CREDIT SQUARE
HELPING YOU TO GET AN EDGE ON LIFE

A.

Absorption Rate
The rate (speed) at which vacant space is either leased (to tenants) or sold (to buyers) in the marketplace. This rate is usually expressed in square feet per year, or in the case of multi-family housing, in the number of units occupied per year.

Acceleration Clause
A clause in your mortgage which allows the lender to demand payment of the outstanding loan balance for various reasons, including default or violation of loan covenants. The most common reasons for accelerating a loan are if the borrower defaults on the loan or transfers title to another individual without informing the lender.

Acquisition and Development Loan (A&D Loan)
A loan for the purchase and preparation of raw land for development. Usually, a construction loan or land sale is the source of repayment.

Adjustable-Rate Mortgage (ARM)
A type of real estate loan in which either the interest rate charged or the length of the loan, or both, can change. This type of loan forces the Borrower to absorb the uncertainty of changes in interest rates during the life of the loan. All ARM loans are tied to some index such as government securities. Also called variable rate mortgages.

Adjustment Date
The date the interest rate changes on an adjustable-rate mortgage.

Amortization
The loan payment consists of a portion which will be applied to pay the accruing interest on a loan, with the remainder being applied to the principal. Over time, the interest portion decreases as the loan balance decreases, and the amount applied to principal increases so that the loan is paid off (amortized) in the specified time.

Amortization Schedule
A table which shows how much of each payment will be applied toward principal and how much toward interest over the life of the loan. It also shows the gradual decrease of the loan balance until it reaches zero.

Anchored Centers
A shopping center with an anchor tenant.

Anchored Tenant
A well-known commercial retail business such as a national chain store or regional department store (AAA Tenant) strategically placed in a shopping center so as to generate the most customers for all of the stores located in the shopping center.

Annual Loan Constant
The ratio of the annual debt payment on a loan to the original amount borrowed. The loan constant is also referred to as a mortgage constant.

Annual Percentage Rate (APR)
This is not the note rate on your loan. It is a value created according to a government formula intended to reflect the true annual cost of borrowing, expressed as a percentage. It works sort of like this, but not exactly, so only use this as a guideline: deduct the closing costs from your loan amount, then using your actual loan payment, calculate what the interest rate would be on this amount instead of your actual loan amount. You will come up with a number close to the APR. Because you are using the same payment on a smaller amount, the APR is always higher than the actual not rate on your loan.

Appraisal
A demonstrative narrative report of a specific market's economic condition and an assessment of property value performed by a member of the American Institute of Real Estate Appraisers. The property's value is derived using three (3) separate methods of valuation including replacement cost approach, sales comparison approach and income approach. For commercial real estate transactions that require an appraisal an M.A.I. certified appraisal is required. See M.A.I.

Appreciation
The increase in the value of a property due to changes in market conditions, inflation, or other causes.

Arbitrage
The simultaneous buying and selling of any securities, including mortgages, mortgage-backed securities or futures contracts in different market places, for the purpose of realizing a profit from different prices.

Assessed Value
The valuation placed on property by a public tax assessor for purposes of taxation.

Assessment
The placing of a value on property for the purpose of taxation.

Assessor
A public official who establishes the value of a property for taxation purposes.

Asset
Items of value owned by an individual. Assets that can be quickly converted into cash are considered "liquid assets." These include bank accounts, stocks, bonds, mutual funds, and so on. Other assets include real estate, personal property, and debts owed to an individual by others.

Assignment
When ownership of your mortgage is transferred from one company or individual to another, it is called an assignment.

Assumable Mortgage
A mortgage that can be assumed by the buyer when a property is sold. Usually, the borrower must "qualify" in order to assume the loan.

Assumption
The term applied when a buyer assumes the seller's mortgage.

Attornment
A tenant's formal agreement to be a tenant of a new landlord.

Average Daily Rate (ADR)
The average rate charged by a hotel for one (1) room for one (1) day; arrived at by dividing the actual historical total room revenue by the actual rooms occupied.

Average Life
It is a way to look at the term of a loan or bond that accounts for principal pay-downs. If a loan is interest only with a full balloon at the end, the average life will equal the maturity. If there is amortization, principal is being paid over the life of the loan, decreasing the balloon payment and the average life. This number is then used to find the treasury that is equal to or greater than the remaining term.

B.

Balloon Mortgage

A mortgage loan that requires the remaining principal balance be paid at a specific point in time. For example, a loan may be amortized as if it would be paid over a thirty year period, but requires that at the end of the tenth year the entire remaining balance must be paid.

Balloon Payment

The final lump sum payment that is due at the termination of a balloon mortgage.

Bankruptcy

By filing in federal bankruptcy court, an individual or individuals can restructure or relieve themselves of debts and liabilities. Bankruptcies are of various types, but the most common for an individual seem to be a "Chapter 7 No Asset" bankruptcy which relieves the borrower of most types of debts. A borrower cannot usually qualify for an "A" paper loan for a period of two years after the bankruptcy has been discharged and requires the re-establishment of an ability to repay debt.

Basis Points

One-100th of 1 percent. Used primarily to describe changes in yield or price on debt instruments including mortgages and mortgage-backed securities.

Bond Market

Usually refers to the daily buying and selling of thirty-year treasury bonds. Lenders follow this market intensely because as the yields of bonds go up and down, fixed rate mortgages do approximately the same thing. The same factors that affect the Treasury Bond market also affect mortgage rates at the same time. That is why rates change daily, and in a volatile market can and do change during the day as well.

Bridge Loan

A loan which enables a buyer to purchase a property, then allow for time to rehab and/or increase NOI prior to placement of permanent financing or enables buyer to get financing to make a down payment and pay closing costs before selling the present property. Also called Gap Financing.

Broker

Broker has several meanings in different situations. Most Realtors are "agents" who work under a "broker." Some agents are brokers as well, either working form themselves or under another broker. In the mortgage industry, broker also may refer to a company or individual that does not necessarily lend the money for the loans themselves, but broker loans to larger lenders or investors. As a normal definition, a broker is anyone who acts as an agent, bringing two parties together for any type of transaction and earns a fee for doing so.

Buydown

Usually refers to a fixed rate mortgage where the interest rate is "bought down" for a temporary period, usually refers to a fixed rate mortgage where the interest rate is "bought down" for a temporary period, usually one to three years. After that time and for the remainder of the term, the borrower's payment is calculated at the note rate. In order to buy down the initial rate for the temporary payment, a lump sum is paid and held in an account used to supplement the borrower's monthly payment. These funds usually come from the seller (or some other source) as a financial incentive to induce someone to buy their property. A "lender funded buydown" is when the lender pays the initial lump sum. They can accomplish this because the note rate on the loan (after the buydown adjustments) will be higher than the current market rate. One reason for doing this is because the borrower may get to "qualify" at the start rate and can qualify for a higher loan amount. Another reason is that a borrower may expect his earnings to go up substantially in the near future, but wants a lower payment right now.

