Langley Mortgage Brokers

Commonly Utilized Mortgage Terms Which Clients Need To Know About

Before going into a long-term binding agreement, each and every consumer should know what the various mortgage terms mean. Below is a list that covers the important terminology that are usually utilized in a mortgage contract.

Amortization
Amortization is the payment timetable that establishes the duration and payments of your loan. It separates the principal amount from the loan amount and shows how much of your regular payments are going to each. At first, the majority of your payments would go towards the interest.

Appraised Value
To determine the mortgage amount, the lender would utilize the appraised value. This means the estimate market value of the property and is commonly made by a appraiser.

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

Assumable Mortgage
Assumable mortgage is the mortgage that is transferred from the seller to the buyer. Once the property is bought, the buyer should take over the responsibility of paying the mortgage.

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

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

Buy-down
The method of acquiring a lower interest rate by paying additional points to the lender or purchaser in one lump sum or in monthly installments.

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

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

Commitment
The lender should decide to advance mortgage funds of a specified amount under several conditions. A commitment is a written notification that assures the potential borrower of the lenders intention.

Conventional Mortgage
When the downpayment is more than 20 percent, a standard mortgage is given. The lender will not need loan insurance for this particular type of mortgage.

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

Default
When the borrower does not pay the installments that were established within the mortgage terms agreement.

Discharge
When any financial burdens, such as mortgages, are removed from the house.

Equity
This is the total difference between the mortgages owed and the selling value of the property. It is considered the owner's "stake" in their property.

First Mortgage
The first mortgage that is taken out on a home. Whichever other mortgages which are secured against the home are called secondary mortgages.

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

Gross Debt Service (GDS) Ratio
This ratio is represents the gross income of a customer that is needed to be able to cover the monthly expenses of housing. It is advised that this ratio should not be higher than 32 percent of your total monthly income.

Gross Household Income -
This number represents the total earnings of a household before deductions, like for instance commissions, salary and wages. Any member of the household who are co-applicants for the mortgage are included in this amount.

Hazard Insurance
This particular kind of insurance policy is needed by the lender to be able to make certain that the home is protected from weather, fire, water and other damage.

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
The lender can decide to hold back some of the cash which is to be paid out at the end of construction or at intervals, in order to make sure that the house construction is completely acceptable. Normally, the amount which is held is equal to the estimated cost to finish 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 within the mortgage agreement, you may be subjected to an IRD fee. This amount is determined by calculating the amount being prepaid using an interest rate which is equivalent to the difference between the interest rate which the lender is currently charging when re-lending the funds for the remaining mortgage term and your current mortgage interest rate.

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

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

Mortgage
The mortgage is the agreement made between a lender and the borrower. In order to ensure loan repayment, the borrower would pledge the home as collateral.

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

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

Mortgage Life Insurance
This particular term insurance is available for all borrowers. If one of the owners, or the owner, comes to an untimely end the insurance company would pay the remaining balance on the mortgage. This helps to make certain that the survivors would not lose their property.

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

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

Mortgage Prepayment Penalty
If the borrower decides to break a contract with their lender, they are normally charged a mortgage prepayment penalty. This is normally the equivalent of three month's interest. In some situations, it may likewise be the same amount that the lender would have received via interest up to the end of the agreement.

Mortgagee
Also known as a lender. This is the entity who lends the money to the borrower.

Mortgagor
The person who borrows the money is known as the mortgagor. To be able to promise repayment, the borrower pledges a house as security.

Open Mortgage
If the borrower decides to renegotiate or repay their mortgage payments, they can do so at whichever time without penalty.

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

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 principal, interest, and taxes still owing on the mortgage.

P & I

The entire amount of principal and interest owed on a mortgage.

Partially Open or Closed Mortgage
In this particular kind of mortgage, the borrower has the chance to prepay a prearranged portion of their principal. At times this is with a penalty and at times not.

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

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

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

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

Renewal
When the mortgage term is completed, the borrower and lender 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, other funding could 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 borrower and the lender could choose to extend the loan or, alternatively, they can part ways. If they cannot reach a satisfactory solution for both parties, the lender is entitled to be repaid in whole. At this point, alternative funding could be sought after by the borrower.

Second Mortgage
A second mortgage is an additional financing arrangement made on a property which is already secured. Usually, the interest rates for a second mortgage 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 change according to current market interest rates. If the interest rates decrease, a larger part of the fixed payment is applied onto the principal amount. Likewise, if the interest rates increase, the amount which goes towards interest increases.

Vendor Take Back
This term means the situation in which the property seller pays some or all of the mortgage financing with the hopes of making the property more attractive to prospective clients.