



## Glossary of Terms Commonly Used in Real Estate

### **Amortization**

The number of years it takes to repay the entire amount of a mortgage.

### **Appraisal**

An estimate of a property's market value, used by lenders in determining the amount of the mortgage.

### **Appreciation**

The increase of a property's value over time.

### **Assessment**

The value of a property, set by the local municipality, for the purposes of calculating property tax.

### **Assumable Mortgage**

A mortgage held on a property by the seller that can be taken over by the buyer, who then accepts responsibility for making the mortgage payments.

### **Blended Mortgage**

A combination of two mortgages, one with a higher interest rate than the other, to create a new mortgage with an interest rate somewhere between the two original rates.

### **Blended Mortgage Payments**

Equal or regular mortgage payments, consisting of both a principal and an interest component. With each successive payment, the amount applied to interest decreases and the amount applied to the principal increases, although the total payment doesn't change. (Exception: See Variable-Rate Mortgages)

### **Buy-Down**

When the seller reduces the interest rate on a mortgage by paying the difference between the reduced rate and market rate directly to the lender, or to the buyer, in one lump sum or monthly installments.

### **Buyer's Agent**

The licensed brokerage (including its broker, all associate brokers and agents) who represents the buyer.

**Closed Mortgage**

A mortgage cannot be prepaid, renegotiated or refinanced during its term.

**Closing**

The real estate transaction's completion, when the parties involved agree that all legal and financial obligations have been met, and the title to the property is transferred from the seller to the buyer.

**Closing Costs**

Expenses in addition to the purchase price for buying and selling a property.

**Closing Date**

The date on which the title and keys to the property are transferred from the seller to the buyer and the money is paid.

**Common Property**

The portions of a condominium development owned in common (shared) by the unit owners.

**Condominium**

Shared ownership in property. Owners have title (ownership) to individual units and a proportionate share in the common elements.

**Condominium Fee**

A monthly contribution paid by condominium owners for maintaining the development's common areas.

**Conventional Mortgage**

A first mortgage issued for up to 75% of the property's appraised value or purchase price, whichever is lower.

**Counteroffer**

One party's written response to the other party's offer during negotiation of a real estate purchase between buyer and seller.

**Debt Service Ratio**

The percentage of a borrower's gross income that can be used for housing costs, including mortgage payment and taxes (and condominium fees where applicable).

**Downpayment**

The difference between a property's purchase price and the amount financed.

**Easement**

A legal right to use or cross (right-of-way) another person's land for limited purposes. A common example is a utility company's right to run wires or lay pipe across a property.

**Encroachment**

An intrusion onto an adjoining property. A neighbour's fence, storage shed or overhanging roof line that partially (or even fully) intrude onto your property are examples of encroachments.

**Equity**

The difference between the price for which a property can be sold and the mortgage(s) on the property. Equity is the owner's "stake" in a property.

**Estoppel Certificate**

A written statement of a condominium unit's current financial and legal status.

**First Mortgage**

The first security registered on a property. Additional mortgages secured against the property are "secondary" to the first mortgage.

**Foreclosure**

A legal process by which the lender takes possession and ownership of a property when the borrower doesn't meet ("defaults on") the mortgage obligations.

**Hazard Insurance**

An insurance policy required by lenders to protect a property against damage or loss caused by fire, weather, etc.

**High-Ratio Mortgage**

A mortgage for more than 75% of a property's appraised value or purchase price.

**Interest**

The cost of borrowing money.

**Joint Tenancy**

A form of ownership in which two or more individuals (often spouses) have an equal share in the ownership of a property. In the event of one owner's death, his or her share is automatically transferred to the surviving owner(s), apart from the deceased's will.

**Leverage**

Controlling a large asset with a relatively small amount of cash. In real estate, a \$25,000 downpayment (or less) can be used to purchase (control) a \$100,000 home, for example.

