Alberta Mortgage Brokers

Mortgage Terminology Frequently Utilized And Their Meaning

There are numerous mortgage terms which each and every consumer has to know before entering in to a binding contract. This is a list covering the important terminology that are usually utilized in a mortgage agreement.

Amortization
This is the timetable which establishes how often you make payments for the period 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 would be put towards the interest.

Appraised Value
Lenders use this amount so as to determine the mortgage amount. This refers to the estimate property market value and is usually made by a appraiser.

Assessment
In order to calculate the property taxes that are due, the local municipality assesses the property value.

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

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

Bridge Financing
Bridge financing could help the borrower by assisting them with the cash to meet their present obligations between the periods of closing their existing home and purchasing a new home.

Buy-down
A buy-down involves paying the lender in one lump sum or in monthly installments to obtain 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 that are approved by NHA are fully insured over any losses which result from the borrower defaulting on the loan.

Closed Mortgage
In this particular type of mortgage, the borrower is not permitted to make whatever pre-payments or to renegotiate the mortgage agreement.

Commitment
Under certain conditions, a lender could decide to advance mortgage funds of a specified amount. A commitment is a written notification that assures the potential borrower of the lenders intent.

Conventional Mortgage
This particular mortgage loan is given when the downpayment is more than 20%. For this type 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 would allow them to utilize to qualify for a loan. Total Debt Service Ratio means the maximum amount which a lender will allow for all debt repayments, like credit cards, other loans, and mortgages.

Default
When the borrower does not pay the installments that were agreed upon in the mortgage terms contract.

Discharge
When whatever financial burdens, like mortgages, are removed from the property.

Equity
Equity is the total difference between the overall selling value of the property and the amount owing on the mortgage. It is considered the owner's "stake" in their property.

First Mortgage
The first mortgage that is taken out on a house. Any other mortgages that are secured against the property are called secondary mortgages.

Foreclosure
If the borrower defaults on a loan, the lender could take possession and ownership of the property. This is called foreclosure.

Gross Debt Service (GDS) Ratio
This is a percentage of the gross income a customer must in order to cover monthly housing expenses. It is advised that this ratio should be no higher than 32% of your whole monthly income.

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

Hazard Insurance
Lenders require this insurance policy to be able to make certain that a property is protected against any damage caused by weather, fire, water, and so forth.

High Ratio Mortgage
A high ratio mortgage is when the borrower makes a downpayment of lower than 20% of the loan. The Canada Mortgage and Housing Corporation or a private insurer should insure the loan to be able to protect the lender against non-payment.

Hold-back
In order to ensure that the building of a house is satisfactory, the lender can choose to hold back a certain amount of money which would be paid out at the end of construction or at certain intervals. usually, the amount that is held is equal to the projected cost to complete construction.

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

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

Maturity Date
The day that the mortgage term agreement comes to an end.

Mortgage
This is a contract which is made between a borrower and a lender. In order to ensure repayment of the loan, the borrower will pledge the property as security.

Mortgage Broker
The professional who works as the intermediary between the lender and the borrower.

Mortgage Insurance Premium
This is a premium which is added over the mortgage and paid by the borrower over the term of the mortgage. This 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
This term insurance is offered to all borrowers. Should one of the owners, or the owner, comes to an unfortunate end the insurance company will pay the mortgage's remaining balance. This helps to ensure that the survivors would not lose their home.

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

Mortgage Term
The predetermined amount of time that the borrower would have to pay back the lender. At the end of the term, the borrower may decide to either renegotiate the mortgage or they can repay the remaining principal due. Terms normally run from six months up to 60 months.

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

Mortgagee
Likewise called a lender. This is the entity who lends the money to the borrower.

Mortgagor
The individual who borrows the money is referred to as the mortgagor. In order to promise repayment, the borrower pledges a property as security.

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

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

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

P, I & T
This represents the interest, taxes and principal still owing on the mortgage.

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

Partially Open or Closed Mortgage
In this kind of mortgage, the borrower has the opportunity to prepay a prearranged part of their principal. Occasionally this is with a penalty and sometimes not.

Penalty
A certain amount of cash that the lender charges the borrower if they wish to prepay a mortgage in part or in full.

Porting
Porting will allow the borrower to move another one of their properties without losing their current interest rate. You can keep your existing interest rate, mortgage balance and term and save money by avoiding penalties for early discharge.

Open Mortgage
This particular kind of mortgage enables the borrower to fully renegotiate terms or pay off the mortgage while not incurring penalties.

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

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

Roll-over Mortgage
This is loan where the interest rate is fixed 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 could decide to extend the loan or, otherwise, they could part ways. If they cannot reach an acceptable solution for both parties, the lender is entitled to be repaid in full. At this point, other financing may be sought after by the borrower.

Second Mortgage
This is a second financing contract that is secured by the same house. 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
The payments on a variable-rate mortgage is fixed whereas the rates of interest will fluctuate according to current market interest rates. If the interest rates go down, a larger portion of the fixed payment is applied onto the principal amount. Likewise, if the interest rates go up, the amount which 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 home more appealing to a potential customer or clients.