Comprehensive Real Estate & Mortgage Guide

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INDEX: GENERAL INFORMATION

FIRST TIME HOME BUYER

REPEAT BUYER

Mortgage Insurance

"Mortgage insurance" is one of the most ambiguous and least understood terms in the industry. This is because it can take on any of the following radically different meanings in different situations:

MORTGAGE DEFAULT INSURANCE

This is a one-time insurance premium you pay when buying a home with less than 25% down payment, or in a few other situations where a lender is not willing to take all the risk of lending you money. Some examples of this might be:

a non-standard dwelling such as a mobile home on leased land.
a rural property with non-standard utilities (well and septic systems).
a multiple-unit dwelling where you may or may not be occupying one of the units.
Insurance premium is standard, and on a sliding scale according to the percentage of the property value you wish to finance with this mortgage.

MORTGAGE LIFE INSURANCE

This is simply regular life insurance which is used to ensure that, in the event of the death of either of the borrowers, the mortgage will be paid off in full from the proceeds. Since this is not mandatory, an important question to ask of any lender who offers it is "who is the beneficiary?". If the lender is the beneficiary, it can be used by them to retire the mortgage in full... which may not be the survivor's desired course of action, particularly if the mortgage is at a much lower rate than the survivor can earn after tax on investments.

MORTGAGE FIRE INSURANCE

All lenders, without exception, require that a fire insurance policy be in effect at the time they fund a mortgage... for the obvious reason that if an uninsured house burns down on a property they have mortgaged, the only remaining value is in the land. While this may not actually cause a loss directly, (due to the high value of many lots) the funds will be unavailable to reconstruct the building, and thus force a sale or re-mortgaging.

MORTGAGE PAYMENT PROTECTION INSURANCE

In recent years, it has become possible to buy income protection insurance specifically to ensure mortgage payments can be maintained in the event of not only disability (now a standard product), but also loss of employment.

How a Lender Makes a Decision About You

Each lender assesses how likely you are to make your payments, and repay your mortgage in full. To make this assessment, lenders will review the following:

CREDIT HISTORY

Your record of payment on previous and current obligations. Lenders may enquire about your record at the appropriate Credit Bureau.

The only significant item that does not usually appear on the credit report is how well you've made any mortgage payments in the past. If you have recently had a mortgage, the lender will call the previous mortgagee (lender) directly to confirm your history. This is called a "mortgage rating."

INCOME

Lenders require that you pay out no more than 27% to 35% of your provable gross income on all shelter costs. This is known as the "Gross Debt Service Ratio."

You may have other debt, of course, but in combination with shelter costs, the total of all regular payments should not exceed 37% to 42% of your income. This is the "Total Debt Service Ratio."

DOWN PAYMENT

At least 5% of the value of the property in the case of a purchase, (with a default-insured mortgage), should come from your own savings.

JOB STABILITY

Quite a separate issue from the amount and type of income is "how stable is the flow of income?" While exceptions are usually made, lenders generally look for several years in the same company, or progressive income increases in a succession of related jobs.

Selecting a Home Type

Often the selection of a first home is a chance event...

friends are selling their condo and will give you a great deal if you buy from them privately.
you drop into a new home sales office and "fall in love" with a particular model, not to mention the charming sales pitch of the well-practiced salesperson.
your realtor comes across the perfect little semi...and suggests you snap it up quickly "before someone else does".
The point is... there are a lot of selling forces out there... you should assert your right to evaluate the options yourself, and then make an informed choice. To assist in this evaluation process, following is a comparison of some of the Pro's and Con's of the different choices.

Condo Apartment
PRO Lowest purchase price.
Lowest taxes.
Lowest maintenance effort - no snow shoveling or lawn mowing.
Greatest convenience for singles, and empty-nesters. (no children at home)

CON Hardest to re-sell.
Sometimes difficult to finance with low down payment.
Maintenance fees usually increase the carrying costs substantially.
No private yard - can't barbecue, etc.
Share common walls with neighbours.

Condo/Freehold Townhouse
PRO Lower purchase price than semi or detached.
Lower taxes.
Lower maintenance effort.
Better re-sale market than condo apartment.
Some important backyard activities possible...barbecues, sandbox, swings.

CON Hardest to re-sell.
Usually harder to re-sell than semi or detached home. (depends on market)
Usually not as much value appreciation as semi or detached.
Don't own the land. (unless freehold Townhouse)

Shared wall(s) and close to neighbours - acceptable as long as neighbours are good.

Semi-Detached

PRO Good compromise for first time buyer...most privacy at the least cost.
You own the land - which is the appreciating asset...bricks and mortar depreciate.
Readily re-sold to other first-time buyers - therefore good value appreciation.
Easy to finance at best rates.
Many family and entertainment activities possible - yard usually bigger than a Townhouse.

CON A common wall - acceptable if neighbours are good, but no control over changes.
A higher price per square foot of living space than a townhouse in a similar location.

Detached

PRO You own the land - the appreciating asset. Value appreciation is usually best for detached because the greatest number of buyers "aspire" to a detached property.
No common walls, allowing the greatest privacy.
The most prestigious - you are seen as having "made it" by friends and family.
Lower priced detached homes tend to sell quickly because of the combination of prestige and affordability.

CON The cost is the highest of all options - both purchase price and property taxes - for similar locations and quality.

Re-Sale Home (vs. New from Builder)

PRO Price is lower because of some wear and tear. (which varies greatly - check closely!)
You get the benefit of upgrades (finished basement, pool etc.) at a depreciated price.
Established neighbourhood..current neighbours/ other variables are a known quantity.

CON The home has been used by others.
There is no "warranty" for major repairs required by law, although it can be specifically arranged.
You often inherit someone else's taste in decorating, which can be expensive and time consuming to change at retail prices.

New Home from Builder (vs. Resale)

PRO You are the first occupants...the house is an empty canvas for you to add your touch.
Priced lower than new homes in similar recently completed subdivisions...appreciates

as soon as construction is 100% complete.
You can choose colours, design features to your own taste as an inclusion in the purchase price, with upgrades negotiable.
There is usually excellent protection from defects in construction required by Provincial Law.

CON There is often an extended period of time without lawns or paved driveways, and with dust from unsodded areas and construction traffic.
There can be problems with permits or trade strikes that prevent timely completion and occupancy.
Some closing costs apply to new homes that do not exist with resales.

The Role of the Major Players in Your Purchase

REALTOR

Keeps track of the latest properties offered on the Real Estate market - through the Multiple Listing Service (MLS) and others - which meet your requirements.
Investigates properties which appear to meet your requirements and arranges to view them with you.
Acts as agent for the seller if it is an MLS listed property - unless you agree to have them act as your agent. This is known as Buyer's Agency and means the Realtor is acting specifically and contractually in your best interest - even though the commission is usually still paid by the seller out of the proceeds of the sale.
Negotiates terms and conditions of your purchase with the agent for the seller (if not themselves) or with the seller directly. (if a private seller or their own listing)
Arranges to get information for you, or for certain conditions to be fulfilled, as agreed with you, such as; survey, appraisal (for mortgage purposes), and a home inspection report.
Coordinates closing with the Lawyer, Appraiser, Inspector, and Municipality, as needed.

