Kelowna Mortgage Brokers

Most Common Mortgage Terms You Should Know Prior To Purchasing A Home

Before entering into a long-term binding contract, every consumer must know what the many mortgage terms mean. Below is a list covering the basic terms that are normally utilized in a mortgage contract.

Amortization
This is the timetable which determines how frequently you make payments for the duration of your loan. It separates the principal amount from the loan amount and shows how much of your regular payments are going to each. Initially, most of your payments would go towards the interest.

Appraised Value
In order to establish the mortgage amount, the lender will make use of the appraised value. This means the estimate market value of the property and is usually made by a appraiser.

Assessment
To be able to calculate the property taxes that are due, the local municipality evaluates the property value.

Assumable Mortgage
Assumable mortgage is the mortgage which is transferred from the seller to the buyer. When the property is bought, the buyer takes over the task for making the mortgage payments.

Blended Mortgage
A blended mortgage is the combination of two mortgage rates, one of the rates is typically higher compared to the other. The new mortgage would have an interest rate that hovers between the two initial rates.

Bridge Financing
This financing helps the borrower by providing them with money to be able to help them meet their existing obligations between purchasing their new house and the closing date on their existing house.

Buy-down
The method of acquiring a lower interest rate by paying additional points to the lender or purchaser in monthly installments or in one lump sum.

Canada Mortgage and Housing Corporation (CMHC)
The Canada Mortgage and Housing Corporation operated the Mortgage Insurance Fund. This fund ensures that NHA approved lenders are completely insured over any losses which result from the borrower defaulting on the loan.

Closed Mortgage
The borrower cannot make pre-payments or renegotiate the mortgage contract in a closed mortgage.

Commitment
The lender needs to decide to advance mortgage funds of a specified amount under certain situation. A commitment is a written notification that guarantees the prospective borrower of the lenders intent.

Conventional Mortgage
This particular mortgage loan is given when the downpayment is more than 20%. For this particular kind of mortgage, the lender does not need loan insurance.

Debt Service Ratio
This is a specific percentage of a borrower's salary that a lender will allow them to utilize to qualify for a loan. Total Debt Service Ratio means the highest amount that a lender would consent to for all debt repayments, like for example mortgages, credit cards and other loans.

Default
Within the terms of the mortgage contract, a default is when the borrower does not or cannot pay the agreed upon installment payments.

Discharge
A discharge is when the financial burdens are removed from the property. This consists of the mortgage.

Equity
Equity is the total difference between the overall selling property value and the amount mortgage owed. It is considered the owner's "stake" in their property.

First Mortgage
The first mortgage that is taken out on a home. Whatever other mortgages that are secured against the property are known as secondary mortgages.

Foreclosure
A foreclosure is when a borrower defaults on a loan and the lender takes possession and ownership of the house.

Gross Debt Service (GDS) Ratio
This ratio is represents the gross income of a customer that is needed to cover the monthly expenses of housing. It is advised that this percentage must be no higher than 32 percent of your whole monthly earnings.

Gross Household Income -
This is the total household income, like for example wages, commissions and salary prior to deductions. Any member of the

household who are co-applicants for the mortgage are included in this particular amount.

Hazard Insurance
This particular type of insurance policy is required by the lender to make certain that the home is protected from fire, water, weather and other damage.

High Ratio Mortgage
A high ratio mortgage is when the borrower makes a downpayment of less than 20 percent of the loan. The Canada Mortgage and Housing Corporation or a private insurer must insure the loan to be able to protect the lender against non-payment.

Hold-back
To be able to make certain that the building of a house is acceptable, the lender can decide to hold back a particular amount of money that would be paid out at the end of construction or at certain intervals. Normally, the amount that is held is equal to the projected cost to complete construction.

Interest Rate Differential Amount (IRD)
You can be subject to an IRD charge if you pay off the mortgage principal prior to the maturity date or will be required to pay beyond the prepayment amount previously agreed which was agreed upon within the agreement. This amount is determined by calculating the amount being prepaid using an interest rate which is equivalent to the difference between your present mortgage interest rate and the interest rate which the lender is presently charging when re-lending the funds for the remaining mortgage term.

