

## **GLOSSARY OF MORTGAGE TERMS**

The following definitions are offered to facilitate a better understanding of certain terms as they pertain to mortgages.

### **Appraised Value**

An Estimate of the market value of the property (also known as the lending value) offered as security of a mortgage or loan. An appraisal is performed primarily for mortgage lending purposes and provides a lender an estimate of the fair market value at the time of closing.

### **Closed Mortgage**

A closed mortgage offers a lower rate than a comparable open mortgage, however, it is subject to certain prepayment restrictions.

### **CMHC, Sagen or Canada Guaranty**

The Canada and Mortgage Housing Corporation administers the National Housing Act. CMHC services include the insuring of high ratio mortgages. A High Ratio Mortgage is one that exceeds 80% of the lending value of the property. Sagen and Canada Guaranty are the two private mortgage insurance companies in Canada, where CMHC is a Crown corporation.

### **Conventional Mortgage**

A first Mortgage granted by an institutional lender (usually a chartered bank, a trust or insurance company), usually in an amount not exceeding 80% of the appraised value of the property.

### **First Mortgage**

A first mortgage has a first claim on the property in the event of default.

### **Flexible Payment**

You can choose any number of flexible payment options to fit your family's needs. Most Lenders offer Monthly, Semi-Monthly, Bi-Weekly, & Weekly options.

### **High Ratio**

A high ratio mortgage allows you to borrow up to 95% of the value of the property. However, as a requirement (applicable to all banks) mortgage insurance usually must be obtained. The mortgage insurance premium can be added to your mortgage balance. Minimum down payment in Canada is 5% of the first \$500,000 purchase price, and then for every additional \$1 in purchase price over \$500,000 to a max of \$999,999.

### **Interest Adjustment Date**

Lenders typically require their mortgage payments be paid only on the first day of each month. The interest adjustment date is 30 days prior to the first payment date. Should you purchase your home on a date other than the first of the month, you will be required to pay interest on the days outstanding leading up to the interest adjustment date.

### **Mortgage Life and Disability Insurance**

Optional life insurance is available to pay the outstanding balance of your mortgage in the event of death. Optional disability insurance is available to pay your mortgage payments (normally for a period of up to 24 months) in the event of illness or an accident. A signed insurance acceptance or waiver is required for each mortgage. "I believe every mortgage should be protected"

### **Open Mortgage**

A mortgage containing a clause allowing the borrower to repay all or part of the principal any time, without notice or bonus. Higher interest rates are usually charged for this privilege.

### **Prepayment Privileges**

A clause inserted in a mortgage, which gives the Mortgagor the privilege of paying off the mortgage debt in advance of the maturity date. By making periodic lump sum payments and/or increasing your regular payments, you can pay down your mortgage sooner and save significant costs over the time span of your mortgage.

### **Property Taxes**

Property taxes for the current year (Jan 01 -Dec 31) are due and payable by July 01 (in most municipalities).

Tax Hold Back:

When taxes are included in the mortgage payment (P.I.T.):

If the sale completes prior to July 01 of the current year, you are required to pay property taxes from July 01 of the previous year to completion, at closing.

In addition, if the sale completes after July 01 of the current year, you will have to pay the vendor (owner) the portion of the current year's taxes he has already paid plus any TAX HOLDBACK for the coming year.

### **Survey**

The accurate mathematical measurement of land and building thereon. Also, the blueprint showing the measurement, placement of the building, boundaries and area of land measured. The surveyor's certificate is a site plan showing where the building is located on the property and any easements or right of ways. The certificate must be signed by a BCLS.

**Variable Rate**

A mortgage with an interest rate that fluctuates with Prime. The rate is a set of prevailing market rates and can be converted to a fixed rate any time. The penalty to pay this mortgage out in full is 3 months interest.

**Agreement of Purchase and Sale**

A formal written agreement between the vendor and purchaser in which the purchaser agrees to buy certain real property and the vendor agrees to sell up terms and conditions as set forth in that agreement.

**Amortization Period**

The number of years over which repayment of your mortgage is calculated.

**Anniversary Date**

The date on year from the time interest starts to accrue on a mortgage. The same date in each succeeding year, during the term of the mortgage, is also referred to as the "anniversary date".

**Blended Payments**

A method of repaying a mortgage where periodical payments of principal and interest are calculated in such a way that the payments remain constant in amount.