C.

Call Option

Similar to the acceleration clause.

Cap

Adjustable-Rate Mortgages have fluctuating interest rates, but those fluctuations are usually limited to a certain amount. Those limitations may apply to how much the loan may adjust over a six-month period, an annual period, and over the life of the loan, and are referred to as "caps." Some ARMs, although they may have a life cap, allow the interest rate to fluctuate freely, but require a certain minimum payment which can change once a year. There is a limit on how much that payment can change each year, and that limit is also referred to as a cap.

Capital Reserves Expenditure
A major improvement that will have a life of more than one year. Capital expenditures are generally depreciated over their useful life, as distinguished from operational repairs, which are subtracted from income during the year in which they were expended.

Capitalization
The conversion of a future net income stream into present value by using a specified desired rate of earnings as a discount rate. This capitalization rate is divided into the expected periodic income to derive a capital value for the expected income.

Capitalization Rate
The rate of return on net operating income considered acceptable for an investor. A rate of return used to derive the capital value of an income stream. The formula is value = annual income divided by the capitalization rate. Also known as Cap Rate.

Carve-outs
Specific items that a Lender will require the Borrower to personally guarantee for the life of the loan. Typically include (but are not limited to) environmental, fraud, misappropriation of funds, and theft.

Cash-Out Refinance
When a borrower refinances his mortgage at a higher amount than the current loan balance with the intention of pulling out money for personal use, it is referred to as a "cash out refinance."

Chain of Title
An analysis of the transfers of title to a piece of property over the years.

Clear Title
A title that is free of liens or legal questions as to ownership of the property.

Closing
This has different meanings in different states. In some states a real estate transaction is not consider "closed" until the documents record at the local recorders office. In others, the "closing" is a meeting where all of the documents are signed and money changes hands.

Closing Costs
Various fees and expenses payable by the seller and buyer at the time of a real estate closing, (also termed transaction costs). Includes brokerage commissions, lender fees, title insurance, recording fees, prepayment penalty, inspection and appraisal fees, and attorney fees.

Closing Statement
See Settlement Statement.

Cloud on Title
Any conditions revealed by a title search that adversely affect the title to real estate. Usually clouds on title cannot be removed except by deed, release, or court action.

Co-Borrower
An additional individual who is both obligated on the loan and is on title to the property.

Collateral
In a home loan, the property is the collateral. The borrower risks losing the property if the loan is not repaid according to the terms of the mortgage or deed of trust.

Collection
When a borrower falls behind, the lender contacts them in an effort to bring the loan current. The loan goes to "collection." As part of the collection effort, the lender must mail and record certain documents in case they are eventually required to foreclose on the property.

Combined Loan-To-Cost (CLTC)
The amount of the loan (first-position and mezzanine combined) compared to the total cost of the purchase/project.

Combined Loan-To-Value (CLTV)
The amount of the loan(s) including all secured liens compared to the estimated value of the property.

Commercial Bank
A financial institution authorized to provide a variety of financial services, including consumer and business loans (generally short-term with full recourse to the Borrower). Commercial banks may be members of the Federal Reserve System.

Commission
Most salespeople earn commissions for the work that they do and there are many sales professionals involved in each transaction, including Realtors, loan officers, title representatives, attorneys, escrow representative, and representatives for pest companies, home warranty companies, home inspection companies, insurance agents, and more. The commissions are paid out of the charges paid by the seller or buyer in the purchase transaction. Realtors generally earn the largest commissions, followed by lenders, then the others.

Commitment Fee
A charge required by a lender to lock in specific terms on a loan at the time of Commitment.

Commitment Letter
An official notification from a Lender to a Borrower indicating that the Borrower's loan application has been approved. It will state in detail the terms and conditions of the prospective loan.

Common Area Assessments
In some areas they are called Homeowners Association Fees. They are charges paid to the Homeowners Association by the owners of the individual units in a condominium or planned unit development
(PUD) and are generally used to maintain the property and common areas.

Common Area Maintenance
Operational expenses related to the maintenance of retail and office properties. Under a Triple-Net Operational expenses related to the maintenance of retail and office properties. Under a Triple-Net lease the Tenant is required to reimburse the Landlord for their proportionate amount (based on square footage) of this expense.

Common Areas
Those portions of a building, land, and amenities owned (or managed) by a planned unit development (PUD) or condominium project's homeowners' association (or a cooperative project's cooperative corporation) that are used by all of the unit owners, who share in the

common expenses of their operation and maintenance. Common areas include swimming pools, tennis courts, and other recreational facilities, as well as common corridors of buildings, parking areas, means of ingress and egress, etc.

Community Property
In some states, especially the southwest, property acquired by a married couple during their marriage is considered to be owned jointly, except under special circumstances. This is an outgrowth of the Spanish and Mexican heritage of the area.

Comparable Sales
Recent sales of similar properties in nearby areas and used to help determine the market value of a property. Also referred to as "comps."

Condominium
A type of ownership in real property where all of the owners own the property, common areas and buildings together, with the exception of the interior of the unit to which they have title. Often mistakenly referred to as a type of construction or development, it actually refers to the type of ownership.

Condominium Conversion
Changing the ownership of an existing building (usually a rental project) to the condominium form of ownership.

Condominium Hotel
A condominium project that has rental or registration desks, short-term occupancy, food and telephone services, and daily cleaning services and that is operated as a commercial hotel even though the units are individually owned. These are often found in resort areas like Hawaii.

Conduit
An entity, which issues mortgage-backed securities, which were originated by other lenders.

Constant
Percentage of the original loan paid in equal annual payments that provides principal reduction and interest payments over the life of the loan.

Construction Loan
A short-term, interim loan for financing the cost of construction. The lender advances funds to the builder at periodic intervals as work progresses. Typically, a recourse loan to the borrower.

Consumer Price Index
The most widely known measures of price levels and inflation that are reported to the U. S. government. It measures and compares, on a monthly basis, the total cost of a statistically determined ‘’typical market basket’’ of goods and services consumed by U.S households.

Contingency
A condition that must be met before a contract is legally binding. For example, home purchasers often include a contingency that specifies that the contract is not binding until the purchaser obtains a satisfactory home inspection report from a qualified home inspector.

Contract
An oral or written agreement to do or not to do a certain thing.

Cooperative (co-op)
A type of multiple ownership in which the residents of a multiunit housing complex own shares in the cooperative corporation that owns the property, giving each resident the right to occupy a specific apartment or unit.

Correspondent
A specialized type of mortgage banker whose function is limited to the origination of mortgage loans which are sold to other mortgage bankers or investment bankers under a specific commitment.

Cost Approach
A method of appraising property based on the depreciated reproduction or replacement cost (new) of improvements, plus the market value of the site.