LAWYER

Ensures arrangements are in place for funds to be available for closing.
Ensures all legal requirements of the transaction are fulfilled - Compliance Letter that no outstanding liens or work orders are in effect; Tax Department's release that property taxes are up to date, determines that the current or proposed occupancy usage conforms to local by-laws, etc.
Coordinates with lenders the setup of legal documents for any mortgage security.
Ensures that all mortgage terms and conditions are met, and that title is clear in order to make undertakings to lender(s). May obtain title insurance on the buyer's behalf if there is any issue surrounding title that may cause a claim or work order of some kind in the future.
Arranges with you the signing of legal documents and submission of remaining funds

not provided by the Mortgage Lender(s).
Coordinates closing of the purchase transaction with the lawyer(s) for the seller of the property and the lawyer(s) for the lender(s). Your lawyer is in most cases appointed to act on the lender's behalf.

MORTGAGE LENDER

Arranges for the funding of a real estate purchase which conforms to their lending criteria. These have been set in conformance with their legally regulated role.
Arranges for an Appraiser to inspect and evaluate your property.
Communicates with you and your lawyer to ensure that the value and all their lending criteria and specific conditions for the loan have met to an acceptable degree before providing funds.

APPRAISER

A legally accredited valuator who inspects, and issues a report to the party who engages them which, with certain conditions:
certifies for legal purposes that the price paid by a purchaser reflects the true market value of the property.
ascertains on behalf of the lender that the property value supports the mortgage amount requested.
provides a purchaser a second opinion relative to their Realtor's assertion as to the value of the market property (to be) purchased.

HOME INSPECTOR

An individual, not requiring Provincial licensing in most cases, who inspects a property on behalf of a purchaser (usually as a condition of a purchase agreement), to
identify the soundness of the structure and any improvements.
note any specific deficiencies and their impact on the value of the property.
indicate the approximate cost to correct any identified deficiencies.
Their final product is referred to as a Home Inspection Report

BUILDER'S REPRESENTATIVE

A sales representative employed by a Builder to arrange the sale of new homes to the buying public. Although they are governed by regular consumer law, their duty is to the builder... they are in fact the Seller's Agent.
Provides information to buyers on house models, lots, costs of purchasing, municipal procedures and requirements, New Home Warranty programs, and all other related features of the property.

The Costs of Purchasing

(A number of these costs vary by Province, and many change frequently)

1. PURCHASE PRICE
The starting point in your calculation... if you're like the average first-time homebuyer you'll need a mortgage for the majority of this!

2. LAWYER'S FEES
Depends entirely upon the deal between you and your lawyer. Be sure to ascertain exactly what this will amount to in a worst-case situation. Usually ranges from $350 to $2,500 depending upon whether one or more mortgages are to be drafted and registered.

3. LAND TITLES FEES
A fee payable to the Provincial Government by the purchaser and seller upon the transfer of title from a seller. In Alberta a simple formula applies*:

Purchase or Sale:	Base fee of $35.00 plus $1.00 for every $5000.00 of value;
Mortgage:	Base fee of $15.00 plus $1.00 for every $5000.00 of value;

(*subject to change without notice)

4. REGISTRATION FEES (also see #3 above)
Fees paid to the provincial government for recording a title transfer, mortgage registration or other instrument such as an Assignment or Lien with the local authorities.

5. DEFAULT INSURANCE
This is a Federal requirement for lending institutions which helps many people in Canada purchase their first home, or re-purchase after they have lost equity. If you are buying a home for less than 25% down payment, or in other cases where the lender requires insurance against your possible default, a sliding scale of fees applies, depending on the percentage of the purchase price required in a first mortgage (some minor exceptions). For example, as of May 1997 Canada Mortgage and Housing Corporation (CMHC) and its competitor MICC (operated by GE Capital) charge a 2.5% one-time fee - which can be added to the mortgage - for any mortgage over 85% of the purchase price. See also Mortgage Insurance for a definition.

6. COMPLIANCE LETTER
Required in many municipalities throughout Canada before a property transfer can take place. This is an acknowledgement from the building department that the property either has, or is clear of outstanding work-orders. Work-orders are specific clean-up or fix-up requirements that the owner must complete, particularly before a transfer of ownership.

7. TAX CERTIFICATE

At the time of a sale, the lawyer for the buyer must confirm that local taxes have been paid up to date. If they are, a Tax Certificate is issued, from which any adjustments can be made - usually requiring the buyer to compensate the seller for any prepaid taxes. If they are not up to date, the municipality requires that the seller pay them off from the proceeds of the sale. If there are insufficient proceeds, then it may fall upon the buyer to pay them.

8. PROVINCIAL "NEW HOME WARRANTY PROGRAM" PREMIUMS - NEW HOMES ONLY!

A third party (provincial) warranty program between a builder and a buyer. With the exception of Ontario and Quebec, membership in such a program is voluntary for the builder. Through these programs, your home is guaranteed against defects for at least one year. All homes with a high-ratio insured mortgage (greater than 75% loan to value) must be enrolled in such a program.

9. MISCELLANEOUS MUNICIPAL LEVIES

Special levies can be charged by municipalities to recover the cost of special services, if these services cannot, for some reason, be funded out of general revenues, or apply primarily to homebuyers. Examples: Water meter installation; road improvements, sewer improvements.

10. MORTGAGE APPRAISAL AND APPLICATION FEES

Although often paid by the Lending Institution, these fees (a few hundred dollars each at most, unless the property is exceptional) will usually have to be covered at the time of application for a mortgage.

11. HOME INSPECTION

A report commissioned by a property owner or purchaser, usually to verify the condition of a property prior to the "firming up" of a Real Estate transaction. The scope and detail may vary, but most reports indicate the specific problem and the cost to repair. Unfortunately, no licensing is required, and this service is not specifically regulated other than by general consumer protection legislation. The best safeguard against inadequate work is to ask for the resume of the Inspector, and if possible check references from previous customers.

12. LAND SURVEY

The legal written and/ or mapped description of the location and dimensions of your land. The survey should also show the dimensions and placement on the lot of any structure, including additions such as pools, sheds and fences. An up-to-date survey is often required by a lender as part of the mortgage transaction.

13. CONNECTION CHARGES
Some local utility companies (hydro, gas, oil) charge a fee on closing to connect new buyers up to their service. More normal, however, is an extra charge on the first billing.

14. PROPERTY TAX AND PREPAID UTILITIES ADJUSTMENTS
If the previous owner prepaid property taxes or other utilities, they will be credited the prepaid portion on closing. If they paid all their taxes by April, expect a large adjustment cost on closing!

15. INTEREST ADJUSTMENT (IA)
If you arrange to make your mortgage payments monthly on the first day of the month, and your transaction closes after the first day of the month, your lender may charge you interest on closing up to the first theoretical payment date, called the Interest Adjustment Date (IAD). This can be a sizeable amount, and can often be negotiated down (or away).

16. GST
On new homes only. Fortunately the 6% is almost without exception paid by the builder. Not a bad idea to raise the subject, though. Don't include in your calculation.