**Lien**

Any legal claim against a property, filed to ensure payment of a debt.

**Listing Agreement**

The contract between the brokerage and an owner, authorizing a REALTOR to sell or lease a property.

**Mortgage**

A contract between a borrower and a lender. The borrower pledges a property as security to guarantee repayment of the mortgage debt.

**Mortgage Broker**

A licensed individual who, for a fee, brings together a borrower in search of a mortgage and a lender willing to issue that mortgage.

**Mortgagee**

The lender.

**Mortgage Insurance**

Government-backed or private-backed insurance protecting the lender against the borrower's default on high-ratio (and other types of) mortgages.

**Mortgage Life Insurance**

Insurance that pays off the mortgage debt, should the insured borrower die.

**Mortgage Payment**

The regular installments made towards paying back the principal and interest on a mortgage.

**Mortgage Term**

The length of time a lender will loan mortgage funds to a borrower. Most mortgage terms run from six months to five years, after which the borrower can either repay the balance (remaining principal) of the mortgage or renegotiate the mortgage for another term.

**Mortgagor**

The borrower.

**Multiple Listing Service® (MLS®)**

A cooperative listing system operated by a real estate board to relay information to REALTORS about properties for sale.

**Open Mortgage**

A mortgage that can be prepaid or renegotiated at any time and in any amount without penalty.

**Partially Open Mortgage**

(Also called a "partially closed" mortgage.) Allows the borrower to prepay a specific portion of the mortgage principal at certain times with or without penalty.

**Portability**

A mortgage feature that allows borrowers to take their mortgage with them, without penalty, when they sell their present home and buy another one.

**Prepayment Privilege**

A mortgage feature that allows the borrower to prepay a portion or all of the principal balance with or without penalty. This privilege is frequently restricted to specific amounts and times.

**Principal**

The mortgage amount initially borrowed, or the portion still owing on the mortgage. Interest is calculated on the principal amount.

**Rate (Interest)**

The return the lender receives for advancing the mortgage funds required by the borrower to purchase a property.

**Real Estate Agent or Broker**

An individual who is licensed in Alberta to sell, lease or exchange property.

**REALTORS**

Real estate professionals who are members of a local real estate board, the Alberta Real Estate Association and the Canadian Real Estate Association. Only these professionals can use the trademark "REALTOR".

**Refinancing**

The process of obtaining a new mortgage, usually at a lower interest rate, to replace the existing mortgage.

**Reserve Fund**

The portion of a condominium fee that is set aside to cover major repair and replacement costs.

**Second Mortgage**

A second financing arrangement, in addition to the first mortgage, also secured by the property. Second mortgages are usually issued at a higher interest rate and for a shorter term than the first mortgage.

**Secondary Financing**

Second, third, fourth, etc., mortgages, secured by a property "behind" the first mortgage.

**Seller's Agent**

The licensed brokerage (including its broker, all associate brokers and agents) who represents the seller.

**Take-Back Mortgage**

See Vendor Take-Back Mortgage.

**Term**

See Mortgage Term.

**Title**

The legal evidence of ownership in a property.

**Title Search**

A detailed examination of the ownership documents to ensure there are no liens or other encumbrances on the property, and no questions regarding the seller's ownership claim.

**Unit**

Term used to describe the individual home or apartment held by the owner within a condominium development.

**Variable-Rate Mortgage**

A mortgage for which payments are fixed, but whose interest rate changes in relationship to fluctuating market interest rates. If market rates go up, a larger portion of the payment goes to interest. If rates go down, a larger portion of the payment is applied to the principal.

**Vendor**

The seller in a real estate transaction.

**Vendor Take-Back Mortgage**

When sellers use their equity in a property to provide some or all of the mortgage financing in order to sell the property.

**Weekly Payments**

Mortgage payments made weekly or 52 times per year.

**Zoning Regulations**

Strict guidelines set and enforced by municipal governments regulating how a property may or may not be used.