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Cost of Funds Index (COFI)
One of the indexes that is used to determine interest rate changes for certain adjustable-rate mortgages. It represents the weighted-average cost of savings, borrowings, and advances of the financial institutions such as banks and savings & loans, in the 11th District of the Federal Home Loan Bank.

Credit
An agreement in which a borrower receives something of value in exchange for a promise to repay the lender at a later date.

Credit History
A record of an individual's repayment of debt. Credit histories are reviewed my mortgage lenders as one of the underwriting criteria in determining credit risk.

Credit Rating
An evaluation of a person's capacity (or history) of debt repayment. Generally available for individuals from a local retail credit association; for publicly held companies by such firms as Dunn & Bradstreet; and for bonds by such firms as Moody's, Standard & Poor's, and Fitch's.

Credit Report
A report of an individual's credit history prepared by a credit bureau and used by a lender in determining a loan applicant's creditworthiness.

Credit Repository
An organization that gathers, records, updates, and stores financial and public records information about the payment records of individuals who are being considered for credit.

Creditor
A person to whom money is owed.

Cross-Collateralization
Net income shortfalls on one property are offset by excess cash flow from other properties in a pool of crossed loans. Significantly enhances a transaction from the viewpoint of investors and rating agencies.

Current Yield
A measurement of investment returns based on the percentage relationship of annual cash income to the investment cost.

D.

Debenture Bond
A long-term bond or note issued by governments and/or corporations and not secured by a mortgage or lien on any specific property. Since there is no specific property securing the debenture, the ability to repay the debt is based solely on the financial strength of the issuer.

Debt
An amount owed to another.

Debt Service
The periodic payment (monthly, quarterly, or annually) necessary to pay the interest and principal on a loan, which is being amortized over a longer term (usually 25-30 years).

Debt Service Cover Ratio (DSCR)
The relationship between the annual net operating income (NOI) of a property and the annual debt service of the mortgage loan on the property. Both Lenders and Investors calculate this ratio to assist them in determining the likelihood of the property generating enough income to pay the mortgage payments. From the lender's viewpoint, the higher the ratio, the better.

Deed
The legal document conveying title to a property.

Deed of Trust
The deed to real property, which serves the same purpose as a mortgage but instead of two parties, three parties are involved. The third party holds title for the benefit of the Lender. The Lender is called the “Beneficiary”. The Borrower is called the “Trustor”. When

a loan is made, the Borrower conveys title to a third party called the Trustee who holds the title for the benefit of the Lender (although the instrument itself may remain in the Lender's possession). Some states, like California, do not record mortgages. Instead, they record a Deed of Trust which is essentially the same thing.

Deed-In-Lieu

Short for "deed in lieu of foreclosure," this conveys title to the lender when the borrower is in default and wants to avoid foreclosure. The lender may or may not cease foreclosure activities if a borrower asks to provide a deed-in-lieu. Regardless of whether the lender accepts the deed-in-lieu, the avoidance and non-repayment of debt will most likely show on a credit history. What a deed-in-lieu may prevent is having the documents preparatory to a foreclosure being recorded and become a matter of public record.

Default

Failure to make the mortgage payment within a specified period of time. For first mortgages or first trust deeds, if a payment has still not been made within 30 days of the due date, the loan is considered to be in default.

Defeasance

In defeasance, the lender replaces the cash flows of the original loan with actual Treasury Securities. The borrower pays the lender enough money to buy these securities and the lender goes out in the bond market and buys the right combination of bonds. After this is done, and the lender has a security
market and buys the right combination of bonds. After this is done, and the lender has a security interest in the treasuries, the property is released as collateral for the loan and the treasuries become the new loan collateral.

Delinquency

Failure to make mortgage payments when mortgage payments are due. For most mortgages, payments are due on the first day of the month. Even though they may not charge a "late fee" for a number of days, the payment is still considered to be late and the loan delinquent. When a loan payment is more than 30 days late, most lenders report the late payment to one or more credit bureaus.

Deposit

A sum of money given in advance of a larger amount being expected in the future. Often called in real estate as an "earnest money deposit."

Depreciation
A decline in the value of property; the opposite of appreciation. Depreciation is also an accounting term which shows the declining monetary value of an asset and is used as an expense to reduce taxable income. Since this is not a true expense where money is actually paid, lenders will add back depreciation expense for self-employed borrowers and count it as income.

Discount Rate
The rate of interest charged to banks that buy money from the Federal Reserve System. An increase in the rate not only discourages the banks from borrowing, but it also serves as a signal that interest rates are probably going to increase. Also, a compound interest rate used to convert expected future income into a present value income.

Down Payment
The part of the purchase price of a property that the buyer pays in cash and does not finance with a mortgage.

Due-On-Sale Provision
A provision in a mortgage that allows the lender to demand repayment in full if the borrower sells the property that serves as security for the mortgage.

E.

Earnest Money Deposit
A deposit made by the potential home buyer to show that he or she is serious about buying the house.

Easement
A right of way giving persons other than the owner access to or over a property.

Effective Age
An appraiser's estimate of the physical condition of a building. The actual age of a building may be shorter or longer than its effective age.

Effective Gross Income (EGI)
Term used for an income-producing property, derived from the potential gross income, less a vacancy factor and a collection loss amount.

Eminent Domain
The right of a government to take private property for public use upon payment of its fair market value. Eminent domain is the basis for condemnation proceedings.

Encroachment
An improvement that intrudes illegally on another's property.

Encumbrance
Anything that affects or limits the fee simple title to a property, such as mortgages, leases, easements, or restrictions.

Equal Credit Opportunity Act (ECOA)
A federal law that requires lenders and other creditors to make credit equally available without discrimination based on race, color, religion, national origin, age, sex, marital status, or receipt of income from public assistance programs.

Equity
An owner's financial interest in a property. Equity is the difference between the fair market value of the property and the amount still owed on its mortgage and other liens.

Equity Participation
The right of a Lender to a share in the gross profits, net profits or net proceeds in the event of a sale or refinance of a property on which the Lender has made a loan. Also known as an equity kicker.

Escrow
An item of value, money, or documents deposited with a third party to be delivered upon the fulfillment of a condition. For example, the earnest money deposit is put into escrow until delivered to the seller when the transaction is closed.

Escrow Account
Once you close your purchase transaction, you may have an escrow account or impound account with your lender. This means the amount you pay each month includes an amount above what would be required if you were only paying your principal and interest. The extra money is held in your impound account (escrow account) for the payment of items

like property taxes and homeowner’s insurance when they come due. The lender pays them with your money instead of you paying them yourself.

Escrow Analysis
Once each year your lender will perform an "escrow analysis" to make sure they are collecting the correct amount of money for the anticipated expenditures.

Escrow Disbursements
The use of escrow funds to pay real estate taxes, hazard insurance, mortgage insurance, and other property expenses as they become due.

