UPSTAGE YOUR *Real Estate* TERMINOLOGY

STAGE ONE
REAL ESTATE
Guide

STAGE ONE REAL ESTATE

Real Estate TERMINOLOGY

Adjustable interest rate mortgage: A mortgage where both the interest rate and the monthly payments vary based on changes in the market rates.

Amortization: The period of time required to completely pay off a mortgage if all conditions are met and all payments are made on time.

Application: A form used to apply for a mortgage. It includes all of the relevant personal and financial information of the person applying.

Appraisal: An estimate of the current market value of a home. Appraiser: A certified professional who carries out a home appraisal.

Appreciation: An increase in the value of a home or other possession from the time it was purchased.

Approved lender: A lending institution, such as a bank, that the Government of Canada authorizes to make loans under the terms of the National Housing Act. Only approved lenders can offer CMHC-insured mortgages.

Assumption agreement: A legal document that requires a person buying a home to take over the mortgage of the builder or the previous owner.

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Blended payment: A regular mortgage installment that includes payments toward both the mortgage principal and the interest.

Builder: A person or company that builds homes.

Canada Mortgage and Housing Corporation (CMHC): As Canada's authority on housing, CMHC contributes to the stability of the housing market and financial system, provides support for Canadians in housing need and offers objective housing research and information to Canadian governments, consumers and the housing industry.

Certificate of status (or "estoppel certificate"): A certificate that outlines the financial and legal status of a condominium corporation. (This doesn't apply in Quebec.)

Certificate of location (or "survey"): A document that shows the legal boundaries and measurements of a property, specifies the location of any buildings and states whether anyone else has the right to cross over the property for a specific purpose.

Closed mortgage: A mortgage that can't normally be paid off or renegotiated before the end of the term without the lender's permission and a financial penalty. Some closed mortgages allow for extra or accelerated payments, but only if specified in the mortgage agreement.

Closing costs: The legal fees, transfer fees, disbursements and other costs that must be paid when buying a home. These are in addition to the down payment and the GST, PST and HST if applicable. Closing costs are due on the day the buyer officially takes ownership of the home, and they usually range from 1.5% to 4% of the purchase price.

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

Commitment letter (or “mortgage approval): A written notification from a lender to a borrower that says a mortgage loan of a specific amount is approved under specific terms and conditions.

Compound interest: Interest that is calculated on both the original principal and the interest that has already been earned (or “accrued”) on that principal.

Conditional offer: An offer to purchase a home that includes one or more conditions (for example, a condition that the buyer is able to get a mortgage) that must be met before the sale can be officially completed.

Condominium (or “strata”): A type of homeownership where people own the unit they live in and share ownership of all common areas with the other owners. Common areas can include parking facilities, hallways, elevators, lobbies, gyms, swimming pools and the grounds or landscaping.

Contractor: A person who is responsible for the construction or renovation of a home, including scheduling, workmanship and managing subcontractors and suppliers.

Conventional mortgage: A mortgage loan equal to or less than 80% of the value of a property. (That is, where the down payment is at least 20%.) Conventional mortgages don’t usually require mortgage loan insurance.

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Counteroffer: An offer made by the seller of a home after rejecting an offer by a potential buyer. The counteroffer usually changes something from the original offer, such as the price or closing date.

Credit bureau: A company that collects information from various sources on a person's borrowing and bill-paying habits. They provide this information to lenders to help them assess whether or not to lend money to that person.

Credit history (or "credit report"): The report a lender uses to determine if a person should get a mortgage.

Curb appeal: How attractive a home looks from the street, including features like landscaping and a well-maintained exterior.

Deed: A legal document that transfers ownership of a home from the seller to the buyer.

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.

Delinquency: Failing to make a mortgage payment on time. Deposit: Money that a buyer places in trust to show they are serious when they make an offer to purchase a home. The deposit is held by the real estate agent or lawyer (or notary in Quebec) until the sale is complete, and then it's transferred to the seller.

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Deposit: Money that a buyer places in trust to show they are serious when they make an offer to purchase a home. The deposit is held by the real estate agent or lawyer (or notary in Quebec) until the sale is complete, and then it's transferred to the seller.

Depreciation: A decrease in the value of a home or other possession from the time it was purchased.

Down payment: The portion of the home's purchase price that is not financed by a mortgage loan. The buyer must pay the down payment from their own funds (or other eligible sources) before securing a mortgage.

Duplex: A building that contains two separate and complete single-family homes located either adjacent to each other or one on top of the other.

Easement: A legal interest in a property owned by another person or company for a specific limited purpose. For example, a public utility company may have an easement that lets them pass through a property.

Emergency fund: Money that a homeowner regularly sets aside to pay for emergencies or major repairs. Owners should usually save around 5% of their monthly income for emergencies.

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 gradually paid. Changes in overall market values or improvements to a home can also affect the value of the equity.