Interim Financing
This financing is short-term. It helps the buyer to smooth the gap between the closing date on their current home and the closing date of their new house.

Maturity Date
This date is the day or time the mortgage agreement will come to an end.

Mortgage
This is a contract that is made between a lender and a borrower. In order to guarantee loan repayment, the borrower will pledge the property as collateral.

Mortgage Broker
The professional who works as the intermediary between the borrower and the lender.

Mortgage Insurance Premium
This is a premium that is added over the mortgage and paid by the borrower over the mortgage terms. This particular amount is usually just charged on a mortgage loan where the downpayment was under 20%. This helps protect the lender against loss in the event of non-payment.

Mortgage Life Insurance
All borrowers can get this particular kind of insurance. Should the owner, or one of the owners, come to an untimely end the insurance company would pay the mortgage's remaining balance. This helps to ensure that the survivors will not lose their property.

Mortgage Payment
Mortgage payments are paid on a regular schedule and goes towards the interest on the mortgage agreement and towards the principal amount.

Mortgage Term
The borrower has a predetermined amount of time to pay back the lender. At the end of the term, the borrower could decide to either repay the remaining principal due or they can renegotiate the mortgage. Terms generally run from six months up to 60 months.

Mortgage Prepayment Penalty
In order to break away from a mortgage deal, the borrower will often incur a mortgage prepayment penalty. This is normally the equivalent to the interest for three months. In several cases, it may likewise be the same amount that the lender would have received via interest until the end of the contract.

Mortgagee
Also known as a lender. This is the entity who lends the money to the borrower.

Mortgagor
The mortgagor is the person or borrower of money from the lender. To be able to promise repayment, the borrower pledges a property as collateral.

Open Mortgage
An open mortgage enables the borrower to prepay or renegotiate their mortgage payments at whatever time and without penalty.

Payment Frequency
Payment frequency is how often the borrower makes a mortgage payment regularly. This could be every week, every other week, monthly or twice a month.

Principal
The amount which is still owned by the lender is known as the principal. The amount of interest charged is determined on the principal amount.

P, I & T
This represents the principal, interest, and taxes still owing on the mortgage.

P & I
This represents the total interest and principal still owed on the mortgage.

Partially Open or Closed Mortgage
In this type of mortgage, the borrower has the chance to prepay a predetermined portion of their principal. Sometimes this is with a penalty and at times not.

Penalty
A certain amount of money which the lender charges the borrower if they choose to prepay a mortgage in part or in full.

Porting
This allows you to move to a different home without having to lose your existing interest rate. You could keep your present term, interest rate and mortgage balance plus save cash by avoiding penalties for early discharge.

Open Mortgage
This particular kind of mortgage enables the borrower to fully renegotiate terms or pay off the mortgage while not incurring penalties.

Refinancing
Refinancing is the process of replacing the existing mortgage model with a new mortgage that has a lower rate of interest.

Renewal
When the mortgage term is completed, the borrower and lender could negotiate for new terms and conditions that are acceptable to both parties. If a settlement cannot be made, the lender is entitled to be repaid in whole. At this point, other financing can be sought by the borrower.

Roll-over Mortgage
This is loan where the interest rate is fixed for a certain amount of time. When the end of the specified term comes around, the mortgage "rolls over". At this point, the borrower and the lender could choose to extend the loan or, otherwise, they could part ways. If they cannot reach an acceptable solution for both parties, the lender is entitled to be repaid in full. At this point, other financing could be sought after by the borrower.

Second Mortgage
A second mortgage is an additional financing agreement made on a home that is already secured. Usually, the second mortgage interest rates are issued on a shorter term and are higher compared to the initial mortgage.

Variable-rate Mortgage
The payments on a variable-rate mortgage is fixed while the interest rate would change according to existing market interest rates. If the interest rates decrease, a larger part of the fixed payment is applied onto the principal amount. Likewise, if the interest rates increase, the amount which goes towards interest increases.

Vendor Take Back
This term refers to the situation in which the property seller pays all or some of the mortgage financing with the hopes of making the property more attractive to prospective customers.