Estate
The ownership interest of an individual in real property. The sum total of all the real property and personal property owned by an individual at time of death.

Estoppels Certificate
A document by which a tenant certifies to a Lender that all rental amounts due and owing are current and that the Landlord is in compliance with all terms and conditions of the Lease. Also, a document by which the mortgagor (borrower) certifies that the mortgage debt is a lien for the amount stated. The debtor is thereafter prevented from claiming that the balance due differs from the amount stated.

Eviction
The lawful expulsion of an occupant from real property.

Examination of Title
The report on the title of a property from the public records or an abstract of the title.

Exclusive Listing
A written contract that gives a licensed real estate agent the exclusive right to sell a property for a specified time.

Executor
A person named in a will to administer an estate. The court will appoint an administrator if no executor is named. "Executrix" is the feminine form.

Expense Ratio
A comparison of the operating expenses to potential gross income. This ratio can be compared over time and with that of other properties to determine the relative operating efficiency of the property considered.

F.

Fair Credit Reporting Act
A consumer protection law that regulates the disclosure of consumer credit reports by consumer/credit reporting agencies and establishes procedures for correcting mistakes on one's credit record.

Fair Market Value (FMV)
An economic concept designating the price at which a willing seller and willing buyer will agree when both parties are acting prudently, knowledgeably, and under no compulsion to sell or buy.

Fannie Mae (FNMA)
The Federal National Mortgage Association, which is a congressionally chartered, shareholder-owned company that is the nation's largest supplier of home mortgage funds. For a discussion of the roles of Fannie Mae, Freddie Mac (FHLMC), and Ginnie Mae (GNMA), see the library.

Fee Simple
The greatest possible interest a person can have in real estate.

Fee Simple Estate
An unconditional, unlimited estate of inheritance that represents the greatest estate and most extensive interest in land that can be enjoyed. It is of perpetual duration. When the real estate is in a condominium project, the unit owner is the exclusive owner only of the air space within his or her portion of the building (the unit) and is an owner in common with respect to the land and other common portions of the property.

Firm Commitment
A lender’s agreement to make a loan to a specific borrower on a specific property.

First Mortgage
A lien on property in which the lenders claims are superior to the rights of subsequent lenders. Certain lenders only make first mortgages due to regulatory requirements; others limit mortgages to these senior instruments due to company policy. Usually refers to the date in which loans are recorded, but there are exceptions.

Fixed Expenses
Expenditures such as property taxes, license fees, and property insurance that are not directly affected, Expenditures such as property taxes, license fees, and property insurance that are not directly affected, by the occupancy of the property. Fixed expenses along with operating expenses are subtracted from effective gross income to determine the net operating income of property.

Fixed-Rate Mortgage
A mortgage in which the interest rate does not change during the entire term of the loan.

Fixture
Personal property that becomes real property when attached in a permanent manner to real estate.

Flood Insurance
Insurance that compensates for physical property damage resulting from flooding. It is required for properties located in federally designated flood areas.

Foreclosure
The legal process by which a borrower in default under a mortgage is deprived of his or her interest in the mortgaged property. This usually involves a forced sale of the property at public auction with the proceeds of the sale being applied to the mortgage debt.

Forward Commitment
An agreement between a permanent lender and an interim (typically construction) lender wherein the permanent lender issues a conditional commitment that will replace the construction loan once a given set of terms and conditions have been achieved.

Fully Amortized Mortgage Loan
A loan that is fully repaid at maturity by periodic (monthly) reductions of the principal. The first part of each monthly payment covers interest on the outstanding debt as of the payment due date and the remainder of the payment goes to reduce the outstanding debt.

G.

Grantee
The person to whom an interest in real property is conveyed.

Grantor
The person conveying an interest in real property.

Gross Lease
A lease of a commercial property whereby the landlord (lessor) is responsible for paying all property expenses, such as taxes, insurance, utilities, and repairs.

H.

Hazard Insurance
Insurance coverage that in the event of physical damage to a property from fire, wind, vandalism, or other hazards.

Hedging
The purchase or sale of mortgage future contracts by a mortgage banker or lender for the purpose of protecting cash transactions made at a future date.

Homeowners' Association
A nonprofit association that manages the common areas of a planned unit development (PUD) or condominium project. In a condominium project, it has no ownership interest in the common elements. In a PUD project, it holds title to the common elements.

HUD median income
Median family income for a particular county or metropolitan statistical area (MSA), as estimated by the Department of Housing and Urban Development (HUD).

HUD-1 settlement statement
A document that provides an itemized listing of the funds that were paid at closing. Items that appear on the statement include real estate commissions; loan fees, points, and initial escrow (impound) amounts. Each type of expense goes on a specific numbered line on the sheet. The totals at the bottom of the HUD-1 statement define the seller's net proceeds and the buyer's net payment at closing. It is called a HUD1 because the form is printed by the Department of Housing and Urban Development
(HUD). The HUD1 statement is also known as the "closing statement" or "settlement sheet."

I

Income Approach
A method of appraising property based on the properties anticipated future income. Once the net income is established, it is then divided by the estimated capitalization rate to arrive at a fair market value.

Index
A published interest rate, such as prime rate, LIBOR, T-Bill rate or the 11th District COF. Lenders use indexes to establish interest rates charged on mortgages or to compare investment returns.

Ingress and Egress
Applied to easements, meaning the right to go in and out over a piece of property but not the right to park on it.

Interim Financing

A loan, including a construction loan, used when the property owner is unable or unwilling to arrange permanent financing. Generally arranged for less than 3 years, used to gain time for operations and or market conditions to improve.

Internal Rate of Return (IRR)

The true annual rate of earnings on an investment. Equates the value of cash invested with cash returns. Considers the application of compound interest factors. Requires a trial-and-error method for solution.

J.

Joint Tenancy

A form of ownership or taking title to property which means each party owns the whole property and that ownership is not separate. In the event of the death of one party, the survivor owns the property in its entirety.

Joint Venture (JV)

An agreement by two or more individuals or entities to engage in a single project or undertaking. Joint ventures are used in real estate development as a means of raising capital and spreading risk. For all practical purposes a joint venture is similar to a general partnership. However, once the purpose of the joint venture has been accomplished, the entity ceases to exist.

Judgment

A decision made by a court of law. In judgments that require the repayment of a debt, the court may place a lien against the debtor's real property as collateral for the judgment's creditor. Alternative spelling is "judgment."

Judicial Foreclosure

A type of foreclosure proceeding used in some states that is handled as a civil lawsuit and conducted entirely under the auspices of a court. Other states use non-judicial foreclosure.

L.

Land Acquisition Loan
A loan made for the purpose of purchasing land only, not improvements on or to the land. Also called an acquisition loan.

Lease
A written agreement between the property owner and a tenant that stipulates the payment and
A written agreement between the property owner and a tenant that stipulates the payment and conditions under which the tenant may possess the real estate for a specified period of time.

