1st Choice Savings® and Credit Union Ltd.

MORTGAGE GLOSSARY

2024

Accelerate Bi-Weekly Mortgage Payments:
Mortgage payments that are made every two weeks. If you choose accelerated bi-weekly payments, you will make 26 payments a year.

Amortization Period:
Amortization period refers to the number of years it will take to pay down the principal balance of your mortgage in full. The most common amortization period is 25 years, however you can choose an amortization period of up to 30 years for conventional mortgages.

Amortization Schedule:
An amortization schedule is a table of periodic payments made to a mortgage, showing the amount paid, the amount applied to interest, the amount applied to principal and the remaining balance after the payment is made.

Appraised Value:
Appraised value is the fair market value of a piece of property as determined by a licensed and qualified appraiser.

Asset:
Something that you own that has value or use. Example: RRSPs, vehicle, savings, home, etc.

Assumable Mortgage:
An assumable mortgage is a mortgage that may be transferred without changing the terms of the original mortgage or rate.

Closed Mortgage:
A mortgage that, for a specified term, locks you into paying the mortgage for that period of time. It also locks in a mortgage rate, which doesn't increase/decrease if rates do. Generally, if you break a closed mortgage, you will be required to pay three months' interest payments as a penalty or an interest rate diffrential. The most common term for a closed mortgage is five years.

Closing Costs:
These are costs that are associated with completing the mortgage transaction. Some closing costs could be lawyer fees, title insurance, appraisal fees, and home inspection fees.

Collateral:
A security or guarantee pledged for the repayment of a loan if an individual does not have enough funds to repay. In respect to mortgage loans, the collateral is the property being mortgaged.

Compound Period:
The number of times per year that the interest rate is compounded. In Canada, mortgage interest rates are compounded semi-annually, or twice per year.

Conventional Mortgage:
A mortgage loan that is up to 80% of the home's appraised value or purchase price (whichever is less).

Debt Consolidation:
Debt consolidation is a means of combining several debts into one debt that has one monthly payment

Default:
Failure to pay a debt as agreed. In respect to mortgages, failure to pay mortgage payments or property taxes.

Down Payment:
The amount of cash that the buyer can initially invest in the property. The down payment is the difference between the purchase price and the value of the mortgage loan. The minimum downpayment amount is 5%.

Equity:
The value of the property beyond any amounts being owed, therefore the difference between the price that a home could be sold for and the amount still owing on any mortgages.

Equity Loan:
An equity loan is a loan secured by real estate.

Fair Market Value:
Fair market value (FMV) is defined as the price a ready, willing and able buyer, with knowledge of all pertinent facts, is willing to pay for a certain piece of property.

Fixed Rate Mortgage:
A mortgage for which the interest rate has been fixed for a certain period of time (generally 1-5 years).

Foreclosure:
The legal process in which the mortgage lender sells the mortgaged property because the borrower has defaulted on his or her mortgage loan.

GDS Ratio:
GDS stands for Gross Debt Service. This is the percentage of annual gross income that is required to cover mortgage principal payments, mortgage interest payments, property taxes, and heat payments. If the property is a condominium, condo fees will also be worked into this ratio.

Gift Letter:
This is a letter stating that an immediate family member is making a gift of a certain amount to the mortgage borrower for the down payment of a home. It also states that the gift is genuine and that the home buyer is not required to pay back the gift at any time.

HELOC:
A HELOC is an acronym standing for Home Equity Line of Credit, which is a secured form of payment. the lender uses your home as a guarantee that you will pay the money back you borrow.

High-Ratio Mortgage:
A mortgage that is more than 80% of the home's appraised value or purchase price (whichever is less). High-ratio mortgages must be insured to protect the lender against default up to 95% loan to value.

Home Insurance:
Home insurance provides payment to the homeowner in the event of loss due to fire, theft, or damage through certain natural elements such as hail, tornado, lightning and flooding.

Interest Date:
An adjustment date, or interest adjustment date, is the date in which the interest will begin to accrue on your mortgage, before payment is made on the mortgage.

