Richmond Mortgage Brokers

Mortgage Terms Frequently Used And Their Meaning

Prior to going into a long-term binding agreement, every customer should know what the many mortgage terms mean. This is a list covering the basic terms that are usually used in a mortgage agreement.

Amortization
Amortization is the payment timetable 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 determine the mortgage amount, the lender will make use of the appraised value. This means the estimate market value of the property and is normally made by a appraiser.

Assessment
The local municipality evaluates the property value in order to calculate the property tax that is due.

Assumable Mortgage
A mortgage which is transferred to the buyer from the seller. When the property is sold, the buyer takes over the responsibility for paying the mortgage.

Blended Mortgage
A mortgage rate that is created by combining two mortgage rates, with one having a higher rate then the other. The new mortgage will have an interest rate that hovers between the two first rates.

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

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

Canada Mortgage and Housing Corporation (CMHC)
The Canada Mortgage and Housing Corporation operated 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 particular type of mortgage, the borrower is not allowed to make any pre-payments or to renegotiate the mortgage agreement.

Commitment
Under some circumstances, a lender can decide to advance mortgage funds of a specified amount. A commitment is a written notice that guarantees the prospective borrower of the lenders intent.

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

Debt Service Ratio
This ratio represents the percentage of the borrower's salary which the lender will allow them to use in the loan qualifications. Total Debt Service Ratio means the highest amount that a lender will allow for all debt repayments, like other loans, mortgages and credit cards.

Default
When the borrower does not pay the installments which were agreed upon in the terms of the mortgage agreement.

Discharge
A discharge is when the financial burdens are removed from the property. This comprises 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
The first mortgage which is taken out on a property. Whichever other mortgages which 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 client that is needed to be able to cover the monthly costs of housing. It is suggested that this percentage should not be higher than 32 percent of your total monthly earnings.

Gross Household Income -
This number represents the total income of a household prior to deductions, including salary, wages, and commissions. Whoever household members who are co-applicants for the mortgage are included in this amount.

Hazard Insurance
Lenders require this insurance policy to be able to ensure that a home is protected against whichever damage caused by weather, fire, water, and so on.

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

Hold-back
The lender can decide to hold back some of the cash that is to be paid out at the end of construction or at intervals, to be able to make sure that the house construction is completely acceptable. Normally, the held amount is equal to the projected cost to finish construction.

Interest Rate Differential Amount (IRD)
You could be subject to an IRD charge if you pay off the principal of the mortgage before the maturity date or will be required to pay beyond the prepayment amount previously agreed which was agreed upon in the contract. This amount is determined by calculating the amount being prepaid utilizing 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 term of the mortgage and your present mortgage interest rate.

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

Maturity Date
This date is the day or time the mortgage contract will be finish.

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 a premium which 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 less than 20% percent. This helps protect the lender against loss in case of non-payment.

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

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

Mortgage Term
The borrower has a predetermined amount of time to be able to pay back the lender. At the end of the term, the borrower may decide to either renegotiate the mortgage or they could repay the remaining principal due. Terms normally run from six months to five years.

Mortgage Prepayment Penalty
If the borrower decides to break an agreement with their lender, they are usually charged a mortgage prepayment penalty. This is generally the equivalent of three month's interest. In various cases, it could likewise be the same amount which the lender would have been given via interest up to the end of the agreement.

Mortgagee
Likewise known as a lender. This is the individual who lends the cash to the borrower.

Mortgagor
The person who borrows the money is called the mortgagor. In order to promise repayment, the borrower pledges a property as collateral.

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

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

Principal
The amount that 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
The whole amount of interest, taxes and principal owed on a mortgage.

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

Partially Open or Closed Mortgage
In this type of mortgage, the borrower has the opportunity to prepay a prearranged portion of their principal. Sometimes this is with a penalty and occasionally not.

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

Porting
This permits you to move to a different property without having to lose your existing interest rate. You could keep your present mortgage balance, term and interest rate and save money by avoiding early discharge penalties.

Open Mortgage
An open mortgage that could be fully paid off or renegotiated within the term without incurring whatever penalties.

Refinancing
This means the process of replacing your old mortgage with a new mortgage which offers a lower rate of interest than the old one.

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

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

Second Mortgage
A second mortgage is an additional financing contract made on a property that is already secured. As a general rule, the second mortgage interest rates are higher and are issued on a shorter term compared to the first mortgage.

Variable-rate Mortgage
The payments on a variable-rate mortgage is fixed while the rates of interest will fluctuate according to current market interest rates. If the interest rates go down, a larger part of the fixed payment is applied onto the principal amount. Similarly, if the interest rates go up, the amount which goes towards interest increases.

Vendor Take Back
This term means the situation in which the seller of a property pays all or some of the mortgage financing with the hopes of making the property more appealing to potential buyers.