Lease Abstract
A detailed recap of office and retail leases including tenant name, suite #, square footage, current rental rate including increases, lease start date, term, CAM requirements, extension options and rates.

Lease Option
An alternative financing option that allows home buyers to lease a home with an option to buy. Each month's rent payment may consist of not only the rent, but an additional amount which can be applied toward the down payment on an already specified price.

Leasehold Estate
A way of holding title to a property wherein the mortgagor does not actually own the property but rather has a recorded long-term lease on it.

Leasing Commission (Reserve) Escrow
The annual cost related to the leasing and releasing of commercial office and retail space. The amount deducted from the Net Operating Income prior to determining the net cash flow available for debt service coverage.

Legal Description
A property description, recognized by law, which is sufficient to locate and identify the property without oral testimony.

Lender
A term which can refer to the institution making the loan or to the individual representing the firm. For example, loan officers are often referred to as "lenders."

Lessee
An individual or entity to which property is rented under a lease. A tenant.

Lessors
An individual or other entity who rents property to another under a lease. A landlord.

Letter of Credit
An arrangement, with specified conditions, whereby a bank agrees to substitute its credit for a customer's.

Leveraged Buy-out
The acquisition of a company, financed primarily with borrowed money, using the acquired company’s assets to collateralize the loan.

Liabilities
A person's financial obligations. Liabilities include long-term and short-term debt, as well as any other amounts that are owed to others.

Lien
A legal claim against a property that must be paid off when the property is sold. A mortgage or first trust deed is considered a lien.

Life Cap
For an adjustable-rate mortgage (ARM), a limit on the amount that the interest rate can increase or decrease over the life of the mortgage.

Limited Partnership
Arrangement in which there is at least one partner whose liability extends beyond monetary investment and at least one partner who is passive and limits liability to the amount invested.

Line Of Credit
An agreement by a commercial bank or other financial institution to extend credit up to a certain amount for a certain time to a specified borrower.

Liquid Assets
A cash asset or an asset that is easily converted into cash.

Loan
A sum of borrowed money (principal) that is generally repaid with interest.

Loan Application Fee
A charge required by a lender or loan originator to be paid by the borrower to cover the cost of internal resources, personnel and other incidental expenses associated with underwriting the loan. The fee is generally not refundable.

Loan Officer
Also referred to by a variety of other terms, such as lender, loan representative, loan "rep," account executive, and others. The loan officer serves several functions and has various responsibilities: they solicit loans, they are the representative of the lending institution, and they represent the borrower to the lending institution.

Loan Servicing
After you obtain a loan, the company you make the payments to is "servicing" your loan. They process payments, send statements, manage the escrow/impound account, provide collection efforts on delinquent loans, ensure that insurance and property taxes are made on the property, handle pay-offs and assumptions, and provide a variety of other services.

Loan-To-Cost Ratio (LTC)
The amount of money borrowed compared to the cost (acquisition, construction, renovation, etc.) of the project at hand.

Loan-To-Value Ratio (LTV)
The amount of money borrowed compared to the value (appraised or sale price, whichever is lower) of the real property purchased.

Lock-Box
Rental income is delivered to a trustee (or servitor), who then pays expenses and makes the loan payment, before excess cash is released to the borrower. The lock-box removes borrower discretion and control over funds.

Lock-In
An agreement in which the lender guarantees a specified interest rate for a certain amount of time at a certain cost.

Lock-In-Period
The time period during which the lender has guaranteed an interest rate to a borrower.

Locked-In Interest Rate
The rate promised by a lender at the time of loan application or commitment. On income property
The rate promised by a lender at the time of loan application or commitment. On income property loans, a lock-in generally requires a commitment fee or rate lock fee from the loan applicant.

London Interbank Offered Rate (LIBOR)
The rate that international banks dealing in Eurodollars charge each other for large loans. Some domestic banks and other lenders use this rate as an index for adjustable-rate mortgages. The LIBOR rate quoted in the Wall Street Journal is an average of rate quotes from five major banks. Bank of America, Barclays, Bank of Tokyo, Deutsche Bank and Swiss Bank.

M.

Management Fee
The amount charged by an independent company for the day-to-day management of a property. Typically based upon a percentage of the property's income.

Margin
The difference between the interest rate and the index on an adjustable-rate mortgage. The margin remains stable over the life of the loan. It is the index which moves up and down.

Market and Feasibility Study
A detailed analysis of activities in a market with regard to such influences as location, demand and competition, which may or may not affect the value of property. Includes an analysis of a real estate project to determine the most profitable use and the likelihood of the proposed use being a financial success. The study is often used by the promoter or developer to encourage would-be investors to participate in the venture and to assist lenders in making their decision whether or not to loan the necessary funds.

Market Approach
A method of appraising property by analyzing sales prices of similar properties (comparable) recently sold.

Market Rent
The rental income that a property is likely to command in the under current market conditions. Market rent, also referred to as economic rent, and may be either higher or lower than what the property is actually renting for under the terms of a lease.

Maturity
The date on which the principal balance of a loan, bond, or other financial instrument becomes due and payable.

Member, Appraisal Institute (MAI)
An accredited third-party appraiser and member of the American Institute of Real Estate Appraisers.

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Merged Credit Report
A credit report which reports the raw data pulled from two or more of the major credit repositories. Contrast with a Residential Mortgage Credit Report (RMCR) or a standard actual credit report.

Mezzanine Loan
A second mortgage. It usually bears interest at a higher rate than secured loans and sometimes carries the option to give the lender a stake in the equity.

Mixed-Use Commercial Project
A real estate development that contains two or more different uses all intended to be harmonious and complementary. An example would include a high-rise building with retail shops on the first two floors, office space on floors three through ten, apartments on the next ten floors, and a restaurant on the top floor.

Modification
Occasionally, a lender will agree to modify the terms of your mortgage without requiring your refinance. If any changes are made, it is called a modification.

Mortgage
A legal document that pledges a property to the lender as security for payment of a debt. Instead of mortgages, some states use First Trust Deeds.

Mortgage Banker
A financial middleman who, in addition to bringing borrower and lender together, makes loans, packages them, and sells the packages to both primary and secondary investors. Usually, the mortgage banker continues to service the loan (collect debt service, pay property taxes, handle delinquent accounts, etc.) even after the loan has been packaged and sold. For this management service a small percentage of the balance paid to the investor goes to the mortgage banker. Quite often the loan origination fee or finder's fee charged the borrower is more than offset by a lower interest rate from a lender not directly accessible to the borrower.

Mortgage Broker
A person who brings together borrower and a lender and in return is paid a finder's fee. This finder's fee is usually equal to one percent or so of the amount borrowed and is normally paid by the borrower. Certain sources of funds, particularly insurance companies,

do not always deal directly with the person looking for capital; rather, they work through a mortgage broker. Normally, the mortgage broker is not involved in servicing the loan once it is made and the transaction is closed.

