# Lesson 6.1 What is a Mortgage?

1. What is a mortgage?
   Money borrowed from a lender to pay for real estate (buying a home or property)
2. Where can a mortgage be obtained?
   A financial institute (i.e., banks) or other private lenders
3. What financial requirements must be met to qualify for a mortgage?
   Good credit
   Monthly debt load must be less than 40% of your gross (before tax) income
4. How is a mortgage maintained/repaid?
   Repay principal (original loan amount) plus interest
5. How often can mortgage payments be made?
   Monthly, bi-weekly, weekly → more frequent payments means less interest
6. What is the difference between conventional and high-ratio mortgages?
   Conventional Mortgage:
   Requires a minimum down payment of 20% (or more)
   High-Ratio Mortgage:
   Requires down payment between 5% and 20% of the purchase price
   Requires buying mortgage insurance (costs between 1.0% and 2.75% of the loan amount)
7. What are the advantages / disadvantages of a large down payment vs. a small down payment?
   Large down payment: Less $ you owe, less interest you pay, faster you pay it off
   Small down payment: More $ you owe, more interest you pay, the longer it takes to pay off, plus possible mortgage insurance costs (if high-ratio mortgage)

What is the difference between amortization period and term of a mortgage? What are commonly available?
   Amortization period – entire length of time for mortgage to be paid off (eg. 25 or 30 years)
   Term – short period of time at a specific interest rate – negotiable after term is up
   (eg. terms: 1 year, 3 years, and 5 years (most common))

8. What is difference between:
   a. Open or closed mortgage?
      Open: Mortgage can be repaid in whole or in part without any additional fees
      Closed: Mortgage cannot be prepaid, renegotiated or refinanced before the end of the term, except according to its terms.
   b. Fixed-rate or variable-rate mortgage?
      Fixed-rate: Interest rate is SET for the duration of the term
      Variable-rate: Interest rate changes based on bank rate / market conditions
   c. Short-term or long-term mortgage?
      Short-term: Mortgage is amortized over less time → higher payment but less interest
      Long-term: Mortgage is amortized over longer period → lower payment but more interest
9. How often is interest compounded?
   Semi-annually (every six months)

What are the current rates on mortgages?


Vary by lender. Typical rates are:

| | |
|---|---|
| Fixed – 1 year Open | |
| Fixed – 1 year Closed | |
| Fixed – 5 year Closed | |
| Variable – 5 year Open | |
| Variable – 5 year Closed | |

10. What sort of special features / special offers are there?
    Vary by lender.
    Cash back, pre-payment options, accelerated payments, rapid pay down, payment vacation
    NEGOTIABLE INTEREST RATES – you don't have to pay the posted rate