Interest Rate:
The percentage of the mortgage loan charged by the lender for use of the lender's money. In Canada, this mortgage rate is compounded semi-annually, or twice per year.

Interim Financing:
Also known as a bridge, a interim financing is a second mortgage that is paid of immediately following the closing date of the buyer's current home. Interim financing is typically used when the sale of the buyer's current home closes after the purchase of his or her new home closes.

Job Letter:
A letter from your employer stating your length of employment, guaranteed number of hours worked per week, and income amount.

Liability:
A financial obligation of an individual, such as credit card debt, car payments, mortgage payments, etc.

Lien:
A claim against a property to secure the payment of a debt or other obligation.

Loan:
A borrowed amount of money that is generally repaid in full as well as with a certain amount of interest.

Loan to Value Ratio (LTV):
The ratio of the value of the mortgage loan to the appraised value or purchase price of the property (whichever is less). For example, if someone purchased a home for $100,000 and had $20,000 as a down payment, the mortgage would be $80,000, or 80% of the value of the home (therefore an 80% LTV).

Loans Officer:
A loans officer is an employee of a lending institution that functions as the liaison between that lender and it's customers that are applying for a loan.

Maturity Date:
The date that your mortgage term ends. At this point, you can either pay off your mortgage or renew it.

Mortgage:
To pledge a property to a lender as security on a loan.

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A borrowed amount of money that is generally repaid in full as well as with a certain amount of interest.

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Mortgage Affordability:
Mortgage affordability is the amount of money a mortgage borrower can make on a monthly basis towards a mortgage, based upon their income, expenses, and the proposed monthly payment. A mortgage calculator may be used to determine the GDS (percentage of your monthly household income that covers your housing costs) and TDS (the percentage of your monthly household income that covers your housing costs and any other debts) to determine your income.

Mortgage Amortization:
Mortgage amortization is the process of repaying a mortgage loan.

Mortgage Application:
First step in obtaining financing for a real estate purchase.

Mortgage Balance:
A mortgage balance is the full amount owed at any period of time during the duration of the mortgage, and is the sum of the remaining principal owing and accrued interest.

Mortgage Holder:
A mortgage holder is an individual or entity who owns the mortgage loan that was extended to a homeowner, and is the party entitled to enforce the terms of the mortgage.

Mortgage Insurance:
This is insurance that is required for high-ratio mortgages. It protects the lender in the event that a borrower defaults on a mortgage. The two mortgage insurers available at 1st Choice Savings are CMHC (Canadian Mortgage and Housing Corporation), and Sagen. Prior to the creation of CMHC, Canadians could not purchase a home without a 20% down payment.

Mortgage Life Insurance:
This is insurance that pays off the mortgage in the event of death or disability. To read more about mortgage life insurance, please click here.

Mortgage Principal:
Mortgage principal is the outstanding balance of your mortgage.

Mortgage Rate:
Mortgage rate is the interest that a mortgage borrower will pay for money borrowed against a mortgage.

Mortgage Refinancing:
Mortgage refinancing is the process of replacing your mortgage or mortgages on your property with a new mortgage.

Mortgage Renewal:
A mortgage renewal is a new agreement to extend or renew mortgage terms with your mortgage holder.

Mortgage Statement:
A statement received from your mortgage lender that includes such information as property address, outstanding principal balance, monthly payment, interest rate, mortgage term, etc.

Mortgage Title:
A mortgage deed is a document in which the mortgagor transfers an interest in real estate to a mortgagee for the purpose of providing a mortgage loan.

Notice of Assessment:
This is also known as an NOA. It is the summary form that Revenue Canada sends you after your income tax has been filed. It specifies what you claimed on your taxes last year, as well as the amount of taxes you owe, or the amount of money that you will be received as a tax refund.

Open Mortgage:
This is a mortgage with no term, which means that you can pay off your mortgage either fully or partially at any time with no penalty. Open mortgage rates are usually higher than closed mortgage rates.

Overnight Rate:
The overnight rate is the interest rate at which large banks borrow money, short term, among themselves.