Mortgage Constant
The relationship between annual mortgage loan requirements and the initial mortgage loan principal, expressed as a decimal or percentage, for level-payment mortgage loans. Used for converting debt service into mortgage loan value.

Mortgage Correspondent
A person authorized to represent a financial institution in a particular geographic area for the purpose of placing loans.

Mortgage Securities Pool
A method by which securities backed by the value of specific real estate mortgages are issued in the financial market for investment purposes. Such securities, because they are mortgage-backed, are more marketable and are generally issued with a lower rate of interest than if no such backing existed.

Mortgage-Backed Securities
Securities purchased by investors that are secured by mortgages. Such securities are also known as pass-through securities since the debt service paid by the borrower is passed through to the purchaser of the security.

Mortgagee
The lender in a mortgage agreement.

Mortgagor
The borrower in a mortgage agreement.

Multidwelling Units
Properties that provide separate housing units for more than one family, although they secure only a single mortgage.

N.

Negative Amortization
Some adjustable-rate mortgages allow the interest rate to fluctuate independently of a required minimum payment. If a borrower makes the minimum payment, it may not cover all of the interest that would normally be due at the current interest rate. In essence, the borrower is deferring the interest payment, which is why this is called "deferred interest." The deferred interest is added to the balance of the loan and the loan balance grows larger instead of smaller, which is called negative amortization.

Net Leasable Area
In a building, the floor space that may be rented to tenants or the area upon which rental payments are based. Generally, excludes common areas and space devoted to the heating, cooling, and other
based. Generally, excludes common areas and space devoted to the heating, cooling, and other equipment of a building.

Net Lease
A lease whereby, in addition to the rent, it is stipulated that the lessee (tenant) pays such expenses as taxes, insurance, and maintenance. The landlord's rent receipt is thereby "net" of those expenses.

Net Operating Income (NOI)
Incomes from property after all operating expenses and reserves have been deducted, except for income taxes and financing expenses (interest and principal payments).

No Cash-Out Refinance
A refinance transaction which is not intended to put cash in the hand of the borrower. Instead, the new balance is calculated to cover the balance due on the current loan and any costs associated with obtaining the new mortgage. Often referred to as a "rate and term refinance."

No-Cost Loan
Many lenders offer loans that you can obtain at "no cost." You should inquire whether this means there are no "lender" costs associated with the loan, or if it also covers the other costs, you would normally have in a purchase or refinance transactions, such as title insurance, escrow fees, settlement fees, appraisal, recording fees, notary fees, and others.

These are fees and costs which may be associated with buying a home or obtaining a loan, but not charged directly by the lender. Keep in mind that, like a ''no-point'' loan, the interest rate will be higher than if you obtain a loan that has costs associated with it.

Non-recourse Loan
A loan with no personal liability of the Borrower. Upon default, a Lender may take the property pledged as collateral to satisfy a debt, but have no recourse to other assets of the borrower.

Nonconforming Use
A use that violates zoning regulations or codes but is allowed to continue because it began before the zoning restriction was enacted.

Note
A legal document that obligates a borrower to repay a mortgage loan at a stated interest rate during a specified period of time.

Note Rate
The interest rate stated on a mortgage note.

Notice Of Default
A formal written notice to a borrower that a default has occurred and that legal action may be taken.

O.

Original Principal Balance
The total amount of principal owed on a mortgage before any payments are made.

Origination Fee
On a government loan the loan origination fee is one percent of the loan amount, but additional points may be charged which are called "discount points." One point equals one percent of the loan amount. On a commercial loan, the loan origination fee refers to the total number of points a borrower pays.

Owner Financing
A property purchase transaction in which the property seller provides all or part of the financing.

P.

Partial Payment
A payment that is not sufficient to cover the scheduled monthly payment on a mortgage loan. Normally, a lender will not accept a partial payment, but in times of hardship you can make this request of the loan servicing collection department.

Payment Change Date
The date when a new monthly payment amount takes effect on an adjustable-rate mortgage (ARM) or a graduated-payment mortgage (GPM). Generally, the payment change date occurs in the month immediately after the interest rate adjustment date.

Permanent Financing
A mortgage loan, usually covering development costs, interim loans, construction loans, financing expenses and marketing, administration, legal and other costs. This loan differs from the construction loan in that financing goes into place after the project is constructed and open for occupancy. It is a long-term obligation, generally for a period of 10 years or more.

Personal Property
Any property that is not real property.

Phase I Environmental Report

A comprehensive report required by most Lenders and produced by an independent company that details the current environmental condition of a property. Typically requires a historical review of the property's previous uses and may require an operations and maintenance (O&M) plan for the future removal of asbestos and other harmful items.

Physical Condition Report

A comprehensive report required by most Lenders and produced by an independent company that details the current physical condition of a property. Typically includes specific items that require immediate repair as well as those items that should be replaced over the life of the loan. Basis used to establish the annual Replacement Reserve Escrow for the property.

PITI

This stands for principal, interest, taxes and insurance. If you have an "impounded" loan, then your monthly payment to the lender includes all of these and probably includes mortgage insurance as well. If you do not have an impounded account, then the lender still calculates this amount and uses it as part of determining your debt-to-income ratio.

PITI Reserves

A cash amount that a borrower must have on hand after making a down payment and paying all closing costs for the purchase of a home. The principal, interest, taxes, and insurance (PITI) reserves must equal the amount that the borrower would have to pay for PITI for a predefined number of months.

Planned Unit Development (PUD)

A type of ownership where individuals actually own the building or unit they live in, but common areas are owned jointly with the other members of the development or association. Contrast with condominium, where an individual actually owns the airspace of his unit, but the buildings and common areas are owned jointly with the others in the development or association.

Point

A point is 1 percent of the amount of the mortgage.

Potential Gross Income

The amount of income that could potentially be produced by a real estate property assuming there are no vacancies or collection losses. Does not include miscellaneous or other income.

Power Of Attorney

A legal document that authorizes another person to act on one’s behalf. A power of attorney can grant complete authority or can be limited to certain acts and/or certain periods of time.

Pre-Approval

A loosely used term which is generally taken to mean that a borrower has completed a loan application and provided debt, income, and savings documentation which an underwriter has reviewed and approved. A pre-approval is usually done at a certain loan amount and making assumptions about what the interest rate will actually be at the time the loan is actually made, as well as estimates for the amount that will be paid for property taxes, insurance and others. A pre-approval applies only to the borrower. Once a property is chosen, it must also meet the underwriting guidelines of the lender. borrower. Once a property is chosen, it must also meet the underwriting guidelines of the lender. Contrast with pre-qualification.

