

Words to Know When Buying a Home

The mortgage process can be overwhelming. Knowing key mortgage and home buying terms can help reduce confusion and assist you in better understanding the process before you get started.



AMORTIZATION PERIOD: The length of time you agree to take to pay off your mortgage (usually 25 years).

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

CONVENTIONAL & HIGH-RATIO MORTGAGES:

- **Conventional mortgage** - A loan that is equal to or less than 80% of the lending value of a home. This requires a down payment of at least 20%.
- **High-ratio mortgage** - A loan that is over 80% of the lending value of a home. This means the down payment is less than 20% and will likely require mortgage loan insurance.

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

DEFAULT INSURANCE (Also known as Mortgage Loan Insurance): This insurance protects the lender in the event that the borrower defaults on their mortgage.

DOWN PAYMENT: The money that you pay up front for a house.

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

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

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

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

MORTGAGE DISABILITY INSURANCE: Protects your debt obligation by making mortgage payment for a specified time in the event you should become disabled.

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

MORTGAGE TERM: The length of time that the options and interest rate you choose are in effect. When the term is up, you can renegotiate your mortgage and choose the same or different options.

OPEN AND CLOSED MORTGAGES:

- **Open mortgage** - Lets you pay off your mortgage in full or in part at anytime without any penalties.
- **Closed mortgage** - Offers limited (or no) options to pay off your mortgage early in full or in part, but it usually has a lower interest

PAYMENT SCHEDULE: How often you make your mortgage payments. It can be weekly, every two weeks or once a month.

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

PRE-APPROVED MORTGAGE CERTIFICATE: A written agreement that you will get a mortgage at a set interest rate provided your financial circumstances don't change. Getting a pre-approved mortgage allows you to shop for a home with a good indication of what you'll be able to borrow.

PRE-PAYMENT OPTIONS: The ability to make extra payments, increase your payments or pay off your mortgage early without incurring a penalty.

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

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

REFINANCING: The process of paying out the existing mortgage for the purpose of establishing a new mortgage on the same property under new terms and conditions. Refinancing can sometimes be an option when you require additional funds. Refinancing will increase your mortgage principal at a specified interest rate yet can often be more affordable than other forms of borrowing. Refinancing your mortgage may also incur pre-payment penalties.

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

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

TYPES OF INTEREST RATES:

- **Fixed-rate** - The rate doesn't change for the term of the mortgage.
- **Variable-rate** - The interest rate fluctuates with market rates.
- **Protected (or capped) variable rate** - The rate fluctuates but will not rise over a pre-set maximum rate.

Want to know more? Call me today!

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