Chilliwack Mortgage Brokers

Different Mortgage Terms Frequently Used In Real Estate Deals

There are some mortgage terminology that each and every customer should understand prior to going in to a binding contract. Here is a list covering the important terminology which are usually utilized in a mortgage agreement.

Amortization
Amortization is the payment schedule which determines the duration and payments 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 will go towards the interest.

Appraised Value
Lenders utilize this amount to be able to determine the mortgage amount. This means the approximate property market value and is commonly made by a appraiser.

Assessment
The local municipality assesses the property value in order to determine the property tax due.

Assumable Mortgage
Assumable mortgage is the mortgage that is transferred from the seller to the buyer. Once the property is purchased, the buyer takes over the responsibility for making the mortgage payments.

Blended Mortgage
A blended mortgage is the combination of two mortgage rates, one of the rates is normally 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 to help them meet their existing obligations between the purchase of their new home and the closing date on their existing house.

Buy-down
A buy-down involves paying the lender in one lump sum or in monthly installments to acquire a lower interest rate.

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

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

Commitment
Under certain situation, a lender could decide to advance mortgage funds of a specific amount. A commitment is a written notice which assures the potential borrower of the lenders intention.

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

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

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

Discharge
When whichever financial burdens, including mortgages, are removed from the house.

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
This is the first mortgage which was taken out on a house. Whichever other mortgages which are secured against the home are called secondary mortgages.

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

Gross Debt Service (GDS) Ratio
This ratio is represents the gross income of a client which is required to cover the monthly expenses of housing. It is suggested that this ratio should not be higher than 32 percent of your total monthly earnings.

Gross Household Income -
This is the total household earnings, including wages, commissions and salary prior to deductions. Any household members who are co-applicants for the mortgage are included in this amount.

Hazard Insurance
Lenders require this particular insurance policy in order to make certain that a home is protected against any damage caused by water, weather, fire, and so forth.

High Ratio Mortgage
This is a mortgage where the downpayment is less than 20 percent of the loan. A private insurer or the Canada Mortgage and Housing Corporation must insure the loan in order to protect the lender against non-payment.

Hold-back
In order to ensure that the building of a house is satisfactory, the lender may decide to hold back a certain amount of money which will be paid out at certain intervals or at the end of construction. Normally, the amount which is held is equal to the estimated cost to complete building the home.

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

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

Maturity Date
The day that the term of the mortgage agreement is finished.

Mortgage
This is an agreement that is made between a borrower and a lender. To be able to ensure loan repayment, the borrower would pledge the property as collateral.

Mortgage Broker
A licensed individual who acts as a liaison between a borrower and a lender for a fee.

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

Mortgage Life Insurance
All borrowers could get this kind of insurance. If the owner, or one of the owners, come to an unfortunate end the insurance company would pay the remaining balance on the mortgage. This helps to make sure that the survivors will not lose their house.

Mortgage Payment
These are payments which are made on a regular schedule which go towards paying off the principal and interest due on a mortgage.

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

Mortgage Prepayment Penalty
If the borrower decides 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 various cases, it may also be the same amount which the lender would have been given via interest until the end of the agreement.

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

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

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

Payment Frequency
The frequency wherein the borrower makes a regular mortgage payment is the payment frequency. This can be on a weekly basis, every other week, monthly or twice a month.

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

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

P & I

This represents the whole interest and principal still owed on the mortgage.

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

Penalty
There is a certain amount of money which can be charged to the borrower is they wish to prepay part or all of their mortgage.

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

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

Refinancing
Refinancing is the method of replacing the current mortgage model with a new mortgage which has a lower rate of interest.

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

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

Second Mortgage
This is a second financing agreement which is secured by the same property. As a general rule, the second mortgage interest rates are issued on a shorter term and are higher then the first mortgage.

Variable-rate Mortgage
In this particular type of mortgage, the payments are fixed but the interest rate changes depending on market interest rates. If the interest rates decrease, a bigger 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
The vendor take back refers to when a seller pays some of the mortgage financing to be able to make the house more appealing to a potential customer or customers.