Equity: The value of a property less any and all existing liens. If a borrower owns a property worth $500,000 and has liens of $400,000, equity is $100,000.

Fixed interest rate: A rate that is set to stay consistent for the duration of the term of the mortgage despite fluctuations in the marketplace.

Gross debt service ratio (GDS): The percentage of gross annual income required to cover payments associated with housing. Payments include mortgage principal, interest, property taxes and sometimes secondary financing, heating, condominium fees or pad rent.

High-ratio mortgage: A mortgage that exceeds 75% of the home's appraised value or purchase price, whichever is lower. These mortgages must be insured for payment.

Interest rate: A rate that is charged or paid for the use of money. An interest rate is often expressed as an annual percentage of the principal. It's calculated by dividing the amount of interest by the amount of principal.

Loan purpose: Refers to the type of consumer that each product is geared towards. Either oo = owner occupied housing loan, inv = residential investment housing loan, or both.

Loan term: The actual life of a mortgage contract – from six months to 10 years – at the end of which the mortgage becomes due and payable unless the lender renews the mortgage for another term (see 'amortization').

Loan to value ratio (LTV): The ratio of the loan to the appraised value or purchase price of the property, whichever is lower.

Monthly: A method of repaying a mortgage wherein borrowers get to make a certain monthly payment.

Mortgage broker: A person or company having contacts with financial institutions or individuals wishing to invest in mortgages. The mortgagor pays the broker a fee for arranging the mortgage.

Mortgage insurance: In order to obtain certain types of mortgages, the mortgage is required to be 'insured'. This doesn't relate to fire or life insurance, but in this context it means 'guaranteed'. In other words, the insurer guarantees that the mortgage lender (bank, trust company, etc) won't lose money on that mortgage, providing that they adhere to certain criteria stipulated by the insurer.

Non-bank lender: A mortgage company that originates loans, joining the borrower and lender for a real estate loan, earning a placement fee.

Offer of purchase and sale: The document through which the prospective buyer sets out the price and conditions under which he or she will buy the particular property.

Open mortgage: This product allows partial or full payment of the principal at any time, without penalty. An open mortgage can also be referred to as a variable mortgage.

Portability: A mortgage option that enables borrowers to take their current mortgage with them to another property, without penalty.

Pre-approved mortgage: Qualifies you for a mortgage before you start shopping. You know exactly how much you can spend and are free to make a 'firm' offer when you find the right home.

Prepayment privileges: Voluntary payments in addition to regular mortgage payments.

Prime: The interest rate banks charge to their most creditworthy customers. The rate is determined by the market forces affecting a bank's cost of funds and the rates. In Canada, the prime lending rate is determined by the Governor of the Bank of Canada.

Principal: The amount borrowed or still owing on a mortgage loan. Interest is paid on the principal amount.

Refinancing: Paying off the existing mortgage and arranging a new one or re-negotiating the terms and conditions of an existing mortgage.

Renewal: Re-negotiation of a mortgage loan at the end of a term for a new term.

Seller's agent: The seller's agent represents the seller – either as a listing agent under the listing agreement with the seller or by cooperating as a sub-agent, typically through the MLS® system. In dealing with prospective buyers – customers – the seller's agent can provide a variety of information and services to assist the buyer in his/her decision-making. The seller's agent does not represent the buyer.

Semi-monthly mortgage payments: Mortgage payments which are made on the 1st and 15th of the month, or twice per month, 24 payments per year. Not to be confused with bi-weekly mortgage payments (26 payments per year).

Trust company: Is normally owned by one of three types of structures: an independent partnership, a bank, or a law firm, each of which specialize in being a trustee of various kinds of trusts, and managing estates. The 'trust' name refers to the ability of the institution's trust department to act as a trustee – someone who administers financial assets on behalf of another.

Variable interest rate: A rate that changes in accordance with the rates in the marketplace.

Weekly: Mortgage payments made weekly or 52 times per year.