EXAMPLE "CLOSING COSTS"

Lawyer's Fees (Local) $1,000
Registration Fees (Provincial) $200
Default Insurance (Federal) $3,000*
Compliance Letter (Local) $100
Tax Certificate (Local) $25
New Home Warranty Program premiums (Provincial) $1,000
Miscellaneous Municipal Levies (Local) $250
Mortgage Appraisal and Application Fees (Local) $200
Home Inspection (Local) $300
Land Survey (Local) $750
Connection Charges (Local) $200
Property Tax/ Prepaid Utilities Adjustments (Local) $1,500
Interest Adjustment (Local) $1,000**

TOTAL POSSIBLE COSTS $9,700
ADJUSTED FOR * ITEMS $7,700

*May be financed.
**May be offset by Lender.

Using an RRSP

In February of 1992, the Canadian Federal Government introduced the "Home Buyers' Plan" (HBP), which allows RRSP planholders who are also first time home buyers to use up to $20,000 of their RRSP to apply to the purchase of their home. The plan, extended twice, is in effect as of July 1997 until further notice.

Up to two partners in the home can combine their RRSP's for a total maximum of $40,000. The only subsequent requirement is that they pay the withdrawals back into their plans (without further deductions) over a maximum of 15 years. Failure to do so will result in 1/15th of the RRSP initially withdrawn having to be added back to taxable income in any year the minimum re-deposit is not made.

One very good feature of the HBP, exploited by several of the major financial institutions (usually in cooperation with major Real Estate chains), is the ability to borrow money to top up your RRSP plan using accumulated RRSP eligibility limits. If your tax assessment notice indicates you are eligible for, say, $18,000 in contributions in the current year, and you already have $4,000 in a self-directed plan, these institutions will lend you - subject to a credit check - the $16,000 to buy the RRSP required to bring you up to the $20,000 HBP limit. You may wish to borrow the whole $20,000 to obtain the maximum tax deduction.

A loan for the RRSP to be used as your down payment allows you, in effect, to borrow your down payment over the next 15 years.

The idea is then to claim the eligible deduction against your current year's income in order to get a large tax rebate. This rebate can then be used either to pay down the loan, or applied to the cost of buying the home. Here, of course, the amount of tax you're paying each year is an important factor. If the $16,000 deduction in this example results in, say, a $5,000 tax rebate, then that's all the "free cash" you actually net from the process.

If, on the other hand two partners each earning $80,000 per year take their maximum RRSP of $20,000 each in the current year, they could net $15,000 or more "free cash" in total.

You are then allowed to withdraw up to the $20,000 maximum from the RRSP 90 days after topping up or creating the plan, subject to the re-deposit requirements described above.

Here's the catch for those thinking of borrowing the money for the maximum RRSP: Unless you're planning to repay the RRSP loan quickly, or are able to extend the terms significantly this has the effect of greatly increasing the monthly payment, thus decreasing the chances of qualifying for a mortgage because of much higher "total debt servicing ratio". This is the proportion of your gross income required to service both the home related costs and other monthly obligations - usually a maximum of 42%. Another $600 per month could well make the difference in whether or not you'll qualify for a mortgage.

Getting a Mortgage Pre-Approved Before You Buy

Regardless of how certain you are that you will qualify for a mortgage, it is always an excellent idea to formalize this certainty in a prequalification certificate from the mortgage lender of your choice. This will officially address any questions about whether or not you qualify - including your eligibility for the various programs. Remember, the pre approval applies to the purchaser and not the property. Your offer to purchase should still be conditional on financing so that the property may be qualified.

You will submit a pre-qualification application directly to the lender of your choice for final checking of your personal details, and the issuing of your prequalification certificate. After a brief telephone contact from the mortgage lender discussing options, and requesting you to send proof of income and employment, you can be "pre-qualified" with the absolute minimum of fuss - and the maximum of convenience.

After you buy your home, simply send in the property and offer details, along with any other information requested, and your actual mortgage can be approved within hours.

What Type of Mortgage You Should Get

If you are buying a home with less than 25% down payment your choices of mortgage products and terms are somewhat limited... 3 year fixed rate or longer under the regular CMHC Program and 5 years fixed rate or longer under the 5% down program.

However, if you are not constrained by the insurance requirements of a high-ratio mortgage there are many options available... they are summarized below. (Note: Not all lenders offer all types of mortgages.)

CATEGORIES

Fixed-rate 6 month, 1, 2 & 3 year (open, closed and closed-convertible)
4, 5, 7 & 10 year closed.
Variable-rate 3, 4 and 5 year (open, closed, closed-convertible and capped)
Split-term Combination of all possible terms (6 month through 10 years)
Number of portions depends upon lender...3 is most common;
5 is maximum currently available with some financial institutions.
Self-directed RRSP A specialty mortgage - term optional - rate within CMHC guidelines.
Invest your own RRSP funds into all or part of your home mortgage.

DESCRIPTION OF TYPES AND HOW THEY APPLY TO YOU

Long-term

Annual prepayments... traditionally, 10% to 20% of the original principal balance have been allowed as a lump sum prepayment once a year, often on the "anniversary date". Recently, options of up to 20% of the original balance payable on any payment date have been added to this feature. Finally, the "double-up and skip-a-payment" feature has been included in many offerings. This allows a borrower to "bank" extra mortgage payments for a rainy day, at which time they can just "skip", with the added benefit that, if it never "rains", principal is permanently reduced, along with the interest cost.

Short-term risk and variable

If rates are low and stable, and/ or you have decided to take the "staying short" strategy regardless... you can generally pay a significantly lower rate (by up to 2%). This is achieved by simply rolling over your term every 6 months, or having your rate float against prime - with the option of locking in to a longer term at a later date. This is not for everyone, however, as sudden upward rate movements - not unknown in Canada - can cause severe stress.

Any term 3 years or longer is considered "long term" in today's economy. Because long-term rates are usually higher than short-term rates, many Canadians who have a choice do not select this option. There are many, however, that consider a long term mortgage necessary due to their exposure to rate increases relative to their inability to manage a significantly higher payment.

Split Term

A mortgage which allows you to minimize - or hedge - your interest rate risk by splitting your mortgage into 3 to 5 parts.
For example: A $150,000 mortgage could be split into five $30,000 segments with terms of 6 months, 1, 2, 3, and 5 year terms negotiated at today's best rates.
The average rate (say, 6.25%) would rise or fall much more slowly than changes in the market, however, as only the shorter terms are affected by even the most volatile rate movements over the first few years.

Protected Variable

In 1993 several Canadian Banks introduced the protected variable rate mortgage, which floats at about prime plus 1%, and is capped at (i.e. will never exceed) about 1/2% above the posted 5 year rate. It does offer a way to reduce the risk of floating, while preserving an acceptable long-term rate. (This type is also known as the "capped" variable rate mortgage).

Prepayment Options

Payment changes
Most mortgages now allow the amortization to be adjusted by increasing the payment on closed terms by 10% - 20% per year, once annually.

Payment Frequency
Most mortgages now come with the option to pay your mortgage at a frequency that matches your cash flow - weekly, bi-weekly or semi-monthly. The added benefit of the "accelerated" weekly and bi-weekly, payments is that by dividing a regular monthly payment into two or four respectively, and deducting it at the new interval, an extra payment a year is made directly against principal. The surprising effect of this one extra payment a year is to reduce the amortization of the average mortgage by up to 6 years, with enormous savings of cash at the end of the mortgage term.

