Home Buyer's Guide

"Understanding all aspects of buying a home"

DISCOUNT MORTGAGE CANADA

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INTRODUCTION

For most people, buying a home will be the largest purchase they will ever make. Besides being a necessary source of shelter for you and your family, it may also be an important investment for your future.

For this reason, deciding to buy a home (and more specifically which home to buy) can be an intimidating process for anyone, but especially for first time buyers. With so many options to choose from and so many people giving well-meaning advice, buyers enter the real estate market with a lot of confusing and sometimes conflicting information.

Thankfully, there are many professionals who specialize in all the different aspects of real estate transactions that can help both first time and resale buyers. These experts are trained and certified in their respective fields to assist you in making informed choices about your home purchase, financing and legal matters.

This guide has been developed to assist and guide you through the home buying and financing processes. It will provide you with the information necessary to make an informed decision about purchasing and financing your new home.

Mortgage Brokers – Counseling Service

Why should you use a Mortgage Broker? The answer is simple – to SAVE MONEY and time! There is tremendous competition in today's marketplace for your mortgage business. Many people simply go into their local bank or trust company to finance their new home purchase, or to renew or refinance their mortgage. Although convenient, this method only allows you to choose from the mortgage rates, terms and products that particular institution is offering. These are not always the BEST rates, terms and products available in the market. You could conceivably shop around to every local financial institution yourself to find the best mortgage, but that can be time consuming and very confusing.

Mortgage Brokers are trained and licensed professionals who, in many cases, have been senior lending staff at major financial institutions. They have a wealth of knowledge and experience to find the mortgage that best suits your needs. If the lowest rate is your priority, Mortgage Brokers can often arrange mortgages at rates lower than the banks' posted rates (for qualified applicants). Perhaps payment flexibility and discharge options are what you are looking for. In this case, the Mortgage Broker would shop the market for the mortgage with the best pre-payment privileges and options. The point is, Mortgage Brokers do not work for any one financial – they work for and with YOU.

How much does hiring a Mortgage Broker cost?

In an effort to gain a larger market share and reduce fixed salary cost, most financial institutions are paying finder's fees to Mortgage Brokers who refer business to them. This allows the Mortgage Broker, in most cases, to provide you with their valuable service **at no charge to you.**

How can a Mortgage Broker save me money?

Great savings can be realized over the life of your mortgage by choosing to mortgage with the best rate, term, payment flexibility and pre-payment privileges to suit your needs. Most people know that the lower the rate, the less interest your will pay over the term of the mortgage. Your ability to repay your mortgage on a weekly or bi-weekly basis, making periodic or annual pre-payments and shortening the amortization period are also ways of saving interest costs over the life of your mortgage. Mortgage Brokers can often get lower rates than you can from your local institution. Recently the Banks have changed the way they calculate a penalty on an early repayment of a mortgage and a Mortgage Broker can explain how this will impact you as it can be very substantial.

Real Estate Professionals

In this industry certified brokers and their sales representatives are trained to advise you in all aspects of your home purchase and sale. First, they will work with you to select suitable properties to view. Once you find the right home they will walk you through the entire offer and counter-offer process to come to an accepted offer between you and the seller. Real estate professional are trained to evaluate properties and to provide comparable sales so that you can feel comfortable knowing that you are not over paying for a home.

First time buyers can especially benefit from the experience of a real estate professional. Choosing a real estate sales representative is usually your second step. First you have to determine how much you can afford to spend on a home and this is best done with a mortgage broker.

Real Estate Lawyers

As with every other aspect of your home purchase, you will require the services of a professional to handle the legal transactions of your purchase and mortgage financing. The lawyer will act on behalf of both you and the mortgage lender to "close" the real estate and mortgage transactions. Although any lawyer can close the deal for your, it is best to select a lawyer who specializes in real estate transactions.

Since the Agreement of Purchase and Sale is a contract between you and the seller, you may want to insert a clause in the agreement to allow your solicitor to review the offer before waiving of conditions.

Once a lender has issued a Mortgage Commitment to you, they will also forward a copy to your lawyer. These documents are referred to as the Mortgage Instructions. The lawyer will review all the mortgage documents to ensure everything is in your best interest. These instructions tell the lawyer how to prepare the mortgage for registration. Among other things, they will search the title to the property, ensure that taxes and utility accounts are paid, review any subdivision agreements, verify that the municipality's building and zoning requirements have been met and review the property survey.

On closing day, your lawyer will communicate with the seller's lawyer to exchange the relevant documents, money and keys. A transaction is said to be "closed" when these exchanges have taken place. Your lawyer will then register the documents transferring title to the property from the seller to you. Once this is completed, the keys to the property will be made available to you.

Home Inspector

When you make an offer to purchase on a home, the agreement normally includes a clause for an inspection of the property. A qualified home inspector will, for a fee, do an inspection of the home you are buying to determine how well it is built and report on any repairs that are necessary. As part of their service, they will provide you with a detailed, written report of their inspection. Although you do not have to do a home inspection, it is well worth the cost (usually around $400) to ensure that you know the condition of the home before buying it. You can get the name of a home inspector from a home inspector's association in your area or simply ask your realtor for a few names of inspectors they recommend.

Appraisers

These registered and accredited professionals assess the value of your property in the current market. Since the real estate market fluctuates over time, they must balance their appraisal based on the value of the property with its value in the current market. Unless you order an appraisal for your own purposes, appraisal reports are prepared for and become the property of a specific lending institution or for CMHC (Canadian Mortgage and Housing Corporation). They are commonly used to make sure the home you are buying is worth what you are paying.

Insurance Professionals

As a homeowner, your property and life insurance needs will change. By consulting an insurance broker or agent, they can evaluate your financial situation to determine the amount of insurance you require. All lending institutions require that your home be insured against fire for its full replacement value. You may also wish to purchase mortgage life insurance which pays off your entire mortgage should you and/or the co-owner die. The cost of this insurance, which is based on your age, single or joint coverage and the mortgage amount, is relatively low. The Mortgage Broker will offer you mortgage insurance as part of the Mortgage process and in many circumstances a better rate than the Mortgage Insurance offered by the banks.

The coverage offered by most brokers has a portability clause, which will allow you to keep the insurance even if you move the mortgage to another lender. This is a very important feature in the event that your health changes and you become uninsured you would be able to keep the insurance providing that you continue to make your payments.

The cost of insurance increases as you get older and if you were to change mortgage companies 5 years later and apply for new insurance the premiums will be higher because you are now 5 years older. If you keep the existing mortgage insurance then generally the premiums will remain unchanged.

Title Insurance Companies

In order to ensure that a lender has a clear and valid title to the property being mortgaged, they require a number of searches to take place. The lawyer who closes the mortgage will, as part of his or her duties, certify that title to the property is clear of any liens and confirm with the city that the property is zoned for its intended use. Usually, a survey is required as part of this process. In cases where a survey is either unacceptable or not available, title insurance is an option many lenders will accept instead. The cost of a new survey is approximately $2,000 whereas Title Insurance can cost around $200. As the buyer, you would be required to pay for the title insurance coverage. For an additional fee, the title insurance company can add your name to the policy, which will protect you financially in the event that a deficiency in title.

