Burnaby Mortgage Brokers

Most Common Mortgage Terms Utilized In Real Estate Deals

There are numerous mortgage terms that every consumer must understand prior to entering in to a binding agreement. Below is a list covering the basic terminology that are normally used in a mortgage agreement.

Amortization
Amortization is the payment schedule that determines the duration and payments of your loan. It separates the loan amount from the principal amount and shows how much of your regular payments are going to each. Initially, the majority of your payments will go towards the interest.

Appraised Value
To be able to determine the mortgage amount, the lender will utilize the appraised value. This refers to the approximate property market value and is commonly made by a appraiser.

Assessment
In order to determine the property taxes which are due, the local municipality assesses the property value.

Assumable Mortgage
A mortgage which is transferred from the seller to the buyer. Once 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 which is usually higher compared to the other. The new mortgage will have an interest rate which hovers between the two initial rates.

Bridge Financing
This financing helps the borrower by providing them with money in order to help them meet their present obligations between the purchase of their new home and the closing date on their existing home.

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

Canada Mortgage and Housing Corporation (CMHC)
The Canada Mortgage and Housing Corporation managed the Mortgage Insurance Fund. This fund makes certain that NHA approved lenders are fully insured over any losses that result from the borrower defaulting on the loan.

Closed Mortgage
In this type of mortgage, the borrower is not allowed to make whatever pre-payments or to renegotiate the mortgage contract.

Commitment
The lender has to choose to advance mortgage funds of a specific amount under certain situation. A commitment is a written notification that assures the prospective borrower of the lenders intention.

Conventional Mortgage
This mortgage loan is given when the downpayment is over 20 percent. For this kind of mortgage, the lender does not require loan insurance.

Debt Service Ratio
This is a specific percentage of a borrower's income which a lender will allow them to use towards qualifying for a loan. Total Debt Service Ratio refers to the highest amount that a lender would consent to for paying all debts, like other loans, mortgages and credit cards.

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

Discharge
A discharge is when the financial burdens are removed from the home. This includes the mortgage.

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

First Mortgage
This is the first mortgage which was taken out on a house. Any other mortgages which are secured against the property are called secondary mortgages.

Foreclosure
If the borrower defaults on a loan, the lender may take possession and ownership of the home. This is known as foreclosure.

Gross Debt Service (GDS) Ratio
This is a percentage of the gross income a customer should in order to cover monthly housing costs. It is suggested that this percentage should be no higher than 32% of your whole monthly income.

Gross Household Income -
This is the total household income, like for instance commissions, salary and wages before deductions. Any household members who are co-applicants for the mortgage are included in this amount.

Hazard Insurance
This particular type of insurance policy is required by the lender to be able to ensure that the house is protected from fire, water, weather and other damage.

High Ratio Mortgage
This is a mortgage where the downpayment is lower than 20 percent of the loan. The Canada Mortgage and Housing Corporation or a private insurer should insure the loan in order to protect the lender against default.

Hold-back
To be able to make certain that the construction of a home is satisfactory, the lender can choose to hold back a particular amount of money which will be paid out at the end of construction or at certain intervals. As a general rule, the amount which is held is equal to the estimated cost to complete construction.

Interest Rate Differential Amount (IRD)
If you pay of your mortgage principal before the maturity date or pay beyond the prepayment amount previously agreed upon within the mortgage contract, you could be subjected to an IRD charge. This amount is established by calculating the amount being prepaid using an interest rate which is equivalent to the difference between the interest rate that the lender is presently charging when re-lending the funds for the remaining mortgage term and your existing mortgage interest rate.

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

Maturity Date
The day that the term of the mortgage contract comes to an end.

Mortgage
The mortgage is the contract made between a borrower and a lender. To be able to guarantee repayment of the loan, the borrower will pledge the property as security.

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

Mortgage Insurance Premium
This is added to the mortgage and should be paid over the mortgage terms. This particular amount is normally just charged on a mortgage loan where the downpayment was less than 20%. This helps protect the lender against loss in case of default.

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

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

Mortgage Term
The prearranged amount of time which the borrower would have to pay back the lender. At the end of the term, the borrower could choose to either repay the remaining principal due or they could renegotiate the mortgage. Terms usually run from six months up to five years.

Mortgage Prepayment Penalty
If the borrower chooses to break an agreement with their lender, they are commonly charged a mortgage prepayment penalty. This is usually the equivalent of three month's interest. In several situations, it can likewise be the same amount that the lender would have received via interest up to the end of the contract.

Mortgagee
The mortgagee is the lending institution who lends the cash to the borrower.

Mortgagor
The mortgagor is the individual or borrower of cash from the lender. To be able to guarantee repayment, the borrower pledges a home as collateral.

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

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

Principal
The initial amount loaned or the part of the mortgage which is still owed to the lender. The interest amount charged is determined on the principal amount.

P, I & T
The total amount of interest, taxes and principal owed on a mortgage.

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

Partially Open or Closed Mortgage
At particular times during the mortgage the borrower is permitted to prepay a predetermined part of their mortgage principal with or without penalty.

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

Porting
Porting will enable the borrower to move another one of their houses without losing their current interest rate. You could keep your present interest rate, mortgage balance and term and save money by avoiding penalties for early discharge.

Open Mortgage
An open mortgage which can be completely paid off or renegotiated within the term without incurring any penalties.

Refinancing
This refers the method of replacing your old mortgage with a new mortgage that offers a lower rate of interest than the previous one.

Renewal
The lender and borrower could renegotiate terms on a new agreement when the mortgage term is finished. If a settlement could not 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 particular kind of loan features a set interest rate over a particular period of time. The mortgage "rolls over" when the end of the specified term comes around. At this point, the lender and the borrower can decide to extend the loan or, otherwise, they could part ways. If they cannot reach a satisfactory solution for both parties, the lender is entitled to be repaid in whole. At this point, other funding can be sought after by the borrower.

Second Mortgage
This is a second financing agreement which is secured by the same house. Generally, the interest rates for a second mortgage are issued on a shorter term and are higher then the first mortgage.

Variable-rate Mortgage
In this type of mortgage, the payments are fixed but the interest rate changes depending on market interest rates. If the interest rates go down, a larger part of the fixed payment is applied onto the principal amount. Also, if the interest rates increase, the amount that goes towards interest increases.

Vendor Take Back
This term refers to the situation wherein the seller of a property pays some or all of the mortgage financing with the hopes of making the house more attractive to potential clients.