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Mortgage Terms Every First-Time Homebuyer Should Know

Getting Started on Your Homeownership Journey? Take a look at these key mortgage terms to boost your homebuying IQ, and have you ready to meet with a mortgage broker to talk about your options.

Amortization Period

The amortization period refers to the number of years it will take to pay off your mortgage through regular payments. Most mortgages, including Sagen-insured mortgages, are amortized over 25 years.

- Making payments biweekly instead of monthly;
- Making an extra principal or lump sum payment on the anniversary date of your mortgage;
- Boosting your payment by 10-20% on the anniversary date;
- Making the same payments each month (or better yet: biweekly), even as your principal borrowed amount getslower.

DID YOU KNOW?

You can use your retirement savings to help build your nest egg. The federal government's Home Buyers' Plan lets you borrow money from your RRSP to put toward the down payment for your first home.

Fixed Rate Mortgage

With a fixed rate mortgage, the interest rate on your home loan is set for the term of the mortgage. Fixed rate mortgages offer the peace of mind of consistency: you'll know exactly how much you'll owe at the end of each mortgage term.

Gross Debt Service (GDS) Ratio

GDS refers to the percentage of your household's gross monthly income that goes toward your housing payments: mortgage (principal + interest), property taxes, heating and, if applicable, 50% of condo fees. Lenders use your GDS and TDS (total debt service) ratios to assess your mortgage application and to determine how much to loan you and what interest rate to apply. Sagen programs require a GDS ratio of no greater than 39%.

High-Ratio Mortgage

A high-ratio mortgage is one for which the homebuyer makes a down payment of less than 20% of the cost of the home. All high-ratio mortgages must be covered by mortgage loan insurance (also known as "mortgage insurance").

Low-Ratio Mortgage

Also known as a conventional mortgage, a low-ratio mortgage is one where the homebuyer has made a down payment of 20% or more of the home's purchase price. No mortgage insurance is required for this type of mortgage.

Mortgage Loan Insurance

Also known as "mortgage default insurance" or just "mortgage insurance," this financial product is mandatory on all high- ratio mortgages. Your mortgage lender pays the insurance premium and then passes the cost on to you. You can pay it in one lump sum or carry it on your mortgage for monthly payments.

Mortgage Term

Not to be confused with amortization, mortgage term refers to the time period covered by your mortgage agreement. It can range from one to five years or more. After each term expires, the balance of the mortgage principal (the remaining loan amount) can be repaid in full, or a new mortgage can be renegotiated at current interest rates.

Principal

The amount initially borrowed for your home purchase. The balance of this amount will go down as you make regular mortgage payments. (Your mortgage payments go toward a portion of the principal, as well as the loan interest and, for those with high-ratio mortgages, mortgage insurance.)

Total Debt Service (TDS) Ratio

TDS refers to the percentage of your household's gross monthly income that goes toward housing costs (i.e., mortgage, property taxes, heating, etc.) plus your other debts and financing (i.e., car loans, credit cards, etc.). Banks use this calculation, along with your gross debt service ratio, when assessing your mortgage application. Sagen programs require a TDS of no greater than 44%.

Variable Rate Mortgage

Also known as a floating rate mortgage or adjustable rate mortgage, this type of mortgage has an interest rate that fluctuates with the prime lending rate. The main benefit of variable rate mortgages is lower interest rates, but in return, homeowners take on risk: if the prime rate goes up, a larger chunk of your mortgage payment will go toward the interest, not paying down your principal. The result: your mortgage could take longer to pay off and cost you more in interest.