An example of how title insurance helped a home owner:

Our clients purchased a side by side duplex with a legal accessory apartment in one of the units. While the title search was completed at the time of purchase and the city did verify that the property was legal and confirmed they would not come out and inspect the property, a few years later it was discovered that each unit had additional bedrooms added that was not part of the original building permit. As such, the city required that the new owner provide new plans and bring the property up to current building codes. In this situation the title company steps up and did all the work to bring the property into compliance.

Pre-Qualification:

It is a wise idea to get "pre-qualified" before you start looking for a home. Your mortgage broker can calculate the price range you should be looking at within your budget. This calculation takes into account your total family income, the amount you have available for a down payment, estimated property taxes, heating cost, condo fees (where applicable) and other monthly expenses (credit cards, etc.). Once you have been pre-qualified, you'll have a better idea in what price range your new home purchase will be and the estimated costs involved.

Pre-Approval:

Although pre-qualification is an important first step, most professionals recommend that you go the extra step and get "pre-approved" for a mortgage before your make an offer to purchase on a new home. Pre-approval involves a few extra steps but is worth the time to ensure that you will be able to obtain mortgage financing. Besides calculating your maximum purchase price, pre-approvals usually "lock-in" an interest rate for a specified period (60-120 days) to protect you in the event mortgage rates rise. The lending institution will review your application and credit history to ensure they meet their guidelines. Once approved, the lender will issue a "Pre-Approval Certificate" quoting the rate, expiry date, maximum mortgage amount and any conditions of their approval (i.e. satisfactory appraisal of the property being purchased and approval from CMHC in hi-ratio mortgages).

Benefits of Pre-approved Mortgages vs. Pre-qualification:

As mentioned earlier, an important first step it to be pre-qualified and approved for a mortgage before making an offer to purchase on a home. Do not confuse "pre-qualification" with "pre-approval". Pre-qualification is simply a calculation used to determine your maximum purchase price. Your application would then still require approval by a mortgage lender once you purchase a home. Pre-approvals ensure that you (as a borrower) meet all of the lending institution's criteria so that only the property needs final approval once you make an offer. Since a pre-approved has only approved you as a borrower, it is still a wise idea to place a "conditional upon financing" clause in any offer to purchase you make. This will ensure that you do not get stuck in an offer with a property that the lender or CMHC considers unacceptable. Being pre-approved will help to speed up the mortgage financing process and allow you to waive your financing clause more quickly.

Resale Buyers' Information

Most of the attention these days has been on assisting first time buyers into the house market; however resale buyers will also benefit from the services provided by real estate, mortgage and legal professionals. Although this may not be your first foray into the world of real estate transactions, there are other factors to be taken into account. For example, you will have to co-ordinate both the sale of your existing home and the purchase of the new home. You Real Estate professional can help your with this. It is also a wise idea to be pre-qualified and approved for the new home purchase before beginning your search.

General Information

There are many factors taken into consideration when a mortgage lender is qualifying you for a purchase. Among the deciding factors are family income & job stability, past credit history, net worth (assets minus liabilities), sources of down payment, the amount of the mortgage with its percentage of the purchase price, and finally your debt service ratios. You will be asked to fill out a mortgage application and authorize the institution to perform a credit investigation (also called a Credit Bureau or “Bureau” for short).

There are many sources of funds to finance your purchase: banks, trust companies, life insurance companies, other finance companies, and private lenders. Your mortgage broker can submit your application to any combination of the above in order to arrange suitable financing to meet your needs. Most lenders have similar criteria under which they will lend, however each institution has its own set of guidelines and the decision to lend is made in the best judgment of the individual underwriter. The guidelines that follow are generally accepted in the industry.

Job Stability

Lenders like to see the progression of your employment over a two to five year period. Generally speaking, the minimum length of time on your current job that is considered acceptable is 1 year. If you have been employed less than 1 year in your current job, the lender may make an exception provided your current job is related to your previous one (i.e. in the same industry) or you were previously in school.

Sources of Income

Whether you are a salaried, hourly, or commission-based employee, the lender will require proof of your income. In order to “use” your income for qualification purposes, the lender must be confident that it is: (1) stable and likely to continue over a reasonable period of time, and (2) declared to the government on your income tax return. Any income that is earned as “cash” or “under the table” cannot be used to qualify you for a mortgage. It is up to the lender to decide what is appropriate in each case. If you are self-employed or on contract, the income verification process is a bit more complicated in that you will have to provide a minimum of 2 years’ worth of business financial statements and /or tax returns. Each situation is different, so the requirements will vary from client to client and lender to lender. The two year rule also applies when you are using overtime to qualify.

Employment income verification

Salary: Signed and dated letter from authorized officer of the company outlining base annual salary, length of employment, any additional commissions or bonuses to be paid, deductions taken at the source (UIC, CPP...)

Hourly: Same as above, except that hourly rate and number of hours worked per week must also be stated in the letter. Recent pay-stubs will also be requested.

Commission: Same as above, PLUS outline of commission structure, history of earnings (3years), commissions earned year-to-date, two years Notices of Assessment and projected year-end commissions. This rule also applies to contract workers.

Part Time: Income can be used to qualify provided you have been earning it at a consistent level for the past 2 years, generally they will take the average of the two years or the lower amount if it is the most recent year. A salary letter (as above) and pay-stubs would be required.

Self-Employed: 3 years' records of the following:
Business Financial Statements, HST statement
Personal Tax Returns (will also require Revenue Canada Notice of Assessment)

Other sources of income

As with employment income, you will also have to provide proof of any other sources of income you may have (provided they are being "used" in the GDS/TDS calculations). Below are some of the most common sources of income and the documentation required:

<u>**Source of Income**</u>	<u>**Documentation required:**</u>
Rental Income:	Copy of the lease(s) on the property stating the monthly rent(s). If the rent is coming from a property that you do not live in, you will also be required to provide a copy of the mortgage statement and list of expenses to maintain the property (i.e. insurance cost, maintenance, etc.).
Investment Income:	Copy of bank, insurance, or investment company statements confirming the length, nature, and amount of the investment as well as the monthly income. Examples of this would be income from bonds, stacks, GICs, RRIFs, Annuities or trust accounts.
Pension Income:	Whether private or government pensions, a copy of a letter of confirmation and/or cheque stubs are needed. The nature and source of the pension must be disclosed. The pension must be permanent to be used to qualify. Examples of income that fall into this category are: Canada Pension Plan (retirement as well as disability), Old Age Security, Worker's Compensation, Super-annuation and private employees' pension plans. Unemployment Insurance income may be used in certain parts of the country and only under certain circumstances. Check with your local CMHC office for their guidelines.
Support or Alimony:	A copy of the legal separation agreement confirming the amount of the support, the terms (if any) and length of time it has been in place for. In cases where a legal separation agreement does not exist, it would be the lender's decision as to what type of confirmation would be acceptable to them.