Pre-Qualification

This usually refers to the loan officer’s written opinion of the ability of a borrower to qualify for a home loan, after the loan officer has made inquiries about debt, income, and savings. The information provided to the loan officer may have been presented verbally or in the form of documentation, and the loan officer may or may not have reviewed a credit report on the borrower.

Prepayment

Any amount paid to reduce the principal balance of a loan before the due date. Payment in full on a mortgage that may result from a sale of the property, the owner's decision to pay off the loan in full, or a foreclosure. In each case, prepayment means payment occurs before the loan has been fully amortized.

Prepayment Penalty

A fee that may be charged to a borrower who pays off a loan before it is due.

Prime Rate
The lowest commercial interest rate charged by banks on short-term loans to their most credit-worthy customers. The prime rate is not the same as the long-term mortgage rate, though it may influence long-term rates. Mortgage rates are generally higher than the prime rate, but exceptions occur at times.

Principal
The amount borrowed or remaining unpaid. The part of the monthly payment that reduces the remaining balance of a mortgage.

Principal & Interest Payments (P&I)
A periodic payment, usually paid monthly, that includes the interest charges for the period plus an amount applied to amortization of the principal balance. Commonly used with amortizing loans.

Principal Balance
The outstanding balance of principal on a mortgage. The principal balance does not include interest or any other charges. See remaining balance.

Principal, Interest, Taxes, And Insurance (PITI)
The four components of a monthly mortgage payment on impounded loans. Principal refers to the part of the monthly payment that reduces the remaining balance of the mortgage. Interest is the fee charged for borrowing money. Taxes and insurance refer to the amounts that are paid into an escrow account each month for property taxes and mortgage and hazard insurance.

Pro-forma
A financial or accounting statement using estimates and assumptions to project income and the performance of real property over a period of time.

Promissory Note
A written promise to repay a specified amount over a specified period of time.

Public Auction
A meeting in an announced public location to sell property to repay a mortgage that is in default.

Purchase Agreement
A written contract signed by the buyer and seller stating the terms and conditions under which a property will be sold.

Purchase Money Transaction
The acquisition of property through the payment of money or its equivalent.

Quitclaim Deed
A form of deed, which conveys only the present interest a person or entity, may have in a particular property without making any representations or warranties of title. Such a deed is useful in clearing up doubtful claims such as possible disputed liens.

R.

Rate Lock
A commitment issued by a lender to a borrower or other mortgage originator guaranteeing a specified interest rate for a specified period of time at a specific cost.

Real Estate
Land and everything more or less attached to it. Ownership below to the center of the earth and above to the heavens.

Real Estate Agent
A person licensed to negotiate and transact the sale of real estate.

Real Estate Investment Trust (REIT)
A real estate mutual fund, established by income tax laws to avoid the corporate income tax. It sells shares of ownership and must invest in real estate or mortgages. It must meet certain other requirements, including minimum number of shareholders, widely dispersed ownership, and certain asset and income tests.

Real Estate Market
The potential buyers and sellers of real property at the current time. It includes markets for various property types, such as office market, housing market, land market and condominium market.

Real Property
Land and appurtenances, including anything of a permanent nature such as structures, trees, minerals, and the interest, benefits, and inherent rights thereof.

Recorder
The public official who keeps records of transactions that affect real property in the area. Sometimes known as a "Registrar of Deeds" or "County Clerk."

Recording
The noting in the registrar's office of the details of a properly executed legal document, such as a deed, a mortgage note, a satisfaction of mortgage, or an extension of mortgage, thereby making it a part of the public record.

Recourse
The ability of a lender to recover money from a borrower in default, in addition to the property pledged as collateral.

Refinance Transaction
The process of paying off one loan with the proceeds from a new loan using the same property as security.

Rehabilitation Tax Credit
The Tax Reform Act of 1986 provides a 20% tax credit for rehabilitating certified historic structures, and a 10% credit for other buildings that were placed in service after 1936.

Remaining Balance
The amount of principal that has not yet been repaid. See principal balance.

Remaining Term
The original amortization term minus the number of payments that has been applied.

Rent Loss Insurance
Insurance that protects a landlord against loss of rent or rental value due to fire or other casualty that renders the leased premises unavailable for use and as a result of which the tenant is excused from paying rent.

Repayment Plan
An arrangement made to repay delinquent installments or advances.

Replacement Reserve
Various account(s) maintained (typically by the Lender) to provide funds for anticipated expenditures required to maintain a building. A reserve account usually is required by a lender in the form of an escrow to pay upcoming taxes and insurance costs. A replacement reserve may be maintained to provide for replacement cost of short-lived components, such as carpets, heating equipment or roofing. Also, a tenant improvement and leasing commission account may be required for future changes in tenancy.

Revenue Per Room (REVPAR)
REVPAR is calculated in underwriting (usually hotels) where the gross income is divided by the total number of rooms available (both occupied and unoccupied).

Revolving Debt
A credit arrangement, such as a credit card, that allows a customer to borrow against a preapproved line of credit when purchasing goods and services. The borrower is billed for the amount that is actually borrowed plus any interest due.

Right Of First Refusal
A provision in an agreement that requires the owner of a property to give another party the first opportunity to purchase or lease the property before he or she offers it for sale or lease to others.

Right Of Ingress or Egress
The right to enter or leave designated premises.

Right Of Survivorship
In joint tenancy, the right of survivors to acquire the interest of a deceased joint tenant.

S.

Sale Leaseback
When a building is sold to a third party and then leased back from that entity. It enables the seller to convert real estate assets into cash while maintaining expense base.

Sales Comparison Approach
A method of estimating the value of real property by comparing recent sales of comparable properties to the subject property after making appropriate adjustments for any differences. The comparable properties chosen should be substantially similar to the subject property and should be arms-length transactions.

Second Mortgage
A mortgage that has a lien position subordinate to the first mortgage.

Second Mortgage Market
The means by which existing first mortgages are bought and sold. The secondary mortgage market provides a lender with an opportunity to sell a loan before its maturity date, thereby providing greater availability of funds for additional mortgage lending.

Secured Loan
A loan that is backed by collateral.

Security
The property that will be pledged as collateral for a loan.

Self-Amortizing Loan
A mortgage loan that requires level annual payments sufficient to meet the interest requirements and fully repay the entire principal over its term.

Seller Carry-Back
An agreement in which the owner of a property provides financing, often in combination with an assumable mortgage.

Servicing
The collection of mortgage payments from borrowers and related responsibilities of a loan servitor.

Servicing Fee
The periodic (monthly or annual) payment made by the purchaser of a mortgage (Lender) to the mortgage banker (correspondent) who originally made the loan for servicing the loan. The fee, which varies from one-eight to one-half percent of the outstanding loan balance, covers the administrative costs of servicing such as collection and payment of property taxes and property insurance premiums. Servicing rights may be bought and sold along with the loan.

