



10 WORDS TO KNOW WHEN BUYING A HOME

Buying a home is one of the most important financial decisions you will make. To help you understand the process and have confidence in your choices, consult the following glossary of common terms you may encounter during the homebuying process.

1. Amortization

Length of time over which the debt will be repaid.

2. Mortgage term

Length of time that the mortgage contract conditions, including interest rate, is fixed.

3. Closing Costs

Costs in addition to the purchase price of the home, such as legal fees, transfer fees and disbursements, that are payable on closing day. They range from 1.5% to 4% of a home's selling price.

4. Down Payment

The portion of the home price that is not financed by the mortgage loan. The buyer must pay the down payment from his/her own funds or other eligible sources before securing a mortgage.

5. Equity

The difference between the price for which a home could be sold and the total debts registered against it. Equity usually increases as the mortgage is reduced through regular payments. Market values and improvements to the property may also affect equity.

6. Fixed / Variable Mortgage Interest Rate

A *fixed mortgage interest rate* is a locked-in rate that will not increase for the term of the mortgage. A *variable mortgage interest rate* can fluctuate based on market conditions, but the mortgage payment remains unchanged.

7. Gross Debt Service Ratio (GDS) / Total Debt Service Ratio (TDS)

GDS is the percentage of the gross income that will be used for payments of principal, interest, taxes and heating costs and 50% of any condominium maintenance fees or 100% of the annual site lease for leasehold tenure. *TDS* is the percentage of gross income that will be used for payments of principal, interest, taxes and heat and other debt obligations, such as car payments or payments of other loans.

8. High-ratio mortgage / Conventional Mortgage

A *high ratio mortgage* is a mortgage loan higher than 80% of the lending value of the property. A *conventional mortgage* is a mortgage loan up to a maximum of 80% of the lending value of the property.

9. Mortgage Loan Insurance

Mortgage loan insurance is typically required for residential mortgage loans with a loan-to-value ratio of more than 80%, and is available from CMHC or private companies. It is important not to confuse mortgage loan insurance with mortgage life insurance, which gives coverage for your family if you die before your mortgage is paid off.

10. Open / Closed Mortgage

An *open mortgage* is a flexible mortgage that allows you to pay off your mortgage in part or in full before the end of its term. A *closed mortgage*, in some cases, cannot be paid off in whole or in part before the end of its term. In other cases, the lender may allow for partial prepayment of a closed mortgage in the form of an increased mortgage payment or a lump sum prepayment. However, any prepayment made above stipulated allowances may incur penalty charges.

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