Prince George Mortgage Brokers

Most Common Mortgage Terminology Purchasers Must Know Before Signing A Contract

Before entering into a long-term binding contract, each and every customer should know what the various mortgage terminology mean. Below is a list that includes the basic terms that are usually involved in a mortgage contract.

Amortization
Amortization is the payment schedule which 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 will be put towards the interest.

Appraised Value
To determine the mortgage amount, the lender would make use of the appraised value. This refers to the approximate property market value and is normally made by a appraiser.

Assessment
The local municipality evaluates the value of a property so as to calculate the property tax that is due.

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

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

Bridge Financing
Bridge financing can help the borrower by assisting them with the money to be able to meet their present obligations between the periods of closing their existing home and buying a new home.

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

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

Closed Mortgage
In this particular kind of mortgage, the borrower is not allowed to make any pre-payments or to renegotiate the mortgage agreement.

Commitment
Under some circumstances, a lender may choose to advance mortgage funds of a specified amount. A commitment is a written notification which assures the potential borrower of the lenders intent.

Conventional Mortgage
When the downpayment is over 20%, a standard mortgage is given. The lender will not need loan insurance for this particular kind of mortgage.

Debt Service Ratio
This is a specific percentage of a borrower's income which a lender would allow them to utilize towards qualifying for a loan. Total Debt Service Ratio refers to the highest amount which a lender will consent to for paying all debts, like credit cards, other loans, and mortgages.

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

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

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

First Mortgage
This is the first mortgage which was taken out on a house. Any other mortgages which are secured against the house are called secondary mortgages.

Foreclosure
A foreclosure is when a borrower defaults on a loan and the lender takes possession and ownership of the home.

Gross Debt Service (GDS) Ratio
This is gross income percentage a consumer should in order to cover monthly housing expenses. It is recommended that this ratio should be no higher than 32% of your total monthly earnings.

Gross Household Income -
This is the total household income, like for example salary, wages, and commissions before deductions. Whoever member of the household who are co-applicants for the mortgage are included in this particular amount.

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

High Ratio Mortgage
This is a mortgage where the downpayment is lower than 20% of the loan. A private insurer or the Canada Mortgage and Housing Corporation should insure the loan in order to protect the lender against default.

Hold-back
The lender could choose to hold back some of the cash that is to be paid out at intervals or at the end of construction, to be able to make certain that the home construction is completely acceptable. As a general rule, the held amount is equal to the estimated cost to complete building the home.

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 can be subjected to an IRD fee. This amount is determined by calculating the prepaid amount utilizing an interest rate that is equivalent to the difference between your current mortgage interest rate and the interest rate which the lender is currently charging when re-lending the funds for the remaining term of the mortgage.

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

Maturity Date
This date is the time or day the mortgage agreement would be finish.

Mortgage
The mortgage is the contract made between a borrower and a lender. To be able to guarantee loan repayment, the borrower will pledge the house as collateral.

Mortgage Broker
A licensed person who acts as a liaison between a borrower and a lender for a fee.

Mortgage Insurance Premium
This is a premium which is added over the mortgage and paid by the borrower over the term of the mortgage. This particular amount is normally just charged on a mortgage loan where the downpayment was less than 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 unfortunate end the insurance company would pay the remaining balance on the mortgage. This helps to make certain that the survivors will not lose their home.

Mortgage Payment
These are payments which 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 which the borrower will need to pay back the lender. At the end of the term, the borrower may decide to either renegotiate the mortgage or they could repay the remaining principal due. Terms normally run from six months to five years.

Mortgage Prepayment Penalty
In order to break away from a mortgage agreement, the borrower would usually incur a mortgage prepayment penalty. This is usually the equivalent of three month's interest. In some situations, it could likewise be the same amount which the lender would have been given via interest until the end of the contract.

Mortgagee
Also called a lender. This is the individual who lends the money to the borrower.

Mortgagor
The mortgagor is the individual or borrower of cash from the lender. In order to promise repayment, the borrower pledges a property as collateral.

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

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

Principal
The first 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 interest and principal owed on a mortgage.

Partially Open or Closed Mortgage
In this particular type of mortgage, the borrower has the opportunity to prepay a predetermined part of their principal. Sometimes this is with a penalty and sometimes not.

Penalty
A particular amount of money that the lender charges the borrower if they choose to prepay a mortgage in full or in part.

Porting
This permits you to move to a different house without having to lose your current interest rate. You can keep your current term, interest rate and mortgage balance plus save cash by avoiding early discharge penalties.

Open Mortgage
This type of mortgage enables the borrower to completely pay off the mortgage or renegotiate terms while not incurring penalties.

Refinancing
This refers the process of replacing your old mortgage with a new mortgage that has a lower rate of interest compared to the previous one.

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 whole. At this point, other funding could be sought by the borrower.

Roll-over Mortgage
This type of loan features a fixed interest rate over a specific length of time. The mortgage "rolls over" when the end of the specified term comes around. At this point, the lender and the borrower could choose to extend the loan or, otherwise, they can part ways. If they cannot reach a satisfactory solution for both parties, the lender is entitled to be repaid in full. At this point, other financing could be sought after by the borrower.

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

Variable-rate Mortgage
In this particular type of mortgage, the payments are fixed but the interest rate changes depending on market interest rates. If the interest rates decrease, a larger part of the fixed payment is applied onto the principal amount. Similarly, if the interest rates increase, the amount that goes towards interest increases.

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