

## Glossary

These are some of the words or terms used in a real estate transaction in Canada.

**Amortization:** Paying off a debt, such as a mortgage, by installments. The conventional amortization period for a mortgage is anywhere between 15 and 25 years. The shorter the amortization period, the less interest you have to pay.

**Appraisal:** An estimate of a property's value.

**Asking (or list) price:** The price placed on the property for sale by the seller.

**Blended payments:** Payments consisting of principal and interest components, paid during the amortization period of a mortgage.

**Broker:** A person licensed by the provincial or territorial government to trade in real estate. Real estate Brokers may form companies or offices which appoint sales representatives to provide services to the seller or buyer, or they may provide the same services themselves. In parts of Canada, Brokers are referred to as agents.

**Buyer's Agent (also known as "Buyer's Broker" or "Purchaser's Agent"):** A person or firm representing the buyer. A Buyer's Agent's primary allegiance is to the buyer. The buyer is the Buyer Agent's client.

**Buyer Brokerage Agreement:** A written agreement between the buyer and the buyer's agent, outlining the agency relationship between the two parties and the manner in which the buyer's agent will be compensated. In some provinces, a buyer agency relationship evolves automatically, without a written agreement.

**Client:** The person being represented by an agent. The agent owes the client the duties of utmost care, integrity, confidentiality and loyalty.

**Closing:** The day the legal title to the property changes hands.

**CMHC:** Canada Mortgage and Housing Corporation. A Crown corporation providing information services and mortgage loan insurance.

**Commission:** An amount agreed to by the seller and the real estate Broker/agent and stated in the listing agreement. It is payable to the Broker/agent on closing and shared, if applicable, among those salespeople involved in the sale.

**Customer:** A person who receives valuable information and assistance from a real estate Broker or salesperson, but is not represented by that individual.

**Debt-Service Ratio:** The measurement of debt payments to gross household income which may include, in addition to the main wage earner's salary, salaries of other wage earners, commissions, bonuses, overtime, etc.

**Dual Agent:** A real estate Broker or salesperson who acts as agent for both the

seller and the buyer in the same transaction. Both buyer and seller are the agent's clients.

**Equity:** The difference between the value of the property and the amount owing (if any) on the mortgage.

**Financial Institutions:** Banks, credit unions, insurance or trust companies.

**GE Capital Mortgage Insurance Company:** GE Capital Mortgage Insurance Company is the only private sector source of mortgage insurance to lenders in Canada.

**Gross Debt Service:** The amount of money needed to pay principal, interest, taxes and sometimes, energy costs. If the dwelling unit is a condominium, all or a portion of common fees are included, depending on what expenses are covered.

**Gross Debt Service Ratio:** Gross debt service divided by household income. A rule of thumb is that GDS should not exceed 30%. It is also referred to as PIT (Principal, Interest and Taxes) over income. Sometimes energy costs are added to the formula, producing PITE, which moves the rule of thumb GDS to 32%.

**Listing Agreement:** The legal agreement between the listing Broker and the seller, setting out the services to be rendered, describing the property for sale and stating the terms of payment. A commission is generally payable to the Broker upon closing.

**MLS<sup>®</sup>, Multiple Listing Service<sup>®</sup>:** These are trademarks owned by The Canadian Real Estate Association. They are used in conjunction with a real estate database service, operated by local real estate boards, under which properties may be listed, purchased or sold. An MLS<sup>®</sup> listing means REALTORS<sup>®</sup> have agreed to work together for the marketing of a listing.

**Mortgage:** A contract providing security for the repayment of a loan, registered against the property, with stated rights and remedies in the event of default. Lenders consider both the property (security) and the financial worth of the borrower (covenant) in deciding on a mortgage loan.

**Mortgage Broker:** A person or company having contacts with financial institutions or individuals wishing to invest in mortgages. The mortgagor pays the Broker a fee for arranging the mortgage. Appraisal and legal services may or may not be included in the fee.

**Mortgage Insurer:** In Canada, high-ratio mortgages (those representing greater than 75% of the property value) must be insured against default by either CMHC or private insurers. The borrower must arrange and pay for the insurance, which protects the lender against default.

**Mortgagee:** The person or financial institution lending the money, secured by a mortgage.

**Mortgagor:** The property owner borrowing the money, secured by a mortgage.

**Offer of Purchase and Sale:** The document through which the prospective buyer sets out the price and conditions under which he or she will buy the property.

**Real Estate Board:** A non-profit organization representing local real estate Brokers/agents, salespeople, which provides services to its members and maintains and operates a MLS<sup>®</sup> system in the community.

**REALTOR<sup>®</sup>:** Trademark identifying real estate professionals in Canada who are members of The Canadian Real Estate Association, and as such, subscribe to a high standard of professional service and to a strict Code of Ethics.

**Term:** The actual life of a mortgage contract-- from six months to ten years -- at the end of which the mortgage becomes due and payable unless the lender renews the mortgage for another term (See Amortization).

**Seller's Agent:** The Seller's Agent represents the seller -- either as a Listing Agent under the listing agreement with the seller or by cooperating as a Sub-Agent, typically through the MLS<sup>®</sup> system. In dealing with prospective buyers -- customers-- the Seller's Agent can provide a variety of information and services to assist the buyer in his/her decision-making. The Seller's Agent does not represent the buyer.

**Variable-rate Mortgage:** A mortgage in which payments are fixed, but the interest rate moves in response to trends. If interest rates go up, a larger portion of your payment goes to the interest; if rates go down, more goes to cover the principal.