SUMMARY

If you are risk-avoider... go for a fixed rate long-term mortgage, or hedge your bets with a protected Variable Rate Mortgage. If you're a risk-taker, simply stay with a short-term mortgage and watch closely for the signal to lock in a longer term deal. Wherever you can stand the additional cash flow requirement, increase your payment frequency and amount, and prepay principal wherever possible.
Remember... because mortgage interest is not tax-deductible, every dollar you pay off your mortgage gives you an AFTER TAX RETURN of whatever your rate is, because you're saving interest you'd otherwise have to pay with after-tax dollars!

How the Bond Market Affects Mortgage Rates

The Government of Canada, and all major nations, finance their activities and accumulated deficits, by issuing "bonds". In the US they are known as "Treasuries" and in the UK "Gilts". The duration and interest rate paid on new issues of these bonds depends upon the financial strategy of the Government in power. The accumulated outstanding amounts of these bond issues, past and present, is know as "the National Debt". New issues are constantly required either to refinance maturing issues or finance current Government deficits, and a bond (say in $100,000 denominations) is considered a "commodity" by the market. Like every other commodity, its price can go up or down.

A new bond issue may set a "coupon" rate of interest at current market, say $100 million at 5.8% for an issue of 5-year duration. If this issue is made coincident with an economic or political event which drives down its value (say an unexpected "Yes" vote in a Quebec referendum), the effect on interest rates is immediate. The individual $100,000 denomination bond may fall in value to $95,000, thus yielding a significantly higher return for the buyer at the lower price. The combined "yield" of interest and capital gains sets the new base market rate for wholesale funds. Any financial institution seeking funds from these same investors, for example to correct an imbalance in deposit and loan commitments, will have to pay this yield plus a small "premium over Canada's" to secure them.

Investors who buy and sell these Government securities in large quantities, such as multinational corporations, pension funds and the like, weigh many factors, including the currency value and economic prospects of Canadian and other competing nations' issues. They then determine what price they'll pay for Government of Canada Bonds. The price they'll pay immediately defines the base market rate for wholesale funds. Every day, trends in this rate are watched closely by all Financial Institutions, in order to be in a position to adjust their rates on deposits and loans if required.

All Canadian mortgage lenders are acutely aware that their current or potential retail depositors can choose to put their money into none of the financial institutions GIC's in a rising rate market, and instead buy other "fixed income securities" such as bonds, which yield a higher rate because they adjust immediately to market changes. They can even switch their funds into the stock market if this is performing relatively better.

Therefore, in the truest sense of the word, the mortgage lending institutions are competing with other markets for the investor's money. If a bank doesn't attract enough depositors to fund all the mortgages, they'll have to go , where their depositors go - the money market - to make up the difference... and there, they pay the going rate!

How Market Changes can Affect Mortgage Decisions

The single biggest dilemma for Canadian mortgage borrowers since 1992 has been whether or not to lock in to a long term mortgage or stay 'short'. History has shown that, overall, it might have been better to stick with a short term or variable rate mortgage. That, however, is 20/20 hindsight, and many who locked in their mortgage at 6.75% in March of 1994 and then watched as rates zoomed through the roof when constitutional discord ravaged the Canadian dollar, would argue that they got the better of the deal. It remains to be seen what the next decade will hold. Let's consider a few of the dynamics directly affecting rates, and then see how personal mortgage decisions might be affected.

As described in the previous section on bond markets, it is clear to see that accuracy in interest rate prediction can only be judged after all the world's political and economic events have worked their way through the bond market over a period of time. One of the brightest analysts in Canada predicted a cataclysmic National Debt for Canada by the turn of the century, even suggesting that the International Monetary Fund (IMF) would have to place controls over the Canadian currency and foreign borrowings in order to stabilize the situation. Interest rates were confidently predicted by some to be heading back to double digits by the year 2000.

And yet, following severe damage control by the Bank of Canada in the late 1980's and early 90's, through draconian monetary policies, combined with fiscal restraint and heavy cutbacks by the Federal Government, Canada's financial house appears to be in order, paving the way for stable growth with a well controlled interest rate market.

In Canada, the threat of Quebec separation continues to be the 'wild card' w, hich could tip the balance in terms of wh, ether, the Canadian dollar once again undergoes a prolonged attack. This would force the Bank of Canada to once again defend the dollar by driving up short-term rates and causing Canadian Bonds to be heavily discounted in the market. This would in turn drive up long term rates as explained in the previous section.

This leads us to the conclusion that there are three basic strategies that Canadians could follow given the current state of the market. Each is represented by a "risk tolerance" on the part of borrowers:

Stay 'short' with a 6 month convertible or variable rate mortgage, watching for indications that a long lasting upheaval warrants either a long-term lock-in or a 'hedging' strategy. This approach is for the 'risk-taker', or the borrower who can easily absorb significant rate hikes and is prepared to live with a reasonable average over the long haul.

'Hedge' your bets by either taking a protected variable rate mortgage with a ceiling half a point above current posted rates; or a split-term mortgage with terms varying from 6 months to 5 years, in amounts which suit your risk tolerance level. This strategy is the best for those that are cautious, and possibly vulnerable to significant rate increases in the near term... or simply partners with different risk tolerances!

Lock in now, after negotiating your best long term rate - as long as 10 years from some lenders. This dispels all concerns about the direction of the market, and gives the risk-averse borrower an opportunity to reduce their mortgage balance significantly before they are once again exposed to interest rate risk.

How the Lenders Manage Mortgage Rates and Products

The mortgage market rate leader has to adjust its rates to balance off its demand and supply of money with the market at the national (even international) level. If they didn't adjust, in a falling rate market they'd be paying above market rates for deposits, or losing mortgage business, or both. In a rising rate market, they'd be paying below market rates for deposits, and attracting little or no new business, while at the same time charging below market rates for mortgages and would be short of funds required to fund the rush of new applications.

The bottom line for the banks (triggered by the rate leader) is that whether rates rise or fall, they'll be out of balance with demand for and supply of money, and their profits will shrink unless their rates meet demand in the retail marketplace - primarily in their branches but also from brokers.

There is a major difference between the way mortgage rates are managed in Canada compared with, for example, the United States. In Canada, the vast majority of mortgages are funded by a relatively few major financial institutions directly out of their customers' long-term and short-term deposits. The impact of the bond market is just as significant as in the US, but because there mortgages are typically "securitized" - that is, funded over the long haul by market securities rather than by private depositors, mortgage rate changes are virtually immediate and adjust precisely to the market.

The Canadian mortgage market can be good news or bad news for the consumer. The relative size and strength of Canadian financial institutions allows them to ride out minor market fluctuations without constantly changing posted rates. On the other hand, a longer-term rate trend can often be delayed, and the eventual adjustment can be larger than the gradual changes prevailing in the US. This can occasionally result in "rate shock" on the part of Canadian consumers in a rising rate market. This occurred in the Spring of 1994 a few months after a US Federal Reserve Board policy change which eventually drove Canadian mortgage rates up a few times by almost a full percent each time, due to the delayed reaction on the part of the Canadian financial institutions. This panicked many into locking in their mortgages, only to see rates fall again shortly afterwards. On balance, however, Canadian consumers seem unconcerned about these discontinuities, and are for the most part enjoying Canada's single-digit rates, which are below those of the US.