**Canada Mortgage and Housing Corporation (CMHC)**

The federal Crown Corporation incorporated by Act of Parliament in 1945 to administer the National Housing Act. CMHC is a government agency providing default hi-ratio mortgage insurance. The Bank Act requires that mortgages over 80% of Lending Value be insured.

**Condominium/Strata**

The fee ownership of a separate amount of space in a multiple dwelling or other multi- occupancy building with proportioned tenancy in common ownership of common elements used jointly with other owners.

**Discharge of Mortgage**

A document executed by the lender and given to the borrower when the mortgage loan has been repaid in full. It is the borrower's responsibility to have the mortgage discharge registered at LAND TITLES and pay any fee levied.

**Early Renewal**

A term used to describe the process when you change the term of a mortgage before the maturity date.

**Equity**

The dollar value an owner of real property has a price of real estate after allowing for encumbrances and creditors' claims.

**Fire Insurance**

Most Lenders require the vendor/purchaser to obtain adequate fire insurance, with loss payable firstly to the Lender.

**Sagan and Canada Guaranty**

The two private Mortgage Insurance Companies in Canada providing default mortgage insurance. There are 3 mortgage insurer options in Canada – Canada Guaranty, Sagan and CMHC. Additionally, certain other lenders may self-insure their own mortgages.

**Gross Debt Service Ratio (GDS)**

The Monthly mortgage loan payments of principal and interest plus 1/12<sup>th</sup> of the annual property taxes as a percentage of gross monthly income.

**Guarantor**

The third party without an interest in the property who agrees to assume responsibility for a debt in the event of default by the mortgagor.

**Joint Tenancy**

Where two or more persons acquire equal undivided interest in a property, and if one person dies their share automatically goes to the survivor(s).

**Legal Description**

A written description by which property can be definitely located, and which is acceptable for registration in a land registry system.

**Loan Ratio**

The ratio of the principal amount of the loan to the lending value.

**Market Value**

The highest price which a buyer, willing, but not compelled to buy, would pay, and the lowest a seller, willing, but not compelled to sell, would accept.

**Maturity Date**

The date on which the term of the mortgage expires. The mortgage must either be paid out in full or re-negotiated for another term.

**Mortgage**

The security you give to the lender for the money loaned to you, usually to buy a home. It is a registered charge on your property and should be removed when the debt has been completely repaid.

**Mortgage Commitment**

A formal indication by a lending institution that it will grant a mortgage loan on property, at a specified amount on certain specified terms.

**Mortgagee**

An individual or institutional lender that holds a mortgage on property as security for a loan.

**Mortgagor**

A person who offers a mortgage on property in exchange for cash consideration.

**Prepayment Penalty**

A clause contained within a mortgage document that requires the payment of a penalty on the amount being prepaid on the mortgage.

**P.I.T.**

Principal, interest and property taxes. The amount of the regular mortgage payment.

**Principal**

The amount of money owing under the mortgage, not including the interest.

**Surveyor's Certificate**

An affidavit by a registered land surveyor, certifying that buildings on a specific property conform with the municipal zoning bylaws and that there are no encroachments from adjacent properties.

**Tenants in Common**

Where two or more persons acquire identical or different interests in a property. Each may sell or bequeath their interest, and in the event of death their interest becomes a part of their estate.

**Term**

In a mortgage, "term" is the actual length of time for which the money is loaned, at a particular rate of interest.

**Total Debt Service Ratio (TDS)**

The ratio of the annual (or monthly) mortgage charges for principal, interest, and taxes plus payments on other debts such as bank loans, charge cards, etc. to the annual (or monthly) gross income of the borrower.

