

Making sense of real estate lingo

Glossary of terms takes the confusion out of buying a home, starting with amortization

Buying your first home, new or older, can be exciting, but also intimidating and confusing. A real estate transaction is complex and there are many terms you'll hear that may seem like a whole new language.

To help you understand the language of real estate, The Windsor-Essex County Real Estate Board stepped up with this glossary of common terms you're likely to encounter.

- 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.
- 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 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 purchaser, in one lump sum or monthly installments.
- Closing: The real estate transaction's completion, when the parties involved agree that all legal and financial obligations have been met, and the deed to the property is transferred from the seller to the buyer.

- Conventional mortgage: A first mortgage issued for up to 75 per cent of the property's appraised value or purchase price, whichever is lower.
- Counter-offer: One party's written response to the other party's offer during purchase negotiations 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, when applicable).
- Deed: A legal document that conveys (transfers) ownership of a property to the buyer.
- 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 -- such as a neighbour's fence, storage shed or overhanging roof line that partially (or even fully) intrudes onto your property.
- 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.
- Foreclosure: A legal process by which the lender takes possession and ownership of a property when the borrower defaults on the mortgage obligations.
- High-ratio mortgage: A mortgage for more than 75 per cent of a property's appraised value or purchase price.
- Land transfer tax: Payment to the provincial government for transferring property from the seller to the buyer.
- Lien: Any legal claim against a property, filed to ensure payment of a debt.
- 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.
- Mortgagor: The borrower.
- Multiple listing service: A system for relaying information to realtors about properties for sale.
- 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.

- Status certificate: A written statement of a condominium unit's current financial and legal status.

- 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-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.