All Canadian banks are involved to some degree in securitization - funding pools of loans "off balance sheet", or selling off consumer "paper". Considering the deregulatory trend in both Canada and the US it is inevitable that our mortgage market will eventually follow the American model. It remains to be seen, however, whether product differences - US banks offering fully open privileges without penalty - will also be eliminated.

Paying Off Your Mortgage Faster

One of the highest financial priorities of Canadian homeowners is to pay off the mortgage as quickly as possible. Most are aware that paying down extra principal in the early years by whatever means possible can shorten the life of your mortgage - and dramatically lower the interest you'll pay over the long haul. "Pay-Off Tips" below describes some of the most effective methods of achieving this.

MORTGAGE PAYMENTS MADE WITH AFTER TAX CASH

More Canadians are becoming aware that, since mortgage interest is not tax-deductible in Canada, (as it is in the US), you are making mortgage payments of both principal and interest with money that you've already paid tax on - "after tax dollars". This makes it even more important to eliminate the drainage of disposable income as soon as possible!

PREPAYMENTS GIVE GREAT RETURN ON INVESTMENT
If you pay an average of 6.5% in mortgage interest, for each $1,000 by which you reduce your mortgage principal you will save $65 in after tax cash every year. If you are paying taxes at a marginal rate of 40%, you have to earn $108.33 each year to pay the interest on every $1,000 of principal outstanding... a heavy burden, but also a tremendous implied benefit to reducing this balance. In fact, the example shows that the "return on investment" for making prepayments on your mortgage is 10.833% before tax and 6.5% after tax - far better than most fixed return investments (bonds, GIC's etc.), which currently average about 5.0% before tax and about 3.0% after tax for the same individual.

PAY-OFF TIPS

Increase your payment annually to the most you can afford. The upside is that most lenders will allow you to reduce it again to the previous level if it turns out to be too great a burden, or your circumstances change.

Use your RRSP-driven tax rebate religiously as a mortgage prepayment method. Even if you can only prepay annually, make sure these funds are set aside for that purpose. Many Canadians will borrow (at prime) to buy an RRSP to ensure the maximum rebate. When applied to the mortgage principal, this refund is a "gift that keeps on giving". Combining the refund with the tax-free interest earned on the RRSP over the subsequent years will quickly outpace the short-term interest costs of the RRSP loan.

Make accelerated bi-weekly payments to get a "free" principal reduction equivalent to one full mortgage payment every year - painlessly. Unless you are paid weekly it makes little sense to make weekly payments. All you'd be doing is making a smaller payment, and deferring the difference for a week.

Make use of double-up privileges wherever possible, telling yourself that you will "skip-a-payment" whenever necessary... then skip only when you absolutely must. This discipline has allowed many people to shorten their mortgage life by years within a very short period.

What Your Current Lender Can Do

One of the biggest fears of borrowers is that if they change financial institutions for their mortgage, they'll be penalized in some other way. Perhaps you have a business or personal credit line that you want to keep, but are unhappy with the mortgage rate/ options.

The reality is that mortgages at discounted rates are often loss leaders for other more profitable products. There's a good chance your current mortgage lender is only breaking even on the mortgage if he matches the mortgage rate offered, while making a profit on everything else. Your manager is still measured on his mortgage portfolio, however, and will likely try hard to persuade you to stay, as soon as the request for a "payout statement" comes in from your new chosen lender.

If a threat - subtle or otherwise - is made by your financial institution in response to your request, that's a pretty good cue to take all your business elsewhere. However, in this age of short-term mortgages you could remind your current lender that you intend to apply the other institution's mortgage services to the same criteria. When that reasonable premise is acknowledged and accepted by your current lender, you then become a good prospect to be won back. And in all cases, the best lender will win!

There may be a few situations in which you are truly "stuck" with your current lender, and you should be aware of this from the outset.

If, for example, the value of your current property has dropped faster than the mortgage balance - a fairly common experience in Ontario, for example - your mortgage may now be "high ratio" and require default insurance. Since many people tend to have a somewhat rosy opinion of their property value, it may be worthwhile to get the new lender to have an appraisal done before the other paperwork is undertaken. This is particularly true when even the home owner acknowledges that an unexpected insurance premium of a few thousand dollars would tend to undermine most promising deals - and it has happened many times. One exception to this rule is where you have previously obtained default insurance on your current mortgage. This insurance is transferable at no cost to a new mortgage, thus eliminating the problem described here. (See What Happens Legally When You Switch)

Another instance where you may have trouble switching is that in which you have experienced problems with keeping your mortgage payments up to date. Your current lender may be fully justified in giving a poor credit report to another institution, thus making it less likely that you'll be approved for a switch. You could then be relegated to the ranks of mortgage customers paying full posted rate just to keep your mortgage, and being unable to "escape" even though your mortgage is fully open. The full posted rate is, in effect, a "penalty" whereby you compensate a lender for collection efforts or other administrative costs incurred.

What Happens Legally When You Switch

Most people are unaware of the legal effect of switching lenders. Most assume - quite reasonably - that the old mortgage is always discharged (paid out) and a new one registered. In fact this is rarely the case when a mortgage is simply being switched "as is" or with a reduced balance. A mortgage is almost always discharged and then the new one registered, however, when a mortgage is being increased in size from its current balance, even though that increase does not take it over - or even up to - the original balance.

In most Provinces a switch of the current or lower balance requires only a simple assignment of interest in the mortgage to be executed by all parties and registered on title. This assignment also attaches the specific charge terms that will have legal effect, and replaces those of the transferring institution. So even though the old mortgage is still registered on title, all those old terms and conditions registered by your previous lender will be completely replaced by those of your new lender under the assignment of interest.

A little known, but very valuable legal fact about the transfer of mortgages is that if you paid a default insurance premium (CMHC or Genworth Financial) on the original mortgage, it doesn't matter how many times you switch lenders, that insurance will remain in effect. In fact, with some limitations, insurance can be ported not only from one lender to another, but also from one property to another! The main limitation here (a significant one today) applies only to CMHC insured mortgages. It is that the mortgage must have been created after April 1, 1996 to qualify for portability to a different property. (Portability to a different lender has always been allowed).

The importance of this feature is that if you have not been able to accumulate 25% or more equity in your property before switching lenders or properties, then (subject to certain conditions) you will not have to pay the insurance again, and will not be constrained in any way by your lack of equity.

Consolidate Other Debt

Most unsecured debt is priced by your bank at a higher rate than your mortgage in order to compensate them for the higher risk of loss if you default. For many people it only makes sense to use available home equity to pay out this debt, as it typically reduces interest costs significantly. If the total of the existing mortgage and the debt to be refinanced is less than 75% of the value of your home, and you qualify in terms of income and credit standing, refinancing your first mortgage should be a breeze.