Pay Stub:
Usually a document you receive from your employer on your pay day stating, for that pay period, your gross earnings, the amount of CPP payments deducted, the amount of EI payments deducted, the amount of income taxes deducted, net income, etc. Your pay stub should also state the year to date amounts of all the aforementioned income and payments.

Portable Mortgage:
A portable mortgage is a mortgage that permits the mortgage borrower to transfer their mortgage balance to a new property and with the same lender without penalties.

Portability:
A feature of a mortgage that allows the borrower to “port” their mortgage to a new property if they move before his or her mortgage term is up (with no penalty).

Pre-Approved Mortgage:
A pre-approved mortgage qualifies you for a loan amount before you start looking for houses. It also acts as a rate hold, guaranteeing you today's interest rates until up to 120 days in the future.

Prepayment Privilege:
Some mortgages allow you prepayment privileges. Examples of these are doubling up payments, paying off a certain percentage of your mortgage principal a year, or increasing your monthly mortgage payments by a certain percentage.

Principal:
The amount of money borrowed or still owing on a mortgage.

Prime Rate:
Prime rate or prime lending refers to the lowest commercial interest rate charged by a banks at a particular time.

Property Tax Assessment:
A property tax assessment is a method of placing value on real estate for the purpose of taxation.

Purchase Contract:
A legally binding document stating your (the buyer's) intention to purchase a home from the seller provided that certain conditions be met (such as condition of financing, condition of a home inspection, etc.)

Readvanceable Mortgage:
A readvanceable mortgage is a feature of some mortgage lines of credit, including home equity lines of credit (HELOC) without additional title insurance fees.

Real Estate Agent:
A person who is authorized to act as an agent for the sale of real estate on behalf of the property owner

Real Estate Appraisal:
A report prepared by a real estate appraiser that estimates the value of a home and states features/properties of the home. Lenders generally require appraisals to verify that the buyer has purchased the home for a fair market price, to determine what the market rents are for the home, to ensure that the home meets the lender's standards, to determine how much equity the home owner has in the home, etc.

Refinancing:
Paying off the existing mortgage and arranging a new one with a different lender, or re-negotiating a new term, interest rate, etc. of an existing mortgage.

Renewal:
The re-negotiation of the terms, interest rates, etc. of a mortgage at the end of the term.

Sale Contract:
A sale contract is a written agreement between a buyer and seller of real estate, setting forth the terms of the sale, and specifying the rights and duties of the parties in the real estate transaction.

Second Mortgage:
The mortgage whose holder has the second place claim on assets in the event of default.

Semi-Monthly Mortgage Payments:
Semi monthly mortgage payments are structured for the borrower to make payments 2 times per month, for instance, on the 1st and 15th of each month.

Sweat Equity:
Equity created by a purchaser or homeowner by performing work on a property being purchased or refinanced.

TDS Ratio:
TDS stands for Total Debt Service. This is the percentage of annual gross income that is required to cover mortgage principal payments, mortgage interest payments, property taxes, and heat payments, plus monthly payments of any other debt the borrower holds. If the property is a condominium, condo fees will also be worked into this ratio.

Term:
The length of time the interest rate is fixed. The end of the term is also the time when the borrower must either pay the outstanding mortgage balance, or re-negotiate a new mortgage with the lender. If the borrower pays of his or her mortgage before the term is up, prepayment penalties may apply. The most common term is 1-5 years.

Title Insurance:
Insurance that protects the owner or mortgagee of the property from any lawsuits or claims arising from a defective title.

Underwriting:
The process of deciding whether or not to provide a mortgage loan to a home buyer based on credit, employment, assets and other factors. This is also the matching of the home buyer to a mortgage lender, mortgage product, interest rate, mortgage term, etc.

Variable Rate Mortgage:
A mortgage that has fixed payments, but whose principal portion of the payment fluctuates with interest rate changes. Variable rate mortgages generally fluctuate in respect to the prime lending rate. For example, Prime Rate plus 0.09%.

Void Cheque:
A personal, preprinted cheque with “void” written across is or an AFT from online banking. This is provided to the lender for the account your mortgage payments will be coming out of, as proof that the account is, indeed, yours.