Mortgage Words to Know

AMORTIZATION: The period of time required to completely pay off a mortgage if all conditions are met and all payments are made on time.

APPRAISAL: An estimate of the current market value of a home.

APPRECIATION: An increase in the value of a home or other possession from the time it was purchased.

CLOSED MORTGAGE: A mortgage that can't normally be paid off or renegotiated before the end of the term without the lender's permission and a financial penalty. Some closed mortgages allow for extra or accelerated payments, but only if specified in the mortgage agreement.

CLOSING DATE: The date when the sale of the property becomes final and the new owner takes possession of the home.

CONVENTIONAL MORTGAGE: A mortgage loan equal to or less than 80% of the value of a property (that is, where the down payment is at least 20%). Conventional mortgages don't usually require mortgage loan insurance.

DEFAULT: Failing to make a mortgage payment on time or to otherwise abide by the terms of a mortgage loan agreement. If borrowers' default on their mortgage payments, their lender can charge them a penalty or even take legal action to take possession of their home.

DEFAULT INSURANCE: This insurance protects the lender in the event that the borrower defaults on their mortgage.

DOWN PAYMENT: The upfront payment made when you purchase a home. Typically minimum 5% up to 20% of the purchase price.

EQUITY: The cash value that a homeowner has in their home after subtracting the amount of the mortgage or other debts owed on the property. Equity usually increases over time as the mortgage loan is gradually paid. Changes in overall market values or improvements to a home can also affect the value of the equity.

FIXED INTEREST RATE MORTGAGE: A mortgage with a locked-in interest rate, meaning it won't change during the term of the mortgage.

GROSS DEBT SERVICE (GDS) RATIO: The percentage of a person or household's gross monthly income that goes to pay the mortgage principal and interest, property taxes and heating costs, plus 50% of any condominium maintenance fees or 100% of the annual site lease for leasehold tenure if applicable. To qualify for a mortgage, the borrower's GDS ratio must be at or below 35 or 39% (depending on the lender).

HIGH-RATIO MORTGAGE: A mortgage loan for more than 80% of the value of a property (that is, where the down payment is less than 20%). A high-ratio mortgage usually has to be insured against default with mortgage loan insurance provided by CMHC or a private company.

HOME INSPECTION: A thorough examination and assessment of a home's state and condition by a qualified professional. The examination includes the home's structural, mechanical and electrical systems.

LAND TRANSFER TAX: A tax charged by many provinces and municipalities (usually a percentage of the purchase price) that the buyer must pay upon closing.

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MATURITY DATE: The last day of the term of a mortgage. The mortgage loan must either be paid in full, renegotiated or renewed on this day.

MORTGAGE LIFE INSURANCE: Protects the family of a borrower by paying off the mortgage if the borrower dies.

MORTGAGE TERM: The length of time that the conditions of a mortgage, such as the interest rate and payment schedule, are in effect. At the end of the term, the mortgage loan must either be paid in full, renewed or renegotiated, usually with new conditions.

OPEN MORTGAGE: A flexible mortgage loan that lets a borrower pay off or renegotiate their loan at any time, without having to pay penalties. Because of this flexibility, open mortgages usually have a higher interest rate than closed mortgages.

PAYMENT SCHEDULE: The frequency that mortgage payments can be made. Typically they are bi-weekly (every two weeks), but can be monthly, bi-monthly, accelerated bi-weekly or even monthly.

PRE-APPROVAL: A written agreement that you will get a mortgage for a set amount of money at a set interest rate. Getting pre-approved will lock the rate in for up to 120 days, which allows you to shop for a home without worrying about rates rising. Pre-approval also tells the seller financing will not be an issue.

PITH: An acronym that stands for mortgage "Principal and Interest Payments, Property Taxes and Heating Costs". All the main costs paid by a homeowner on a monthly basis.

PORTABILITY: An option that lets you transfer or switch your mortgage to another home with little or no penalty when you sell your existing home. Mortgage loan insurance can also be transferred to the new home.

PRE-PAYMENT PENALTY: A fee charged by your lender if you pay more money on your mortgage than the prepayment option allows.

PRE-PAYMENT PRIVILEGES: The ability to prepay a portion of the mortgage principal before it is due and without penalty. This extra payment on the mortgage would be applied directly to the principal, as your regularly monthly payment covers the interest.

PRINCIPAL: The amount a person borrows for a loan (not including the interest).

PROPERTY TAXES: These are taxes that are charged by the municipality based on the value of the home. In some cases, the lender will collect property taxes as part of the borrower's mortgage payments and then pay the taxes to the municipality on the borrower's behalf.

PROTECTED (CAPPED) VARIABLE INTEREST RATE MORTGAGE: Similar to a regular variable rate mortgage, the interest rate on a protected (capped) variable will fluctuate. However, it will not rise over a pre-determined maximum rate set by the lender.

REFINANCING: The process of paying out the existing mortgage for purposes of establishing a new mortgage on the same property under new terms and conditions. This is usually done when a client requires additional funds. The client may be subject to a pre-payment cost.

RENEWAL: Once the original term of your mortgage expires, you have the option of renewing it with the original lender or paying off all of the balance outstanding.

TITLE INSURANCE: Protects against losses or damages that could occur because of anything that affects the title to a property (for example, a defect in the title or any liens, encumbrances or servitudes registered against the legal title to a home).

TOTAL DEBT SERVICE (TDS) RATIO: The percentage of a person or household's gross monthly income that goes to pay the mortgage principal and interest, property taxes and heating costs, plus all other debt obligations such as car payments, personal loans or credit card debt. To qualify for a mortgage, the borrower's TDS ratio must be at or below 42% or 44% (depending on the lender).

VARIABLE INTEREST RATE MORTGAGE: A mortgage where the interest rate fluctuates based on the current market conditions. The payments will generally remain the same, but the amount of each payment that goes toward the principal or the interest on the loan changes as interest rates fluctuate. VENDOR: The seller of a property.

VENDOR TAKE-BACK MORTGAGE: A type of mortgage where the seller, not a bank or other financial institution, finances the mortgage loan for the buyer.