In all the above cases, the lender may request 2-3 years' copies of your Revenue Canada Notice of Assessment.

Credit history:

Since your past credit activity is considered to be the best indicator of your future ability and/or willingness to repay debt, the lender will rely heavily on your credit rating to make a lending decision. They will request a credit report from your local credit bureau. This report is referred to in the industry simply as a "bureau". The bureau will show all your past credit activity including loans, credit cards, lines of credit, collections, judgments, and bankruptcies for the past seven (7) years. Each item on the bureau is given a rating from zero (0) to nine (9). Zero represents an inactive account and 9 represents an account that had been "written off" or bad debt. The best rating is a 1. You will hear terms such as "I2" or "R9" which are the codes given to evaluate each debt reported on the bureau. The rating will start with an R, I or O depending on the type of debt, but the number ratings mean the same thing.

To avoid surprises or misunderstanding, it is best to be up front about any past credit problem you may have had. As long as your past credit problems are supported by a valid explanation, they will be considered to be part of your past and you may still be approved for a mortgage. Your ability to re-establish a good credit rating since having problems is given strong consideration in the lending decision.

Each lender has its own criteria to assess your credit worthiness, however if your application must be submitted to CMHC, their guidelines must be adhered to. Generally speaking, the higher the loan to value ratio (i.e. 80% or 95%), the stricter the lenders will be evaluating your credit history.

Net Worth

Your net worth is the total of your assets (what you own) minus your liabilities (what you owe). Although your ability to repay your mortgage is not necessarily dictated by your net worth, it may indicate your financial responsibility. The lender may use your net worth as an indicator of your savings and spending habits to determine if you will likely run into trouble making your mortgage payments if you lose your job. For example, do you save part of your pay cheque on a regular basis? Do you contribute to an RRSP? Does your net worth accurately reflect your level of income?

Source of down payment

The lender will also want to know where your down payment is coming from. That is, have you saved the funds yourself over a period of time? Do you have stocks, bonds, RRSPs, mutual funds or other investments that you are cashing? Are you receiving a gift from a relative? Are you selling an asset you already own?

The amount of your down payment relative to the purchase price will also be evaluated. A lender's decision to approve the mortgage application will also take into account what percentage of equity you will have in the property. For example, are you putting down 20% of the purchase price from your own (saved) funds or will you be receiving a gift for 5% of the purchase price?

Wherever your down payment is coming from, the lender will require documented proof of its source:

Source of Down Payment	Confirmation required
Funds you already have on deposit	Copies of bank statements or investment statements showing the current balance and a three (3) month history of the activity of the account. Any large "lump sum" deposits to the account will have to be supported by an explanation and receipts (i.e. if you received a $3,000 income tax refund, they would want a copy of the cheque stub).
Gift from a relative	Along with a copy of the gift cheque, a letter from relative stating their name, address & phone number, their relationship to you (must be a family member), amount of the gift and state that it is non-repayable. They may also require that the relative prove that they have the resources available to give such a gift (copies of bank statements, etc.).

Sale of personal property	Copy of the bill of sale, cheque and deposit of funds into your account. Personal property could be a car, boat, coin collection etc.
Deposits made to a homebuilder	Copies of all the deposit cheques and copies of your bank statement to show accumulated funds and withdrawal of each deposit cheque.
Sale of existing home	Usually the lawyer will provide this confirmation to the lender directly. They will confirm the equity remaining after the sale of your home (less any real estate commissions) and any existing mortgages are paid off. The document the lawyer prepares is often called a Statement of Adjustments.

Income & expenses (GDS/TDS ratios)

GDS (Gross Debt Service) and TDS (Total Debt Service) ratios are the two factors that lenders and CMHC take into consideration when they are determining how much of a mortgage you qualify for. These ratios take into account your gross family income (before taxes) and divide that into your expenses. The maximum GDS ratio is 32% and the maximum TDS is 40%. These values can differ from one lender to another, but they represent the guidelines set by CMHC. Check with your Mortgage Broker to determine if you qualify for a mortgage beyond these limits.

GDS and TDS are calculated as follows:

P.I.T.H. = (Principal, Interest, Taxes and Heat), which means: Mortgage principal and interest payment + property taxes + heating costs + ½ of condo maintenance fees if applicable).

$$\text{GDS} = \frac{\text{P.I.T.H.}}{\text{Gross Family Income}} \qquad \text{(Maximum 32\%)}$$

$$\text{TDS} = \frac{\text{P.I.T.H. + Other Expenses*}}{\text{Gross Family Income}} \qquad \text{(Maximum 40\%)}$$

- Includes loan, credit card, and other monthly obligations

Property information and documentation

After evaluating you as a mortgage applicant, the second part of the mortgage approval process looks at the property you are purchasing. As a mortgagee, the lender will be concerned with the property they will be using as security for their mortgage. They will want to know the specifics of the property, namely the asking price, purchase price, location, size, construction, layout, etc. You, your lawyer and/or your real estate agent will have to provide the following documents to the lender:

1) A fully executed copy of the Agreement of Purchase and Sale along with all the attached schedules, amendments and waivers. Fully executed means that all the pages, additions and changes have been signed and/or initialed by all parties.

   2) An MLS listing or feature sheet and picture of the property. Among other things, this contains details of the location, condition, asking price and features of the home.

2) A recent (no more than 60 day old) appraisal of the property to determine the lending/market value. If the application will be submitted to CMHC, usually they will undertake to evaluate the lending value of the property, so it would not be necessary to order one. In some cases, CMHC

may still require an outside appraisal to be performed. In other cases, where the application is not being submitted to CMHC, the lender would determine whether an appraisal is necessary.

Below are the definitions of some of the more common terms you will hear with respect to your home purchase and financing.

Conventional

The conventional mortgage is one that is offered on new and existing homes, for up to 80% of the purchase price. This means that the homebuyer must have a t least 20% of the purchase price available for a down payment. Conventional mortgages do not normally have to be insured through CMHC.

High Ratio

The term “high ratio” refers to mortgages that represent more than 80% of the value of the purchased property. This means that purchasers would only be required to have between 19.9% and 5% of the purchase price for a down payment. High ratio mortgages must be insured through CMHC (Canada Mortgage and Housing Corporation), or an approved private insurer. The insurance premium that is paid to CMHC is to protect the lender in the event that the mortgage is not paid and the bank has to take back the property. This is not the same as mortgage life insurance and the only benefit to the borrowers is that it allows them to purchase a home with a minimum down payment. Qualified buyers may also be able to put down as little as 5% of the purchase price. Refer to the section on CMHC’s First Time Home Buyer’s Program for details.

Freehold Ownership

Owner has title to and full use of the land and buildings on it over an indefinite period.

Leasehold

A person has use of the property for a limited time. Usually, the land is owned by the federal, provincial, or municipal government and land lease payments are made to them. In the case of a residential home purchase, the purchaser owns the building but not the land on which it sits. The term “leasehold” can also refer to situations where both the building and the land are being leased.