Renovations and Home Improvements

If you want to spend a significant amount of money on improving your home, you may be able to take out a lot more equity than you realized! Both default insurers - CMHC and Genworth Financial, will insure new mortgages which are "topped up" for this purpose, and the total of your current mortgage and the new funds exceeds 75% of the current home value. Not all improvements are eligible, however. Pools and spas are typical "over-improvements" which may not qualify for a high-ratio equity take-out. Of course, if the total requirement is less than 75% of your home's current value, you should have little trouble getting the "top up" you need - regardless of the degree of luxury you plan to add. Just go to the Mortgage Qualifier and try out your own numbers and circumstances in total confidentiality!

Combining Mortgages

Where the combined mortgages result in one "high ratio" mortgage:

If neither (or none) of the mortgages you're combining was ever insured against your default, but in combining them you'll be in a high-ratio situation, you'll be required to pay an insurance premium. You need to look closely at the total savings the combination will give you, in order to determine whether this is financially worthwhile. The Mortgage Qualifier will detail the costs of this insurance in the "results" window. Try it now!

Where the combined mortgages result in a new "conventional" mortgage:

Default insurance is not required. Congratulations are in order. Whatever circumstances initially required the second mortgage have presumably now been overcome. As long as you qualify with your income and credit standing, any lender in Canada will approve your mortgage.

In both cases there is one critical consideration which causes the failure of many such refinances. The new mortgage often requires a fraction of the cash flow previously needed to service the now consolidated debt. Many who go through this process not only absorb the cash flow savings into an improved lifestyle - they either re-incur debt that they paid out, or incur debt for which they now qualify - or both. It is important to approach such a consolidation/ re-combination of obligations with the clear and focused goal of applying all savings toward paying down the mortgage. Otherwise, the new mortgage will be a burden, rather than a solution.

Breaking a Closed Mortgage to Transfer to a New Lender

Many closed mortgages have the feature that allows the balance to be paid out with a penalty after a certain time has elapsed on the mortgage. Check the "prepayment" clause in your mortgage to determine your own situation, or better still, call your institution and ask them the cost of paying out in full.

Either of the following situations could apply to you:

There is a penalty of 3 months interest or "Interest Rate Differential" (IRD) whichever is greater. Your new lender will be happy to discuss your options for financing this penalty.

The mortgage is closed, and can only be "opened" at the discretion of your current mortgage lender. Well, you're truly stuck, and you may only be able to "blend and extend" into a longer term, depending upon how charitable your current lender is feeling. Many lenders have made the mistake of not giving their customers any concessions. This approach is very effective for the term of the mortgage, but seldom beyond.

Blend & Extend Your Current Mortgage

At a time when rates are low, but look like heading upwards, you may simply want to extend your mortgage at a lower rate for a longer term. In this situation your current lender will usually allow you to break the mortgage with a penalty, give you a new long term mortgage and blend the penalty into the new rate. This is called a "blend and extend". Both the rate for the new term and the penalty may be negotiable, but a strong banking relationship may have to be in place to achieve this. After all, the lender might say, you both made a commitment and any changes must make sense from a business point of view.

Selling Your Home and Not Repurchasing

If this is your situation, the question from your current lender is invariably "are you going to buy again?".

If you are not, you'll likely be stuck with the greater of a three month interest penalty or an interest rate differential (IRD) penalty. (Once again - check if the original mortgage was insured by CMHC - you may get away with three months interest penalty if the IRD is very large).

If you are going to buy again, the lender will usually insist on financing the property, increasing and blending - or decreasing - and porting the mortgage to your new home. But on the assumption that you don't want to buy again immediately (you may be out of the country, or believe the market is about to drop substantially, etc.) the lender will almost always charge you the full penalty (IRD), but offer at least a partial rebate if you borrow from them when you repurchase.

Mortgage Glossary

1. **AMORTIZATION:**
Paying off the principal balance of the mortgage, usually by a combination of equal periodic payments and extra payments of principal at irregular intervals. Usually associated with a target period (the standard being 25 years) over which the initial blended payment is calculated. The maximum amortization available in Canada is 40 years.

ADJUSTMENTS ON CLOSING:
There are two types of adjustments for which a buyer can be charged on closing;

Prepaid services. Where the sellers have prepaid property taxes or certain utilities, the buyers can be charged for the amount of prepayment on a pro-rata basis, depending on the date of occupancy. For example, if the sellers have paid the property taxes to the end of the year, and the sale closes on October 15th, the purchasers will be charged with an adjustment of 77 / 365'ths (the number of days remaining in the year) of the total paid for the year.

Interest. This is the amount of interest required to be prepaid up to the Interest Adjustment Date (IAD). IAD is the point at which the mortgage interest starts accumulating "in arrears". In Canada all mortgage interest is calculated and paid after the period to which it applies. This differs from the way in which rental and lease payments are calculated, which is "in advance". The good news on this one is that if you prepay for say 3 weeks you won't have to make your first payment for almost two months. Also, if you take a biweekly payment term, the longest interest adjustment period is less than two weeks, by definition.

APPRAISAL:
This is an estimate of the current value of the property (the 'subject property'), using one or both of the following techniques;

The majority of residential appraisals use the market value comparison approach, comparing recent sales of similar properties ('comparables' or 'comps' in real estate jargon) and adding and subtracting the differences in value of the same features in the subject property. For example, if a house of the same size on the same street and in the same condition as the subject property recently sold for $200,000, but this 'comparable' had a triple garage and a finished basement and the 'subject' does not; the appraiser calculates the market value of these features (say, $12,000 in total) and deducts this amount from $200,000, giving an 'adjusted value' of $188,000. This is usually done with at least three 'comparables' and either averaged or the middle ('median') value used.

A supporting measurement of value used by many appraisers is the "depreciated cost" approach, whereby the land value is estimated and added to an estimate of the depreciated building value. Where there are few comparables available, relatively more weight might be given to this method.

ASSESSMENT:
The "assessed" value of a property is a historical, static estimate of the value of your property used by a municipal (local) government as a basis for calculating annual property taxes. An "assessment notice" from the municipality contains the "assessed value" and when multiplied by the current "mill rate" the property taxes for the year can be calculated. In some municipalities, the mill rate is provided on the assessment notice and in others it is provided separately.

ASSIGNMENT OF INTEREST:

Most Provinces allow a legal assignment of interest in a mortgage to have full legal effect without having to discharge and re-register the existing one. This is particularly useful in:

Switch situations, where the costs of transferring lenders would otherwise be very high.

Second mortgage situations where a postponement may be difficult to obtain.

ASSUMABLE MORTGAGE:
A mortgage which a qualified buyer can take over from the current owner of a property upon its sale. Assuming a mortgage can provide a buyer with a below market interest rate, (if rates are now higher), as well as saving on the legal costs of creating and registering a whole new mortgage. "Assumption" entails a simple amendment to the mortgage document registered on title (see "switch").

BLEND AND EXTEND:
A closed mortgage can often be "opened" for the purpose of extending the term. Most lenders will blend the penalty for breaking (usually an Interest Rate Differential) with the rate for the new extended term. The idea is to get a lower rate and protect against rate increases in the future.