Estoppel certificate (or "certificate of status"): A certificate that outlines a condominium corporation's financial and legal status. (This doesn't apply in Quebec.)

Fixed interest rate mortgage: A mortgage with a locked-in interest rate, meaning it won't change during the term of the mortgage.

FlexHousingTM (or "universal design"): An approach to housing that encourages the design and construction of homes that can be easily and inexpensively modified to keep pace with changes in the needs, mobility or lifestyle of the occupants.

Foreclosure: A legal process whereby the lender takes possession of a property if the borrower defaults on a loan. The lender then sells the property to cover the unpaid debt.

Freehold: A form of homeownership where the homeowner buys the right to have full and exclusive ownership of a home and the land it sits on for an indefinite period. Freehold is in contrast to leasehold ownership, which gives the homeowner the right to use and occupy the land and building for only a limited defined period.

Gross debt service (GDS) ratio: The percentage of a person or household's gross monthly income that goes to pay the mortgage principal and interest, property taxes and heating costs, plus 50% of any condominium maintenance fees or 100% of the annual site lease for leasehold tenure if applicable. To qualify for a mortgage, the borrower's GDS ratio must be at or below 32%.

Gross monthly income: Total monthly income of a person or household before taxes and other deductions.

High-ratio mortgage: A mortgage loan for more than 80% of the value of a property. (That is, where the down payment is less than 20%.) A high-ratio mortgage usually has to be insured against default with mortgage loan insurance provided by CMHC or a private company.

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.

Home inspector: A professional who examines a home for anything that is broken, unsafe or in need of replacement. The inspector also checks if the home has had any major problems in the past.

Home insurance premium: The amount homeowners pay on a monthly or annual basis for home or property insurance.

Household budget: A monthly plan that tracks household income and expenses to make sure household members are living within their means and meeting their savings and investment goals.

Insurance broker: A professional who can help homeowners choose and buy different types of insurance, including property insurance, life and disability insurance and mortgage loan insurance.

Interest: The cost of borrowing money. Interest is usually paid to the lender in regular installments along with repayment of the principal (that is, the amount of the original loan).

Interest rate: The rate used to calculate how much a borrower has to pay a lender for the use of the money being loaned to them.

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Land registration: A system to record legal interests in land, including ownership and disposition of land.

Land surveyor: A professional who surveys a property in order to provide a land survey (or "certificate of location"). If the seller doesn't have a survey, or if it's more than five years old, the buyer will likely need to hire a surveyor before they can get a mortgage. A real estate agent usually helps coordinate the survey with the seller.

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.

Lawyer: A legal advisor (usually replaced by a notary in Quebec) who is licensed to practice law and who will protect legal interests and review any contracts.

Leasehold: A form of homeownership where the homeowner buys the right to have full and exclusive ownership of a home and the land it sits on for a defined period. Leasehold is in contrast to freehold ownership, which gives the homeowner the right to use and occupy the land and building for an indefinite period.

Lender: A bank, trust company, credit union, caisse populaire, pension fund, insurance company, finance company or other institution that loans people money to buy a home.

Lien: A claim against a property by another person or company for money owed by the owner or previous owner.

Lump sum pre-payment: An extra payment that is made to reduce the principal balance of a mortgage, with or without a penalty. Lump sum payments can help borrowers save on interest costs and pay off their mortgage sooner.

Manufactured home: A single-family home that is built in a factory and then transported to a chosen location and placed onto a foundation.

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.

Mobile home: A home that is built in a factory and transported to the place where it will be occupied. While mobile homes are usually placed permanently in one location, they can be moved again later if desired.

Modular home: A single-family home that is built in a factory and typically shipped to a location in two or more sections (or "modules") to be assembled onsite.

Mortgage: A loan given by a lender to a buyer to help with the purchase of a home or property. The mortgage loan is usually repaid in regular payments that generally include both the principal and interest.

Mortgage approval (or "commitment letter"): A written notification from a lender to a borrower that says a mortgage loan of a specific amount is approved under specific terms and conditions.

Mortgage broker: A professional who works with many different lenders to find a mortgage that best suits the needs of the borrower.

Mortgage life insurance: Insurance that protects the family of a borrower by paying off the mortgage if the borrower dies.

Mortgage loan insurance: Insurance that protects a lender against default on a mortgage. Mortgage loan insurance is provided by CMHC or a private company and is usually required for any mortgage where the down payment is less than 20% of the purchase price or lending value of a home. Mortgage loan insurance helps Canadians purchase homes earlier and at interest rates that are comparable to buyers with a larger down payment.

Mortgage loan insurance premium: The amount homebuyers have to pay to CMHC or another insurer to insure their mortgage against default if their down payment is less than 20% of the purchase price. The CMHC premium is calculated as a percentage of the mortgage loan and is based on factors like the size and source of the down payment. In general, the smaller the down payment is, the higher the insurance premiums will be. Premiums can typically be paid separately or included in the regular mortgage payments to the lender.