Condominium

Owner has full and sole use of a housing unit. The owner shares ownership of common space such as parking garage and recreation areas with others who all belong to the same condominium group. Since ownership of common space is shared, so are repair, maintenance and replacement costs. These costs are charged back to individual owners through condominium fees and contingency funds.

Co-operative

Persons have a share in a residential project. They do not have ownership of a particular unit, but as shareholders they each have use of a unit.

Co-ownership

Co-ownership occurs when the ownership of the whole property is divided (not necessarily on a pro-rated basis) between two or more individuals. Usually there is a written agreement between each of the co-owners in which the rights of each co-owner is described. Each co-owner may sell his or her right of ownership or dispose of it as he or she wishes.

Joint tenancy
If you buy a home with another person or with several other people, many types of ownership agreements can be in place. As joint tenants, each owner holds an equal share in the property regardless of his or her individual financial contribution. If an owner dies without any specific arrangements having been made, his or her share is automatically transferred to the other owner(s).

Tenants in Common or Undivided Ownership

Each owner holds a specific portion of the property but the portions do not have to be equal. Each individual owner can sell or assign his or her share to any other person, subject to any restrictions that were originally stated in the deed. Rights of survivorship do not exist in this case, so upon the death of one of the owners, their share becomes part of their estate and is dealt with according to the provisions set out in their will.

Closed Mortgage

The term "closed" refers to the fact that the mortgage cannot be paid down, neither in full nor in part, prior to maturity. Closed mortgages usually have a lower interest rate than open mortgages, but do not allow the borrower much flexibility to pay the balance off. Most closed mortgages have a provision to allow repayment in the case of a sale and some will allow portions of the principal to be repaid at specified times and amounts. Many different prepayment options are available which allow flexibility to borrowers wishing to reduce mortgage principal. Usually, a closed mortgage will have a fixed rate of interest (see Fixed Rate, below).

A closed mortgage is a good choice for those who want the security of knowing their mortgage rate will be the lowest possible and that their payments will not change until the end of the mortgage term.

Open Mortgage

Allows borrowers to repay all or part of the total amount of their mortgage at any time without penalty.

Because of this flexibility, this mortgage is ideal for borrowers who plan to sell their homes or otherwise pay out their mortgage in the near future. An open mortgage also provides flexibility for borrowers who may wish to take advantage of lower rates and lock in (convert) to a longer-term mortgage at a moment's notice. However, if the sole reason for wanting an open mortgage is to allow conversion to a longer term, the borrower may be better served by obtaining a convertible mortgage.

Convertible Mortgage

A closed, short-term mortgage, usually 6 (six) or 12 (twelve) months, which allows the borrower to switch into a longer term at any time without penalty. The rate is usually lower than the open mortgage because the only option available is to convert it to a fixed term.

There are two types of convertible mortgages:
<u>Closed (with conversion option):</u> Allows the borrower the option to convert to a longer term at any time during the term of the mortgage or roll over to a similar term at maturity. It may also be paid off or transferred out at the end of the 6 or 12-month term. Since these mortgages are registered as 6 or 12 month terms, they are best suited for people who want to watch the market over the short term before deciding if and when to lock in.

<u>Convertible (Lock & Roll or Wait & See mortgage):</u> These mortgages are usually registered for 3 or 5 year term with the rate adjusting every month and tied to the prime lending rate of the lender. The borrower has the option to keep "rolling over" at current rates or "locking in" to the longer term at any time. They usually have lower interest rates than the closed/convertible mortgage because they cannot be transferred out (without penalty) prior to maturity of the full registered term. Since the terms and

options of convertible mortgages vary greatly from one lender to the next, it is best to inquire about the mortgage details from each lender. This mortgage is best suited for people who know they want to lock in to a longer term mortgage but who want to watch the market over a 6 or 12 month period to determine the best time to lock in.

Fixed Rate Mortgage

Both closed and open mortgages can have the feature of a fixed rate. This means that the rate of interest is set for the term of the mortgage, which may be as long as 25 years or as short as 6 months. Because of this, the regular payment amount of the principal and interest remains the same throughout the term.

Variable Rate Mortgage

The rate of interest changes from time to time as money market conditions change, but usually no more often than once a month this type of mortgage was developed in order to provide maximum flexibility to borrowers in times of volatile or fluctuating interest rates.

Although the interest rate charged on the mortgage fluctuates, the amount of the regular payment usually does not change throughout the term of the mortgage. Because of this, the rate fluctuation will affect the way each payment is applied. Since payments are made up of both principal and interest, when rates go down, more of the regular payment will be applied towards the principal. If interest rates rise dramatically, the regular payment may not cover all of the interest. In this case, the borrower may be required to make up the difference, or it could be added back onto the mortgage itself. Long period of rising interest rates can result in eroding your equity in the house. Since most variable rate mortgages offer conversion options, it may be wise to consider locking into a fixed term mortgage at that time.

Payment options

Payments can be made monthly, semi-monthly, bi-weekly or weekly.

Regular payments

Regular payments are made on specified day, at a specified frequency (i.e. monthly, semi-monthly, bi-weekly or weekly). If all the payments are made as agreed, the mortgage will fully amortize in the specified period of time.

Accelerated payments

Accelerated payments are made to help you pay your mortgage off faster. By making accelerated bi-weekly or weekly payments you can reduce the amortization of your mortgage by approximately 5 years (on a 25 year amortization). Accelerated bi-weekly payments are calculated by taking the regular monthly payment and dividing it by 2. For accelerated weekly payments, divide the monthly payment by 4. The effect of accelerated payments is that you are making the equivalent of one extra monthly payment per year, thus paying down the principal faster. You can also accelerate your payments by increasing the amount of the regular monthly payment. Most lenders allow you to increase your payments by 10-15% annually – some even allow you to “double-up” your payments (i.e. make two payments in any given month). By accelerating your payments, you will pay off your mortgage faster and save thousands of dollars over the long term. (Note that, unless the payment amount is voluntarily increased, semi-monthly payments are not considered to be accelerated).

Amortization periods

The gradual repayment of a debt by means of partial payments on the principal at regular intervals. The amortization period is the time required to repay the debt completely.

The amortization period has a dramatic effect on the amount of interest paid over the length of the mortgage. Consider the following example:

$100,000 mortgage with an interest rate of 8%
a) With a 25 year amortization, the monthly payments are $763.21
b) With a 20-year amortization, the monthly payments are increased by $65.15 to $828.36. The savings in interest would be $30,158.24
c) With a 15-year amortization, the monthly payments are increased by $184.94 to $948.15. The savings in interest would be $58,296.51
- The example assumes the interest rate will remain constant.

