Homebuyer's Glossary

By familiarizing yourself with these home-buying basics, you'll be better equipped to make informed decisions and a wise investment.

1. **Amortization:** The length of time allotted to paying off a loan – in home-buying terms, the mortgage. Most maximum amortization periods in Canada are 25 years.

2. **Balanced Market:** In a balanced market, there is an equal balance of buyers and sellers in the market, which means reasonable offers are often accepted by sellers, and homes sell within a reasonable amount of time and prices remain stable.

3. **Bridge Financing:** A short-term loan designed to "bridge" the gap for homebuyers who have purchased their new home before selling their existing home. This type of financing is common in a seller's market, allowing homebuyers to purchase without having to sell first.

4. **Buyer's Market:** In a buyer's market, there are more homes on the market than there are buyers, giving the limited number of buyers more choice and greater negotiating power. Homes may stay on the market longer, and prices can be stable or dropping.

5. **Closing:** This is the last step of the real estate transaction, once all the offer conditions outlined in the Agreement of Purchase and Sale have been met and ownership of the property is transferred to the buyer. Once the closing period has passed, the keys are exchanged on the closing date outlined in the offer.

6. **Closing Costs:** The costs associated with "closing" the purchase deal. These costs can include legal and administrative fees related to the home purchase. Closing costs are additional to the purchase price of the home.

7. **Comparative Market Analysis:** Comparative market analysis (CMA) is a report on comparable homes in the area that is used to derive an accurate value for the home in question.

8. **Home Inspection:** The home inspection is performed to identify any existing or potential underlying problems in a home. This not only protects the buyer from risk, but also gives the buyer leverage when negotiating a reduced selling price.

9. **Condominium Ownership:** A form of ownership whereby you own your unit and have an interest in common elements such as the lobby, elevators, halls, parking garage and building exterior. The condominium association is responsible for maintenance of building and common elements, and collects a monthly condo fee from each owner, based on their proportionate share of the building.

10. **Contingencies:** This term refers to conditions that have to be met in order for the purchase of a home to be finalized. For example, there may be contingencies that the mortgage loan must be approved or the appraised value must be near the final sale price.

11. **Deposit:** An up-front payment made by the buyer to the seller at the time the offer is accepted. The deposit shows the seller that the buyer is serious about the purchase. This amount will be held in trust by the agent or lawyer until the deal closes, at which point it is applied to the purchase price.

Homebuyer's Glossary (cont'd)

12. **Down Payment:** The down payment is the amount of money paid-up front for a home, in order to secure a mortgage. In Canada, the minimum down payment is 5% of the home's total purchase price. Down payments less than 20% of a home's purchase price require mortgage loan insurance. The selling price, minus the deposit and down payment, is the amount of the mortgage loan.

13. **Dual Agency:** Dual agency is when one agent represents both the seller and the buyer in a single real estate transaction; consent of both parties is usually required. Dual agency practices may differ based on province, local rules and brokerage policies. Ask your real estate agent to clarify the dual agency policy if it pertains to your transaction.

14. **Equity:** The difference between a home's market value and the amount owing on the mortgage. This is the portion of the home that has been paid for and is officially "owned."

15. **Fixed-Rate Mortgage:** A fixed-rate mortgage guarantees your interest rate and for a pre-determined amount of time, typically 5 years. When the term expires, you have the option to stay with the same lender or switch to a different one.

16. **Land Transfer Tax:** This is the tax payable by the buyer to the province and/or municipality in which the transaction occurred upon transferring land. The amount varies depending on the region, the size of the land and other factors.

17. **High-Ratio Mortgage:** A high-ratio mortgage is a mortgage where the borrower has less than 20% of the home's purchase price to make as the down payment. A high-ratio mortgage with a down payment between 5% and 19% of the purchase price requires mortgage loan insurance. In Canada, 5% is the minimum amount required for the down payment.

18. **Home Appraisal:** A qualified professional provides a market value assessment of a home based on several factors such as property size, location, age of the home, etc. This is used to satisfy mortgage requirements, giving mortgage financing companies confirmation of the mortgaged property's value.

19. **Home Buyers' Amount:** This is a $5,000 non-refundable federal income tax credit on a qualifying home, providing up to $750 in tax relief to assist first-time buyers with purchase-related costs.

20. **Home Buyers' Plan:** A federal program allowing first-time homebuyers to withdraw up to $35,000 interest-free from their Registered Retirement Savings Plan (RRSP) to help purchase or build a qualifying home. The borrowed amount must be repaid within 15 years to avoid paying a penalty.

21. **Land Survey:** A land survey will identify the property lines. This is not required to purchase a home, but it is recommended and may be required by the mortgage lender to clarify where on the property the owner has jurisdiction. This is important if issues arise between neighbours or the municipality, should the owner wish to make changes in the future such as installing a pool, fence or other renovations involving property lines.

22. **Freehold Ownership:** A form of ownership whereby you own the property and assume responsibility for everything inside and outside the home.

23. **Porting:** Transferring your mortgage (and the existing interest rate and terms) from one property to another.

24. **Seller's Market:** In a seller's market, there are more buyers than there are homes for sale. With fewer homes on the market and more buyers, homes sell quickly in a seller's market. Prices of homes are likely to increase, and there are more likely to be multiple offers on a home. Multiple offers give the seller negotiating power, and conditional offers may be rejected.

25. **Virtual Deals:** The home-buying process completed by means of technology in place of face-to-face contact. Some common digital tools include 360 home tours and video showings, video conference calls, e-documents, e-signatures and e-transfers.

26. **Mortgage Pre-approval:** A mortgage pre-approval helps buyers understand how much they can borrow before going through the mortgage application process. Allows you to make an immediate offer when you find a home, since you know how much you'll be approved for this this lender, and locks in the current interest rate for a period of time insulating you against near-term rate increases.

27. **Title Insurance:** Title insurance is not mandatory in Canada, but it is highly recommended to protect both the buyer and the mortgage lender against losses related to the property title or ownership, such as unknown title defects, existing liens against the property's title, encroachment issues, title fraud, errors in surveys and public records, and title-related issues that could prevent you from selling, leasing or obtaining a mortgage. Your lawyer can advise you on this.

28. **Mortgage Loan Insurance:** If your down payment is less than 20% of the purchase price of the home, mortgage loan insurance is required. It protects the lender in case of payment default. Premiums are calculated as a percentage of the down payment, changing at the 5%, 10% and 15% thresholds.

29. **Offer:** An offer is a legal agreement to purchase a home. An offer can be conditional on a number of factors, commonly conditional on financing and a home inspection. If the conditions are not met, the buyer can cancel their offer.

30. **Variable Rate Mortgage:** A variable rate mortgage fluctuates with the prime rate. Your monthly payments remain the same, but the proportion of your payment going toward principal versus interest can change.