**Vendor**

The seller

## Income Verification Requirements

INCOME TYPE	DOCUMENT REQUIREMENTS
Salary Income	<ul style="list-style-type: none"> <li>• Two Pay stubs dated within the last 60 days</li> <li>• Letter of employment stating position, tenure, and guaranteed income.</li> </ul>
<b>Guaranteed</b> hours Full time or Part time Hourly	<ul style="list-style-type: none"> <li>• 2 pay stubs dated within the last 60 days -where each pay stub shows the hourly wage and the number of hours worked per pay period.</li> <li>• Letter of employment stating position, tenure and guaranteed hours and hourly rate guaranteed.</li> </ul>
Self-employed income (sole proprietor or partnership)	<ul style="list-style-type: none"> <li>• TI Generals filed for the most previous two years (including statement of business or professional activities) and associated Notices of Assessments for both years</li> </ul>
Self-employed income (Incorporated)	<ul style="list-style-type: none"> <li>• TI Generals filed for the previous two years and associated Notices of Assessment; and</li> <li>• Two years of filed financial statements prepared by a designated or accredited accountant, for the last two fiscal years for the limited company</li> </ul>
Fluctuating Income: Commission Bonuses Gratuities	<ul style="list-style-type: none"> <li>• TI Generals filed for the previous two years and associated Notices of Assessment</li> <li>• Last 2 years of T4's</li> <li>• Most current pay stub dated within the last 60 days</li> </ul>
Contract Income	<ul style="list-style-type: none"> <li>• Copy of the current contract; and</li> <li>• TI Generals filed for the previous two years and associated Notices of Assessments</li> </ul>
Parental Leave Income	<ul style="list-style-type: none"> <li>• Most recent Notice of Assessment and a copy of an employment letter confirming that the applicant is on leave and the date the applicant is</li> <li>• expected to return to work</li> <li>• Last paystub received.</li> </ul>
Seasonal Employment Income	<ul style="list-style-type: none"> <li>• TI Generals filed for the previous two years and associated Notices of Assessment</li> <li>• Plus, one of the following:               <ul style="list-style-type: none"> <li>• Copy of the Employment Insurance (EI) statement (dated within the last 60 days)</li> <li>• Evidence of direct Employment Insurance (EI) deposit (dated within the last 60 days)</li> <li>• Most current pay stub dated within the last 60 days</li> <li>• Evidence of the most current direct deposit (EFT) payment dated within the last 60 days</li> </ul> </li> </ul>

Disability Insurance Income	<ul style="list-style-type: none"> <li>Letter from the employer/insurance company outlining payments, confirming permanent status and if income is taxable</li> </ul>
Worker's Compensation Income	<ul style="list-style-type: none"> <li>Letter from Worker's Compensation Board or tribunal outlining payments</li> </ul>
Alimony, Spousal and Child Support Income	<ul style="list-style-type: none"> <li>Copy of latest Separation Agreement or Divorce Judgment; <b>and</b></li> <li>Copies of last 6 months of bank statements confirming regular support payments</li> </ul>
Retirement Income (Annuity, RIF, LIF)	<ul style="list-style-type: none"> <li>Most current Annuity/RIF/LIF statement <b>PLUS</b></li> <li>Most current payment stub dated within the last year</li> <li>Evidence of most current direct deposit (EFT) payment dated within the last year</li> <li>TI General filed for the previous year and associated Notice of Assessment</li> </ul>
Pension, Income (CPP, OAS or other pension)	<ul style="list-style-type: none"> <li>Two payment stubs dated within the last 60 days</li> <li>Evidence of three direct deposit (EFT) payments dated within the last 100 days</li> <li>TI General filed for the previous year and associated Notice of Assessment</li> </ul>
Aboriginal Income	<p>Income earned on reserve:</p> <ul style="list-style-type: none"> <li>Letter of employment signed by an authorized signatory on behalf of the band</li> </ul> <p>Plus one of the following:</p> <ul style="list-style-type: none"> <li>Most current pay stub dated within the last 60 days</li> <li>Evidence of most current direct deposit (EFT) payment dated within the last 60 days</li> </ul> <p>Income earned off reserve:</p> <ul style="list-style-type: none"> <li>Applicable income verification for income type (i.e. Salary, Self Employed etc.)</li> </ul>
Rental Income	<ul style="list-style-type: none"> <li>Copy of current signed lease</li> <li>TI General filed for the previous year (including statement of real estate rentals) and associated Notice of Assessment</li> <li>Appraisal Report showing market rental income (if subject property is being purchased)</li> <li>Property Tax statement</li> </ul>
Foster Care Income	<ul style="list-style-type: none"> <li>Letter from foster care agency confirming the customer's current approved status as a foster parent and their last two years' income</li> </ul>
Car Allowance Income	<ul style="list-style-type: none"> <li>TI General filed for the previous year and associated Notice of Assessment – must be a taxable benefit and therefore declared on TI General</li> </ul>
Investment Income	<ul style="list-style-type: none"> <li>TI Generals filed for the previous two years including all schedules and associated Notices of Assessment</li> </ul>
Foreign Income	<ul style="list-style-type: none"> <li>12 Months of bank statements from a Canadian Bank showing regular deposits. Where statements indicate only one lump sum payment, a three</li> </ul>

**Note:** Where an applicant's income consists of multiple sources of income, the applicable verification for each type of income is to be obtained.