AMORTIZATION AND PAYMENT FREQUENCY COMPARISIONS

MORTGAGE AMOUNT:	**$100,000**	**AMORTIZATION:**	**25 YEARS**
INTEREST RATE:	**8%**	**INTEREST PAID:**	**$128,964.04**

AMORTIZATION	PAYMENT	FREQEUNCY	INTEREST PAID	EFFECTIVE AM	SAVINGS
15 YEARS	$237.04	WEEKLY	$59,178.49	13 YEARS	$69,785.55
15 YEARS	$474.08	BI-WEEKLY	$59,386,72	13 YEARS	$69,577.32
15 YEARS	$948.15	MONTHLY	$70.667.53	15 YEARS	$58,296.51
20 YEARS	$207.09	WEEKLY	$79,228.02	16.5 YEARS	$49,736.02
20 YEARS	$414.18	BI-WEEKLY	$79,507.13	16.5 YEARS	$49,456.91
25 YEARS	$190.80	WEEKLY	$98,122.80	20 YEARS	$30,841.24
25 YEARS	$381.61	BI-WEEKLY	$98,485.12	20 YEARS	$30,478.92
20 YEARS	$828.36	MONTHLY	$98,805.80	20 YEARS	$30,158.24
25 YEARS	$763.21	MONTHLY	$128,964.04	25 YEARS	$0.00

Portable & Assumable Mortgages

Portability & assumability features offer additional flexibility. Portable means that the borrower can take their current mortgage to a new home at the same rate, etc. If the current mortgage is not enough to cover the purchase of the new home, the lender will often let you increase the mortgage and charge you current rates only on the portion being increased (called "blending" the rate).

Assumable means that, with the consent of the lender, the buyers of a home may "take over" the seller's mortgage. Allowing a prospective buyer to assume your mortgage when the rate is lower than current market rates may increase the marketability of the property being sold.

What is CMHC's role?

Canada Mortgage and Housing Corporation is a crown corporation whose broad mandate includes a program to assist Canadians with housing matters. The most frequent contact most people will have with CMHC will be as a provider of mortgage insurance on high ratio mortgages.

By law, financial institutions require that all mortgages with a loan to value ratio greater than 80% be insured against default. CMHC provides mortgage loan insurance to approved lenders in the event that the homeowner defaults on their mortgage. Depending on the situation, a lender may also request that a conventional mortgage be insured through CMHC. There are now three Mortgage Insurers in Canada, CMHC, Genworth and AIG and soon to be additional insurers.

CMHC Fees, premiums, and tax rates

How Much Does CMHC Mortgage Loan Insurance Cost?

To obtain CMHC Mortgage Loan Insurance, lenders pay an insurance premium. Typically, your lender will pass these costs on to you. Your lender will give you the exact price when you apply for a mortgage.

The CMHC Mortgage Loan Insurance premium is calculated as a percentage of the loan and is based on the size of your down payment. The higher the percentage of the total house price/value that you borrow, the higher percentage you will pay in insurance premiums.

Remember: without mortgage insurance you may avoid the insurance premium but you'll typically pay much higher interest rates and additional administrative fees. At the end of the day, for the vast majority of borrowers, the cost of CMHC Mortgage Loan Insurance is more than fully offset by the savings achieved.

A 10% premium refund may be available when CMHC Mortgage Loan Insurance is used to finance an Energy-Efficient Home.

Loan-to-Value	Premium on Total Loan	Premium on Increase to Loan Amount for Portability and Refinance
Up to and including 65%	0.60%	0.60%
Up to and including 75%	0.75%	2.60%
Up to and including 80%	1.25%	3.15%
Up to and including 85%	1.80%	4.00%*
Up to and including 90%	2.40%	4.90%*
Up to and including 95%	3.60%	5.65%*
90.01% to 95% — Non-Traditional Down Payment**	3.85%	*

Provincial Sales Tax

In some provinces, CMHC premiums are subject to provincial sales tax. This tax is payable by the borrower and, unlike the premium itself, may not be added to the mortgage.

First Time Home Buyers' Program guidelines (5% down)

This program was introduced in 1992 to facilitate the purchase of a first home. The following guidelines apply to qualified purchasers: This program has changed in that all purchasers can purchase a home with as little as 5% down payment for properties under $500,000, purchases above $500,000 will require 10% min down payments over the $500,000 price.

Eligible borrowers

In order to qualify as first time home buyer, the applicant(s) must intend to occupy the property as their principal residence and must not have owned their principal residence in the last 5 years, with some exceptions. Where there is more than one buyer, only one of the co-buyers must qualify as a "first-time buyer". This program has been extended to all applicants and the first time homebuyer status only applies to using your RRSP as part of your down payment.

Required Equity

Under this program, you must have a minimum of 5% of the purchase price UP TO $500,000 PURCHASE PRICE) of the home from your own resources (i.e. not borrowed). Gifts from family members are considered an acceptable form of equity; however where the minimum equity requirement is being met by way of a financial gift, the funds must be in possession of the borrower 15 days before the closing date. Borrowers are required to demonstrate, at the time of application, their ability to cover closing costs equal to at least l.5% of the purchase price. ***Closing costs are generally higher but you would only need to provide proof of 1.5%.***

Qualification

CMHC's normal debt service ratios of 32% GDS and 40% TDS remain the same for first time buyers. The maximum amortization period is 25years

Properties and Locations (Maximum Loan Amounts)

Only single-family dwellings and legal duplexes owner occupied are eligible for this program.

QUEBEC	NEW BRUNSWICK	NEWFOUNDLAND	NOVA SCOTA
Montreal (CMA)	Fredericton	Gander St. John's	Halifax

SASKATCHEWAN	OTHER
Regina Saskatoon	Yukon, Northern Quebec, Northwest Territories & Labrador

Refer to your local CMHC office for guidelines on communities not listed here.

Using your RRSP for down payment

Although this program does not fall under CMHC's jurisdiction, as a first time buyer you can take advantage of Revenue Canada's permission of tax-free withdrawal from a Registered Retirement Savings Plan for the down payment on a home.

The guidelines are as follows:

- Only purchasers who meet CMHC definition of a first time homebuyer qualify. If only one of the purchasers qualifies, only they may cash in their RRSP for down payment purposes under this program.
- Each purchaser may borrow up to $25,000 from their RRSP to use as a down payment on a qualifying home (i.e. two purchasers may use $25,000 each)
- Revenue Canada considers these withdrawals to be a loan you are making to yourself. You must make repayments to your RRSP of equal amounts starting 3 years after the withdrawal and over the next 15 years.
- If the amount is not repaid in a year, that year's amount will be taken into income and taxed

- It is acceptable to repay more than 1/15th of the funds per year
- If less than 1/15th is repaid in one year the difference is taken into income for that year and taxed
- In order for a home to qualify, it must be located in Canada and intended to be used as your principal residence
- To receive RRSP funds for a down payment one must complete form T1036 (available at a Revenue Canada office and at most financial institutions) and take it to the financial institution that holds the RRSP.