BUY-DOWN:
"Paying down" the mortgage rate by paying the lender a premium at time of funding. This is often used as a marketing feature by new home builders, particularly on high ratio second mortgages.

BUYER'S AGENT:
A Realtor who acts contractually on behalf of the buyer. Traditionally, and still in most cases, the Realtor is the Agent of the Sellers and is paid by them out of the proceeds of the sale. A Buyer's Agency Agreement allows a Realtor (with full disclosure to the sellers or their agent) to negotiate on behalf of the buyer, with no legal conflict of interest. The seller still pays the Buyer's Agent fees, but this is always spelled out and acknowledged in the Offer to Purchase.

CANADA MORTGAGE AND HOUSING CORPORATION (CMHC):
A federal crown corporation which administers the "National Housing Act" (NHA), and through which all federal housing policies and programs are implemented.

CAP RATE:
The highest rate that a borrower will pay within a defined time period. Examples are; the rate committed on a commitment letter or a mortgage pre-qualification (also known as a "rate hold"); or the maximum rate that will be paid by the borrower during the term of a "protected variable rate mortgage". A lender will usually have to incur a cost to insure against rate increases during the capping period. This insurance is called a "hedge".

CLOSING:
The final exchange of consideration and legal completion of a transaction, involving either a house purchase, a mortgage registration, or both.

CLOSED MORTGAGE
A mortgage whose terms state that it cannot be paid out, even with a penalty, unless the lender agrees. In some cases, a closed mortgage may be discharged at a defined cost, usually Interest Rate Differential (IRD), but sometimes with a punitive penalty such as full interest to maturity.

COMMITMENT LETTER:
A written commitment from a lender to lend mortgage funds to specific borrowers as long as certain conditions are met within a specified time period before closing. A key component of the commitment, particularly in a period of volatile interest rates, is the "rate hold", where a lender may "cap" a rate for a defined period, such as 60 days or 90 days. Commitments on financing for new homes, which usually have longer closing dates, can be negotiated between the lender and the builder and be held for as long

as 6 months, and even a year.

COMPLIANCE LETTER:
Required in many municipalities throughout Canada before a property transfer can take place. This is an acknowledgement from the building department that the property either has, or is clear of outstanding work-orders. Work-orders are specific clean-up or fix-up requirements that the owner must complete, particularly before a transfer of ownership.

CONNECTION CHARGES
Some local utility companies (hydro, gas, oil) charge a fee on closing to connect new buyers up to their service. More normal, however, is an extra charge on the first billing.

CONVENTIONAL MORTGAGE:
A mortgage usually amounting to 75% (Loan to Value ratio) or less of the value of the property.

CONVERTIBLE MORTGAGE:
This allows you to convert your mortgage to a new one of longer term while it is still in effect.

CREDIT REPORT:
A record of an individual's payment history available at a credit bureau. Individuals can order a copy of their own report by contacting their local bureau.

DEFAULT:
Failure to make monthly mortgage payments as agreed, or to meet certain other terms of a mortgage agreement.

DOUBLE-UP:
This feature (not offered by all lenders) allows you to double up your mortgage payments anytime without penalty. This feature is often associated with the ability to "skip" an equivalent number of payments. This can be used either to accelerate the pay-off of a mortgage (as it is an enhanced prepayment privilege) or to manage a volatile cash flow. For example, commission-based individuals such as Realtors could "double-up" with each commission cheque, and "skip" during low cash flow periods.

DOWN PAYMENT:
The amount of cash paid towards the purchase transaction by the buyer of a home. This is also known as the purchaser's initial "equity" in the property, but is used by a lender to judge the personal commitment to the property. For example, a lender considers that, if a buyer saved the down payment, or received it as a gift from a loved one, they will be far more committed to maintaining the property value and making the mortgage payments than if they acquired it for "no money down".

EQUITY:
The difference between the value for which you could sell your property and what is owed against it. There is an important distinction from "down payment" to a lender. For example, if a buyer purchases a home without a down payment, he/ she can have "equity" if the value of the property quickly goes up.

FIVE-PERCENT DOWN PROGRAM:
This allows buyers to obtain up to 95% financing on properties up to a certain value. The loan must be insured against default by CMHC (Canada Mortgage and Housing Corporation) or GE Capital Mortgage Insurance Corporation. This maximum home value will vary according to location (local Realtors should know the applicable limit) and eligibility can vary with personal circumstances.

FIRST MORTGAGE:
Gives the lender a primary lien/charge against your house and property which has precedence over all other mortgages. Priority is determined by the date and time registered, so a first mortgage was literally and legally registered "first". A new first mortgage can therefore only be registered as a "first" mortgage

upon the discharge of an existing one if the holder of a second mortgage "postpones" (i.e., "puts back in time") to a time immediately following the registration of the new first mortgage.

GE CAPITAL MORTGAGE INSURANCE CORPORATION:
Canada's only private default mortgage insurer. For more details see Mortgage Insurance.

GROSS DEBT SERVICE RATIO (GDS):
The percentage arrived at by dividing your monthly shelter costs (principal, interest, property taxes, heating and half of condo fees) by your gross monthly income and multiplying by 100. This is used by all lenders as a yardstick by which to measure the ability of a borrower (or borrowers) to make mortgage payments. For example, most lenders require that this ratio be no more than 32% for a particular application, while others allow higher limits. This is also the maximum qualifying GDS for most default insurance applications.

HEDGE:
A fairly complex money market instrument the simple purpose of which is essentially to insure a mortgage lender (or borrower, through a protected or split-term mortgage) against interest rate movements. In the lender's case the price of this insurance will vary depending upon many political and economic factors, but will generally be lower when interest rates and the economy are less volatile. The buyer on the other hand can hedge at no cost, or at a reasonable rate premium by using specifically designed products.

HIGH-RATIO MORTGAGE:
A mortgage which is greater than 75% (Loan To Value ratio) of the value of the property. Normally requires insurance to be paid to protect the lender. (see Mortgage Insurance)

HOME INSPECTION REPORT:
A report commissioned by a property owner or purchaser, usually to verify the condition of a property prior to the "firming up" of a Real Estate transaction. The scope and detail may vary, but most reports indicate the specific problem and the cost to repair. Unfortunately, no licensing is required, and this service is not specifically regulated other than by general consumer protection legislation. The best safeguard against inadequate work is to ask for the resume of the Inspector, and if possible check references from previous customers.

INTEREST RATE DIFFERENTIAL:
A penalty for early prepayment of all or part of a mortgage outside of its normal prepayment terms. This is usually calculated as "the difference between the existing rate and the rate for the term remaining, multiplied by the principal outstanding and the balance of the term".
Example.

$100,000 mortgage at 9% with 24 months remaining.

Current 2 year rate is 6.5%.

Differential is 2.5% per annum.

IRD is $100,000 * 2 years * 2.5% p.a. = $5,000.

LIEN:
This is a claim made against a property for the payment of a debt or obligation related to the property or its owners.

LOAN-TO-VALUE RATIO (LTV):
The percentage of the value of the property for which a mortgage is required. This ratio is important in determining whether or not default insurance is required, and if so, what the cost of that insurance will be

(see "Mortgage Insurance") For example, if the property value is $200,000, the down payment available is $20,000 and the required mortgage is $180,000. The LTV is $180,000 / $200,000 or 90%.