## DOWN PAYMENT VERIFICATION INFORMATION GUIDE

Acceptable forms for verifying the Down Payment are:

- Copy of last 3 months Bank/Investment Statements – please note we must be able to match you to the account – if providing online statements and only the account is listed, please match with an older statement or void cheque with your name on it.
- Copy of Deposit Instrument (CSB's, Term Deposits) showing last 90 history.
- Executed copy of sale agreement on existing property with current mortgage statement.
- RRSP – the last 90 days of statements
- Gift: Note that gift letter from **immediate** family members are acceptable.
- Most lenders have their own gift letter template – we will provide with corresponding mortgage approval.

## RRSP HOME BUYER'S PLAN INFO GUIDE

- The homebuyers plan allows each purchaser to withdraw up to \$35,000.00 from your RRSP's (including a spousal plan) to build or buy a qualifying home.
- You must be a resident of Canada.
- The funds must be repaid within a period of no more than 15 years, in equal installments, and you may accelerate payment to the plan. If in any year you do not repay the amount you have to repay that year, the amount that has not been repaid will be added to your income for that year. Payments commence no later than the second year in which the withdrawal was made.
- All participants on title cannot have owned an owner-occupied home in the previous five years.
- The contract of the purchase and sale must be entered into before the funds are withdrawn from the RRSP.
- To participate in the Home Buyers' Plan, you must withdraw an amount from your RRSP using [Form T1 036](#).

## **PROPERTY PURCHASE TAX INFO GUIDE**

### **First Time Home Buyers Exemption**

- Purchaser must be a Canadian Citizen or a permanent resident as determined by Immigration Canada and have resided in British Columbia for 12 consecutive months immediately prior to the date of registration of the transfer, or who has filed two income tax returns as a British Columbia resident within the last six years
- Each purchaser who applies for the exemption as first-time homebuyer must not have previously owned an interest in a principal residence anywhere and who has not previously received a First Time Home Buyers exemption or refund.
- The fair market value of the land and improvements which comprise the principal residence falls below the set threshold amount of \$500,000
- Where a property has a fair market value of up to \$525,000.00 more than the threshold amount, the property is eligible for a partial exemption.
- The purchaser must occupy the property as their principal residence within 92 days of the transfer being registered at the Land Title office. To be eligible for the full exemption, the purchase must then continue to use the residence as his or her principal residence for at least one year after the date the transfer was registered.

## HOW TO CALCULATE THE EQUITY IN YOUR HOME

### Step 1

Write down the selling price of your present home, then calculate your estimated sale costs:

	<b>Your Calculation</b>
Selling Price	_____
<b>Estimated Sales Costs</b>	
Real Estate Commission	_____
Property Survey	_____
Legal Fees	_____
Outstanding Mortgage	_____
Prepayment Penalty	_____
Property Tax & Utility	_____
Adjustment	
Miscellaneous Costs	_____
Total Estimated Sale Cost	\$ <input style="width: 100px; height: 20px;" type="text"/>

### Step 2

Calculate your estimated equity by subtracting the *Total Estimated Sale Cost* from your *Selling Price* =  
Estimated Net Equity

## HOMEBUYER'S GUIDE FOR ESTIMATING CLOSING COSTS

In addition to your down payment of \$\_\_\_\_\_, you will require additional funds for closing costs. Traditionally a lender will also require you have an additional 1.5% of the purchase price for closing costs. Below are some additional costs that may be required.

Item	Your Calculations
Appraisal	_____
Appliances	_____
Balance of Down Payment	_____
Decorating Costs	_____
Fire Insurance Immediate Repairs	_____
Interest Adjustment	_____
Legal Fees/Disbursement	_____
Moving Cost	_____
Mortgage Insurance Fee	_____
Mortgage Insurance Premium	_____
Municipal Property Tax	_____
Property Purchase Tax 1%	_____
Property Purchase Tax 2%	_____
Service Charges (Utility Hookup) Strata Fees	_____
Title Insurance Miscellaneous	_____
<b>Total Additional Costs</b>	_____



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