Example of RRSP for down payment repayment schedule

Purchase Price:	$175,000.00
5% RRSP down payment	8,750.00
Mortgage	$166,250.00
CMHC premium 3.60%	5,985.00
8% Ontario PST on premium	478.80
1/15th Annual payback	$583.33 or
of RRSP required:	48.61 per month*

*RRSP repayments have to be included in the TDS ratio

Land transfer tax (LTT) rates

Land transfer tax is payable on all purchases. In Ontario there is no LTT if the applicants opened an Ontario Home Ownership Savings Plan (OHOSP) on or before December 31, 1993 (see below for details).

Purchase Price:	**Tax Rate:**
On the 1st $55,000.	0.5% (=$275)
On balance up to $250,000	1.0%
On balance up to $400,000	1.5%
On balance over $400,000	2.0%

In its 1996 Budget, the Ontario Government announced that it is re-instituting the rebate program under the following guidelines:

First time homebuyers will be rebated the Land transfer tax on the purchase of their first home. The maximum rebate is $1,725, which is equivalent to the tax on a $200,000 home.

Sample LTT calculation:

Example #1:	Purchase:	$100,000		
		- $55,000 x .5%	=	$275.00
		=$45,000 x 1.0%	=	$450.00
	Tax Payable			**$725.00**
Example #2	Purchase:	$300,000	=	
		-$55,000 x.5%	=	$275.00
		-$195,000 x 1%	=	$1,950.00
		=50,000 x 1.5%	=	750.00
	Tax Payable			**$2,975.00**

Estimated costs

With respect to the legal fees involved in a purchase transaction, be sure to discuss these with your lawyer at the outset. Usually, there will be fees charged for the purchase documentation and fees charged for the mortgage work. You will also be responsible for any out of pocket expenses (called “disbursements”) incurred on your behalf. It is a good idea to budget for 2% of the purchase price for your closing costs (i.e. purchase of $150,000, legal, LTT & disbursements = $3,000). The most common disbursements are as follows:

Land transfer tax:	Refer to section on land transfer tax for exact calculations
Interest adjustment:	Interest is calculated from the first advance of mortgage funds. A date selected by the lending institution (usually the first of the following month) is called the Interest Adjustment Date (IAD). On closing, you must pay daily interest (also called per diem) on the mortgage advance up to the IAD. In some cases, the closing date and the IAD may be the same, so no interest would be payable. The interest adjustment will be deducted from the advance of funds sent from the lender to your lawyer.
PST on CMHC Premium:	Although you’re CMHC insurance premium may be added to your mortgage, the Ontario government charges 8% PST on the premium. You must pay this on or before closing.
Appraisal & application fees:	These are usually paid when you first apply for a mortgage, but sometimes they can be paid at the lawyer’s office. Depending on the lender, you may have to pay fees to lenders, appraisers or CMHC. These fees can range from$75 to $350, depending on the situation.
Other Disbursements:	These will be included in the invoice the lawyer prepares and usually includes the following: Title Search: approx. $150 Execution and Sheriff’s Certificate: approx. $150 Registration of Mortgage and Deed: approx. $100 Tax, building and hydro certificates $150-$200
Property Taxes:	Depending on what time of year your purchase closes you will probably have to reimburse the seller for any taxes that they may have already pre-paid. If the lender requests, you may also have to pre-pay the taxes to the end of the year (or sign a sworn statement that you will pay them when they come due).
Down Payment:	You will have to give your lawyer a certified cheque for the total of the above costs as well as the balance of the down payment (purchase price less deposit(s) already made, less the net advance of the mortgage).

A few days before closing, your lawyer will have you come into their office to sign all the mortgage documents. When they set up this appointment, they will give you the final figure of how much you should write your cheque for and to whom it should be payable (usually the lawyer or legal firm “in trust”).

Remember that stepping into the new domain of home ownership is an exciting prospect for anyone. Be sure to tell your lawyer that this is your first purchase. Most lawyers are pleased to take the extra time necessary to explain any terminology or the purchase process to you. Always keep in mind that no question is “stupid” it’s better to ask them to be surprised by something later on!

Tips for Moving (Checklist)

Before You Move:

- Obtain estimates from moving companies
- Give away/sell/discard any unnecessary belongings
- Advise post office and complete change of address cards to inform companies of your new address
- Obtain school records for new school transfer
- Check and clear tax assessments on present property
- Send out all items for cleaning or in need of repair
- Return those items that were borrowed and collect any items loaned out
- Arrange for shutting off of all utilities and the connection of utilities for the new house
- Clean all drapes, rugs and floors
- Plan and organize work that has to be completed on the new home
- Obtain appraisals of personal property for the moving company in case of future claims
- Make arrangements to discontinue cleaning services, pool maintenance, window cleaners, snow removers, landscapers etc
- Ensure that adequate insurance for all goods are covered in transit

Storing & Packing

- Obtain or purchase packing paper, pads for inventory, markers, heavy twine, masking tape, boxes and containers for packing
- Empty gas tanks from lawn mowers, outboards motors, etc.
- Remove all batteries from appliances
- Mark contents of all boxes very clearly, specifying room to be placed in
- Set aside things you will carry in the car in a carton marked “ Do not load”
- Indicate which cartons you wish to be loaded and unloaded first and last
- Tie or tape brooms, mops and bundle curtain rods
- Make sure all fragile and delicate items are indicated clearly on each box
- Carry all jewelry, valuable papers, and currency yourself
- Avoid overloading drawers when packing items in dressers
- Ensure that tops are secured for all liquids in bottles
- Crate glass table tops, large mirrors, and any valuable pictures
- Pack all books on edge in small boxes
- Limit carton weight to 60 pounds
- Tie or tape all boxes securely
- Pack lamp shades in boxes by themselves
- Using newspaper to pack fragile items is convenient, but the ink will rub off and mark item surface. Plain newsprint or tissue works well.
- Do not leave shelves loose in stoves and refrigerators
- Small appliances should be wrapped and packed in the bottom of boxes. Wherever possible, use the original appliance boxes.
- Do not pack cleaning supplies in the same boxes as food
- Table lamps should also be packed in boxes
- Make sure that heavy china items are placed in the bottom of the box. Flat pieces should be placed on edge
- Small items should be packed in a small box inside a larger box

- Move clothes and drapes in a wardrobe supplied by the movers
- Try not to roll mattresses or rugs; leave for the movers to transport
- Do not wrap or tie large articles of furniture
- Dismantle large power tools before moving
- Remove all fixtures that are fastened to the wall

On Moving Day

- If possible, make sure children and pets are elsewhere
- Check and number boxes
- Check each carton for loss or damage
- Prepare a list of damaged or lost articles
- Make sure movers are paid
- Check supply of heating fuel (if applicable)
- Make arrangements to have appliances hooked up
- Get meters read and turned on
- Set up bedroom and kitchen first

For Mortgage payments see our calculator on the web site.
www.discountmortgagecanada.com

GLOSSARY OF MORTGAGE & REAL ESTATE TERMS

Accrued interest

Interest, which has accumulated unpaid since last payment date.