MORTGAGE BROKER:
A registered agent who negotiates with lenders on behalf of a borrower to obtain the best overall mortgage for that borrower's circumstances. Mortgage Brokers are particularly useful in financing "non-standard" situations which cannot be funded by a major national lender. This is possible because a Mortgage Broker has access to lenders who do not advertise nationally or operate retail locations.

MORTGAGEE:
Also known as the "lender" - the funder and holder of the mortgage.

MORTGAGE INSURANCE:
If your down payment is less than 25% of the purchase price of the property, the lender is going to require either private mortgage insurance or public mortgage insurance through Canada Housing and Mortgage Corporation (CMHC) or GE Capital. The fee is calculated as a percentage of your mortgage. This is known as default insurance. (Please note that we calculate this amount for you automatically if your mortgage falls into this category.)

MULTIPLE LISTING SERVICE (MLS):
A service of a local Real Estate Board which publishes and exchanges details of properties registered with them. While this used to be for the exclusive use of registered Realtors, it is now possible for a private individual to "list" a property without committing to pay a Realtor a "listing commission" if the property sells. The majority of properties sold in Canada are sold through the local MLS.

MUNICIPAL LEVIES:
Special levies can be charged by municipalities to recover the cost of special services, if these services cannot, for some reason, be funded out of general revenues, or apply primarily to homebuyers. Examples: Water meter installation; road improvements, sewer improvements.

OPEN MORTGAGE:
This allows you to pay back the borrowed funds without notice or penalty. There are two types of open mortgages:

Fixed rate mortgages; the term is usually fairly short (6 months to a year) although lenders have some longer open terms; and the interest rate will be higher than on a closed mortgage.

Variable Rate Mortgages (VRM's) are usually open (and are "collateral" type mortgages) but recently, several institutions have introduced closed versions.

PITH:
Principal, Interest, Taxes, Heating and half of Condo Fees, if applicable. Otherwise known as your "shelter expenses". This is a basic component of the ratios used to determine whether or not you qualify.

PORTABLE MORTGAGE:
A mortgage which allows you to transfer the amount and terms over to a new property without cost or penalty. The mortgage will, of course, have to be registered on title of the new property, so strictly speaking it is not identical in all respects. While most mortgages have a portability feature, in the event you might need more money when you transfer the mortgage over to the new property, make sure you either have the right to blend in any new funds required, or can arrange the additional funds separately.

PREPAYMENT PRIVILEGE(S):
The right to repay periodically more than the scheduled principal payment. Historically this was limited to

a single annual payment on the anniversary date of no more than 10% of the original principal. In recent years, however, prepayment privileges have become more lenient, reflecting peoples' desire to pay their mortgages off on an accelerated basis. See also Double Up.

PREPAYMENT PENALTY:
If your mortgage is not fully open, you may be charged a penalty if you want to pay off all or part of your mortgage before the end of the fixed term. The normal prepayment penalty is the greater of three months' interest or the Interest Rate Differential (IRD) on the amount to be prepaid. CMHC (for insured mortgages) and a few of the major lenders set the maximum penalty at 3 months interest after the mortgage has been in effect for three years, regardless of the number of times it has been renewed.

PRINCIAPAL:
The amount of money owing on your mortgage, including accrued unpaid interest.

REFINANCE:
Obtaining a new mortgage on an existing property. You might be looking for more money, a better rate, or different prepayment terms.

REGISTRATION FEES:
Fees paid to the provincial government for recording a title transfer, mortgage registration or other instrument such as an Assignment or Lien with the local authorities.

REGISTERED RETIREMENT SAVINGS PLAN (RRSP)
A Federal Plan which allows a taxpayer to contribute approximately 18% of earned income - to a maximum of $13,500 into a retirement plan "tax free". If the taxpayer has already paid tax on personal income, then the RRSP contribution (which can be made until March 1st of the year following the year in which the income was earned and taxed) can result in a significant tax rebate.

> Since RRSP's can be caught up retroactively, this facility and the large cash refunds it can generate are central to numerous Realtor-driven programs designed to get first time buyers to take the plunge.

SIMPLE INTEREST:
Interest which is computed only on the principal balance. It is not compounded by calculating interest payable on accrued interest.

SURVEY:
The legal written and/ or mapped description of the location and dimensions of your land. The survey should also show the dimensions and placement on the lot of any structure, including additions such as pools, sheds and fences. An up-to-date survey is often required by a lender as part of the mortgage transaction.

SWITCH:
This is the term almost universally applied to changing lenders at the end of a term, when the mortgage becomes "open". Most lenders will now pay all of the costs of a "switch." (as well as giving them a reduced rate to lure them away from a competitor)

TAX CERTIFICATE:
At the time of a sale, the lawyer for the buyer must confirm that local taxes have been paid up to date. If they are, a Tax Certificate is issued, from which any adjustments can be made - usually requiring the buyer to compensate the seller for any prepaid taxes. If they are not up to date, the municipality requires that the seller pay them off from the proceeds of the sale. If there are insufficient proceeds, then it may fall upon the buyer to pay them.

TITLE INSURANCE:
Insurance offered by Title Companies to protect a landowner, and thus the mortgage lender against any "clouds" or legal questions on the title to the real estate, or of legal priority of the mortgagee. This is usually considerably less expensive than the labour-intensive and liability-fraught process of having to have a lawyer search title, and certify it as "clear" -- a process known as "certifying title" or giving an "opinion of title."

TOTAL DEBT SERVICE RATIO (TDS):
The percentage arrived at by dividing your monthly shelter costs (principal, interest, property taxes, heating and half of condo fees) PLUS all other monthly debt obligations by your gross monthly income and multiplying by 100. This is used by all lenders as the "upper limit" yardstick by which to measure the ability of a borrower (or borrowers) to make mortgage payments. For example, most lenders require that this ratio be no more than 40% for a particular application, with some as low as 37%. 40% is also the maximum qualifying TDS in most applications for default insurance.

UNDERTAKING:
This is a promise by a Lawyer to ensure that certain conditions (usually of the lender) are met (usually after closing, due to time constraints). The best example is the undertaking to register a discharge of an old first mortgage after the new one has been registered, because there is simply not enough time to do so at closing. It also governs such closing dynamics as releasing funds before a new mortgage document is officially registered.

UNDERWRITING:
The process of deciding whether or not to lend you money (or how much to lend you) based on all the information you have given the lender. Every lender has a different underwriting process and lending criteria which differ to some (usually small) extent from other lenders.

VARIABLE RATE MORTGAGE (VRM):
The interest rate is usually compounded monthly and fluctuates with the prime rate at the chartered banks. In most, but not all cases, the VRM is fully open.

VERIFICATION OF EMPLOYMENT:
The lender will sometimes contact an applicant's employer in order to verify information provided in a mortgage application or a job letter; your income structure, length of employment, position, and so on.

WORK ORDERS:
Municipal by-laws ("zoning" by-laws) require among other things that residential property be maintained in a safe and habitable condition, and that a property's use conform to specific requirements (no illegal basement apartments, satellite antenna, etc.).