Mortgage payment: A regularly scheduled payment that usually includes both the loan principal and the interest.

Mortgage term: The length of time that the conditions of a mortgage, such as the interest rate and payment schedule, are in effect. Terms are usually between 6 months and 10 years. At the end of the term, the mortgage loan must either be paid in full, renewed or renegotiated, usually with new conditions.

Net worth: The total financial worth of a person, calculated by subtracting liabilities (everything the person owes) from assets (everything the person owns).

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New home warranty program: A program available in all provinces and some territories guaranteeing that any defects in a new home will be repaired at no cost to the buyer within the period covered by the warranty.

Notary: In Quebec, a notary (rather than a lawyer) handles the legal matters related to buying a home. These include protecting legal interests and reviewing any contracts.

Offer to purchase: A written contract that sets out the terms and conditions under which a buyer agrees to buy a home. If the offer is accepted by the seller, it becomes a legally binding agreement.

Ongoing costs: The monthly expenses that come with owning a home, including mortgage payments, property taxes, home insurance, utilities, ongoing maintenance and repairs.

Open house: A set period of time when potential buyers can come to look at a house or apartment that's for sale without an appointment.

Open mortgage: A flexible mortgage loan that lets a borrower pay off or renegotiate their loan at any time, without having to pay penalties. Because of this flexibility, open mortgages usually have a higher interest rate than closed mortgages.

Payment schedule: The schedule a buyer agrees to follow to pay back their mortgage loan. In most schedules, mortgage payments are made weekly, every two weeks or once a month.

PITH: An acronym that stands for mortgage Principal and Interest payments, property Taxes and Heating costs, all the main costs paid by a homeowner on a monthly basis.

Power of sale: A provision that gives a lender the power to sell a property if the borrower defaults on their mortgage. The ownership of the property changes hands after the sale is completed.

Premium: See “Mortgage loan insurance premium.”

Pre-payment options: The ability to make extra payments, increase your payments or pay off your mortgage early without incurring a penalty.

Pre-payment penalty: A fee charged by your lender if you pay more money on your mortgage than the pre-payment option allows.

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

Property (or home) insurance: Insurance that protects the owners in case their home or building is damaged or destroyed by fire or other hazards listed in the policy.

Property taxes: 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.

Real estate: Property consisting of buildings and/or land.

Real estate agent (or "real estate broker"): A professional who acts as an intermediary between the seller and buyer of a property. They help the buyer find a home, make an offer and negotiate the best price.

REALTOR.ca (formerly MLS.ca): An online service that provides descriptions of most of the homes for sale across the country. Homes on the site can be searched by location, price, size or a number of other features. For Quebec listings, the equivalent site is centris.ca.

Reserve fund: A sum of money put aside by a condominium corporation for the repair or replacement of common elements such as the roof, windows, boiler, hallway carpets and other common assets and areas.

Row house (or "townhouse"): A row house is one of several similar single-family homes that are joined side by side and share common walls.

Security: Also called "collateral." Property that is pledged to guarantee a loan or other obligation that can be claimed by the lender if a loan isn't repaid. With a mortgage, the home being purchased is used as security for the loan.

Semi-detached home: A home that is attached to another home on one side.

Single detached home: A free-standing home (that is, not attached to any other homes on either side) intended to be occupied by a single family.

Stacked townhouse: Two-storey homes stacked one on top of the other, usually in groups of four or more.

Strata (or "condominium"): A type of homeownership where people own the unit they live in and share ownership of all common areas with the other owners. Common areas can include parking facilities, hallways, elevators, lobbies, gyms, swimming pools and the grounds or landscaping.

Survey (or "certificate of location"): A document that shows the legal boundaries and measurements of a property, specifies the location of any buildings and states whether anyone else has the right to cross over the property for a specific purpose.

Sustainable neighbourhood: A neighbourhood that meets the needs of the residents while also protecting the environment.

Title: A document that gives the holder legal ownership of a property.

Title insurance: Insurance 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).

Total debt service (TDS) ratio: The percentage of a person or household's gross monthly income that goes to pay the mortgage principal and interest, property taxes and heating costs, plus all other debt obligations such as car payments, personal loans or credit card debt. To qualify for a mortgage, the borrower's TDS ratio must be at or below 40%.

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Townhouse (or "row house"): A townhouse is one of several similar single-family homes that are joined side by side and share common walls.

Universal design (or "FlexHousingTM"): An approach to housing that encourages the design and construction of homes that can be easily and inexpensively modified to keep pace with changes in the needs, mobility or lifestyle of the occupants.

Variable interest rate mortgage: A mortgage where the interest rate fluctuates based on the current market conditions. The payments will generally remain the same, but the amount of each payment that goes toward the principal or the interest on the loan changes as interest rates fluctuate.

Vendor: The seller of a property.

Vendor take-back mortgage: A type of mortgage where the seller, not a bank or other financial institution, finances the mortgage loan for the buyer.

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