Amortization

The gradual retirement of a debt by means of partial payments of the principal at regular intervals

Amortization Period

A time of arrangement for paying off a mortgage by equal installments or periodic constant payments. Repayments of principal and interest in "blended" amounts. Fully amortized means complete repayment without a "balloon" payment at the end of the term. Can be as short as 5 years or as long as 40 years.

Amortization schedule

The amortization schedule shows monthly installments of principal and interest and how much of the payment is allocated to each. It also shows the unpaid principal balance.

Appraised Value

A dollar value assigned to taxable property, by the assessor, for the purpose of equalizing the burden of taxation.

Assets

What the borrower owns. Liquid assets are those that can be quickly converted to cash.

Assignment of mortgage

The assigning of a mortgagee's interest in the mortgage to a new mortgagee. The legal sale of the mortgage with or without an agreement to repurchase.

Assumption of mortgage

The purchaser of property assumes the liability for an existing mortgage against a property and becomes liable for timely payment of the mortgage. This action might occur with or without approval of the existing mortgagee depending on the terms of the existing mortgage.

Blanket mortgage

A single document, which is registered covering more than one title to property.

Blended mortgage

Combining the amount owing on an existing mortgage with additional mortgage money for the purpose of buying another property. The interest rate change to one that combines the rate on the old loan with the rate in effect at the time you add additional financing.

Blended payments

The method of repayment where periodic payments of principal and interest are made in such a way that the payments remain constant in amount, although the portions attributed to principal and interest vary with each payment.

Bridge financing

A special short-term loan needed to cover (bridge) the gap in time between completing the purchase of one property and finalizing arrangements to pay for it. This is often the result of mismatched closing dates.

Carrying costs

The actual cost of living and maintaining property, including mortgage payments, property tax, heating, repairs and so on.

Closed mortgage

The restriction or denial of repayment rights until the maturity of the mortgage.

Closing date

The date on which the sale of property becomes final and the new owner takes possession.

CMHC

Canada Mortgage and Housing Corporation, a Crown Corporation that administers the National Housing Act.

Co-operative

The ownership of a separate amount of space in a multiple dwelling or other multiple-occupancy building with proportioned tenancy in common ownership of common elements. Used jointly with other owners however, the owner does not own his/her specific unit but he/she becomes a shareholder of the corporation, which owns all the real property and occupies by way of a tenancy agreement subject to a shareholders agreement administered by an elected board of directors.

Co-ownership

Co-ownership occurs when the ownership of the whole property is divided (not necessarily on a pro-rated basis) between two or more persons. Usually there is a written agreement between the co-owners in which the rights of each co-owner is described. Each co-owner may sell his/her right of ownership of dispose of it as he/she wishes.

Collateral mortgage

A loan backed by a promissory note and the security of a mortgage on a property. The money borrowed may be sued for another purpose, such as home r3enovations or a vacation.

Commitment

A notice from a mortgage lender to a prospective borrower that the lender will advance mortgage funds in a specified amount under certain conditions.

Commitment fee

This fee is charged by a lender for keeping an agreed amount of funds available to the borrower for a specified period of time.

Compound Interest

Interest charged not only to the principal sum but also on interest amounts charged in a proceeding period.

Condominium

The ownership of a separate amount of space in a multiple dwelling or other multiple-occupancy building with proportioned tenancy in common ownership of common elements used jointly with each owners.

Contract

An agreement between two or more parties given receipt of lawful consideration to do or refrain from doing some act.

Conventional mortgage

A first mortgage, outside the conditions of NHA (the National Housing Act), granted by an institutional lender such as a bank, mortgage, loan or trust company wherein the amount of the loan does not exceed 80% of the appraised lending value of the property.

Convertible mortgage

A short-term mortgage, usually 6(six) or 12 (twelve) months, allowing the borrower to switch into a longer term at any time without penalty. There are several different variations to the convertible mortgage.

Debt service

The amount of principal and interest repayments made under a mortgage on a periodic basis. If payments are equal they are "constant payments", if amounts vary they are known as "variable payments".

Deed

An instrument in writing, duly executed and delivered, that conveys title or an interest in real property.

Default

Failure to fulfill an obligation.

Demand note

Payment is made on demand, usually within a few.

Deposit

A sum of money (in the form of cash) required to be paid with an offer a purchase as a symbol of the purchaser's commitment. If the offer is accepted, the deposit is applied to the down payment. If the offer is later turned down by the buyer, the deposit may or may not be returned.

Discharge of mortgage

A document executed by the mortgagee, and given to the mortgagor when a mortgage loan has been repaid in full before, at, or after the maturity date.

Down payment

The amount of money (in the form of cash) put forward by the buyer toward the purchase price of a home.

Effective interest rate

The actual interest rate on investment where a debt or loan was brought at a discount or at a premium.

Equity

The remaining interest an owner of real property has in its total value after allowing for encumbrances and creditors' claims

First mortgage

A mortgage on property creating a prior claim over any subsequent mortgages or charges and usually conveying the legal estate to the mortgagee. Upon foreclosure of the mortgage, the first mortgagee must be fully satisfied out of the proceeds before any subsequent claims.

Fixed-rate mortgage

This is the usual form of mortgage where interest rate remains the same during the entire life of the loan.

Floating rate of interest

Rate of interest, which fluctuates a certain number of percentage points above or below prime lending rates.

Foreclosure

Remedial court action taken by a mortgagee when default occurs on a mortgage, to cause forfeiture of the equity of redemption of the mortgagor

Freehold

The ownership of a tract of land on which the building(s) are located. The most common type of ownership of real estate.

Gross Debt Service Ratio (GDS)

The annual charges for principal, interest and taxes as a function of gross income of the mortgagor.

Gross income

The scheduled income from the operation of the business of the management of the property, customarily stated on an annual basis. Also refers to the total personal income (from all sources) of an individual, before taxes and other deductions.

Guarantor

A third party person without interest in the property who agrees to assume responsibility for a debt in the event of default by the mortgagor.

High ratio mortgage

A mortgage loan that exceeds the normal limit of a conventional first mortgage, in regard to the ratio of the loan amount to the property's lending value; the higher loan amount is made possible by a mortgage insurance plan e.g. CMHC

Holdback
An amount of money retained by a construction lender or owner until satisfactory completion of the work performed by a contractor.

Income/expense ratio
Ratio of operation expenses to gross income and expressed as a percentage (also known as operating ratio).

Interest
"Annual" profit on a loan of money. The price paid to rent money. A function of the rate of interest over a period of time on a specific sum of money.

Interest Adjustment Date (IAD)
The date on which the mortgage really begins, usually the first of the month. The borrower is required to pay interest on the loan between the date of receiving the funds and the IAD before regular mortgage payments start.

Interest only loan
Borrower pays back interest only on the loan and there is no amortization until later of until the end of the term. This may occur when a purchaser wishes to resell a property after a short period or if he wishes to build up enough income from the property before amortization.

Joint tenancy
Ownership of land by two or more persons whereby, on the death of one, the survivor or survivors take the whole estate.

Leasehold
A person has use of the property for a limited time. This person can rent the building or own the building and rent the land on which the building sits.

Leasehold mortgage
A mortgage for the purchase of a home or improvements to a home where the building is on land that is leased or rented.

Lending value
An independent appraiser's value interpreted by the lender as to the worth of a property in the current market given a reasonable time period to sell the property.

Letter of intent

Similar to a commitment letter where a lender issues a letter to a borrower outlining their intent to lend them money for a specific purpose and under what conditions that money will be loaned.

Liabilities

What the borrower owes.

Lien

The lender's legal claim to the borrower's property.

Line of credit

A maximum credit limit allowed by a lender to a borrower, as long as the borrower maintains an acceptable balance on account or has a good credit rating. The credit line will vary from time to time according to the changing circumstances of the borrower or the lender.

Loan coverage

The ratio of net operating income to mortgage debt service; in general, loan coverage of 1.2 is considered adequate.

Loan fee

A charge for making a loan in addition to the interest charged to the borrower.

Loan to value ratio

The advance ratio of the principal amount of the mortgage as a function of the lending value of the property.

Maturity date

The last day of the term of the mortgage agreement. The mortgage must be paid in full or the agreement renewed by the maturity date.

Mortgage

A conveyance of property to a creditor, as security for payment of a debt. Such security is redeemable or recoverable on the payment or discharge of the debt at a specified date. More recently referred to as a Charge in the new Polaris registry system. An encumbrance registered on the title of the lands.

Mortgage Insurance Premium

A premium, which is charged as a percentage of the mortgage. The mortgage insurance insures the lender against loss in case of default by the borrower.

Mortgage Life Insurance

A form of reducing term insurance recommended for the borrower. In the event of the death of the borrower or one of the co-borrowers, the insurance pays the balance owing on the mortgage. The intent is to protect survivors from losing their home.

Mortgagee

The one to whom property is conveyed. (The lender). The holder of the mortgage.

Mortgagor

The one who makes the payments. The owner of the property (The borrower).

National Housing Act (NHA) loan

A mortgage backed (insured) to a certain maximum by CMHC or an approved private insurer.

Net rate of interest

The interest rate received by a mortgage lender net of the servicing fee deducted by a loan correspondent etc.

Nominal rate

The quoted interest rate for a mortgage.

Offer to purchase

A formal, legal agreement that offers a certain price for a specified property. The offer may be firm (no conditions attached) or conditional (certain conditions must be fulfilled).

Open mortgage

A way of registering a mortgage which allows the mortgagor to make extra payments, make principal repayments, or pay the loan off in full at any time without penalty.

P.I.

Principal and interest due on a mortgage.

P.I.T.

Principal, interest and property taxes due on a mortgage.

P.I.T.H.

Principal, interest, taxes and heating costs due on a mortgage. These payments are used calculate the GDS and TDS of a borrower.

Penalty

A sum of money paid to a lender for the privilege of prepaying a mortgage in part or in full, outside the privileges set out in the terms of the mortgage.

Portable Mortgage

Upon the consent of the lender, the mortgagor may transfer the balance of their existing mortgage to a new property being mortgaged.

Power of sale

The right of a mortgagee to force sale of the property without judicial proceedings should default occur.

Pre-approved mortgage

Preliminary approval by the lender of the borrower's application for a mortgage to a certain maximum amount and rate. Usually conditional upon the property being purchased meeting the lender's criteria.

Pre-Authorized payment (PAP)

This method of making mortgage payments allows the lender to deduct the agreed upon mortgage (tax & insurance, if applicable) payment directly from the borrower's chequing account.

Prepayment charge

A fee charged by the lender when the borrower prepays all or part of a mortgage more quickly than stated in the mortgage agreement. The fee is charge to compensate the lender for loss of revenue.

Prepayment options

The clause in the mortgage agreement that specifies when, how much and how prepayments of the mortgage principal (above and beyond the regular mortgage payments) can be made by the borrower.

Prime rate

The rate charged by banks to their most credit-worthy borrowers.

Principal

The amount of money borrowed. Could be part of the repayment plan that lowers this original amount.

Priority of mortgages (i.e. first, second, third)

Dates of registration by number and date in the local Registry Office and/or Land Titles, then given to the mortgagee. First mortgages have priority over second mortgages; second mortgages have priority over third mortgages; and so on. Priority refers to the mortgagee's claim to the property should payments go into default.

Promissory note

An unconditional note or written promise by the promisor to pay a sum of money to the payee on demand or at a fixed or determinable future date.

Rate (interest)

The return the lender receives for loaning the borrower the money for the mortgage.

Redemption

The buying back of a mortgage estate by payment of the sum due on the mortgage.

Refinance

To pay in full and discharge a mortgage and any other registered encumbrances and arrange for a new mortgage with the same or a different lender.

Renegotiate

To change the terms and conditions of a mortgage agreement prior to maturity. Renegotiation occurs with the lender who currently holds the mortgage.

Renewal agreement

An agreement whereby the lender may agree to extend the term of the loan, but possibly on revised terms as to principal repayments and interest rate.

Reserve fund

A fund set up by a condominium corporation for major repairs and replacement of such items as the roof, elevators, plumbing, heating systems etc. All condo corporations, by law, require a reserve fund.

Roll-over Mortgage

A mortgage loan where the interest rate is established for a specific term. At the end of the term the mortgage is said to "roll over" and the borrower and lender may agree to extend the loan. If satisfactory terms cannot be agreed upon, the lender is entitled to be repaid in full. In this case, the borrower may seek alternative financing.

Second mortgage

A mortgage placed on real property, which is already encumbered with one mortgage. Determination of first, second, third etc mortgage is by priority of registration (time and date).

Security

Property offered as backing for a loan. In the case of mortgages, the property being purchased with the loan usually forms the security for the loan.

Shelter payment ratio

Gross debt service plus annual heat costs as a function of the gross income of the mortgagor.

Survey

The accurate mathematical measurements of land and buildings thereon made with the aid of instruments.

Tenancy in common

Ownership of land by two or more persons; unlike joint tenancy in that the interest of the deceased does not pass to the survivor, but is treated as an asset of the deceased's estate.

Term of loan

The actual length of time for which the money is borrowed. Anywhere from one month to 25 years. The period for which the mortgage is registered, in months.

Total debt service ratio (TDS)

Gross debt service plus payments on other debts such as bank loans, finance company loans, credit card payments, alimony, etc. as a function of the gross income of the borrower.

Transfer

To convey from one person or institution to another.

Transfer of charge

Assignment of a mortgage under the Land Titles System

Underwriter (mortgage)

A person employed by a mortgage lender or mortgage broker who assesses loan applications based upon the following; Quality of real property, credit worthiness and ability to pay of the applicant and guidelines of the lender with regard to ratio of mortgage loan to value of property.

Variable interest mortgage

A loan where the interest rate may vary during the term of the mortgage. The variance is usually tied to some specific factor such as prime bank rate or the guaranteed investment certificate rate for a designated lender.