Servitor
An organization that collects principal and interest payments from borrowers and manages borrowers' escrow accounts. The servitor often services mortgages that have been purchased by an investor in the secondary mortgage market.

Spread
The difference between the rate at which money can be borrowed and the rate at which it is loaned. Typically, the rate (percentage amount) that is added to the Treasury Bill by a Lender when quoting a rate to a borrower.

Stabilized
Term associated with the operation of a property wherein the income and expenses have achieved and maintained a consistent level of performance. The minimum is usually established when the property has performed at a specific minimum for ninety (90) days.

Subdivision
A housing development that is created by dividing a tract of land into individual lots for sale or lease.

Subordinate Financing
Any or other lien that has a priority that is lower than that of the first mortgage.

Subordinate Ground Lease
A land (ground) lease in which the rent payment due from the lessee (borrower) to the lessor (land owner) is subordinated to the debt service owed by the lessee (borrower) to the mortgagee (lender). Normally, a ground lease contains a subordination clause because without it, construction of improvements may be more difficult. A mortgage lender will consider the full value of the property only with a subordinated ground lease.

Survey
The process by which the precise physical boundaries of a parcel of land are measured. Legal descriptions appear in title reports, sales contracts, deeds, mortgages, notes, and other instruments involving rights and interests in real estate. When land is conveyed from one party to another, the survey provides a visual representation of the legal description including the precise location of structures, easements, encroachments, rights of ways and other physical features.

Sweat Equity
Contribution to the construction or rehabilitation of a property in the form of labor or services rather than cash.

T.

Take-out Commitment
A written agreement from a Lender to provide permanent financing following construction of a planned project. The takeout commitment usually contains specific conditions for occupancy and income, such as a certificate of occupancy and/or a certain percentage of unit sales or leases in place and paying rent. Most construction lenders require takeout financing prior to beginning construction.

Tax and Insurance (Reserve) Escrow
An account required by a mortgage lender and established at the time of closing to fund annual property tax assessments and hazard insurance premiums for the mortgaged property. Funded through monthly contributions and maintained by the Lender.

Tenancy In Common
As opposed to joint tenancy, when there are two or more individuals on title to a piece of property, this type of ownership does not pass ownership to the others in the event of death.

Tenant Improvement (Reserve) Escrow
An account required by a mortgage lender and established at the time of closing for the purpose of reserving funds estimated to be necessary to improve retail and office space. Funded through monthly contributions and maintained by the Lender.

Third-Party Origination
A process by which a lender uses another party to completely or partially originate, process, underwrite, close, fund, or package the mortgages it plans to deliver to the secondary mortgage market.

Third-Party Reports
Reports required by a mortgage lender prior to funding a loan that include MAI Appraisal, Phase I Environmental and Physical Condition reports.

Title
A legal document evidencing a person's right to or ownership of a property.

Title Company
A company that specializes in examining and insuring titles to real estate.

Title Insurance
Insurance that protects the lender (lender's policy) or the buyer (owner's policy) against loss arising from disputes over ownership of a property.

Title Search
A check of the title records to ensure that the seller is the legal owner of the property and that there are no liens or other claims outstanding.

Transfer Of Ownership
Any means by which the ownership of a property changes hands. Lenders consider all of the following situations to be a transfer of ownership: the purchase of a property "subject to" the mortgage, the assumption of the mortgage debt by the property purchaser, and any exchange of possession of the property under a land sales contract or any other land trust device.

Transfer Tax
State or local tax payable when title passes from one owner to another.

Treasury Index
An index that is used to determine interest rate changes for certain adjustable-rate mortgage (ARM) plans. It is based on the results of auctions that the U.S. Treasury holds for its Treasury bills and securities or is derived from the U.S. Treasury's daily yield curve, which is based on the closing market bid yields on actively traded Treasury securities in the over-the-counter market.

Triple-Net Lease
A commercial lease in which the tenant is required to pay all operating expenses of the property and the landlord receives a net rent amount each month.

Trust Deed
A conveyance of real estate to a third party to be held for the benefit of another. Commonly used in some states in place of mortgages that conditionally conveys title to the lender.

Trustee
A fiduciary that holds or controls property for the benefit of another.

Truth-in-Lending
A federal law that requires lenders to fully disclose, in writing, the terms and conditions of a mortgage, including the annual percentage rate (APR) and other charges.

Two-Step Mortgage
An adjustable-rate mortgage (ARM) that has one interest rate for the first five or seven years of its mortgage term and a different interest rate for the remainder of the amortization term.

U.

U.S. Treasuries
Only treasuries with an original term of 30 years are Bonds. All treasuries with original terms of 2-10 years are Notes. Anything shorter than two years is a Bill.

Underwriter
An employee of a mortgage banking company or lending institution, who reviews a loan application, verifies all information is accurate and makes a recommendation to a loan committee as to the desirability and risk of making the loan. The underwriting process is a critical part of the overall lending process.

Underwriting Criteria

In mortgage banking, the analysis of the risk involved in making a mortgage loan to determine whether the risk is acceptable to the lender. Underwriting involves the evaluation of the property as outlined in the appraisal report and of the borrower's ability and willingness to repay the loan.

V.

Vacancy Rate

The percentage of all units or space that is unoccupied, not rented or from which there is no rental income. On a pro-forma income statement, a projected vacancy rate is used to estimate the vacancy allowance (both physical and economic), which is deducted from potential gross income to derive effective gross income.

Vested

Having the right to use a portion of a fund such as an individual retirement fund. For example, individuals who are 100 percent vested can withdraw all of the funds that are set aside for them in a retirement fund. However, taxes may be due on any funds that are actually withdrawn.

W.

Warehousing

The process by which a mortgage banker assembles mortgages that they have made and prepares the mortgages to be sold in the secondary mortgage market. By selling these mortgages the originator now has additional capital that can be used to make more mortgages, which in turn may also be sold in the secondary mortgage market.

Wraparound Mortgage

A method of acquiring additional financing on real estate by placing the additional funds in a secondary or junior position to the existing debt. As its name implies, a wraparound mortgage 'wraps around' an existing first mortgage plus the amount of the new secondary or junior lien. This method of obtaining additional capital is often used with commercial property where there is substantial equity in the property and where the existing first mortgage has an attractive low interest rate. By obtaining a wraparound, the borrower receives dollars based on the difference between current market value of the property and the outstanding balance on the first mortgage. Thus, the borrower reduces the equity and at the same time obtains an interest rate lower than would be possible through a normal second mortgage. The lender receives the leverage resulting from an interest rate on the wraparound greater than the interest paid to the holder of the first mortgage.

Y.

Yield Maintenance

The prepayment premium, which will equal the present-day value of any costs to the lender resulting from the difference in interest rates between the date of the note and the date on which the prepayment is made. In other words, the borrower must pay the lender enough money so that the lender can theoretically replace the loan’s future cash flows using Treasury Securities.

Z.

Zoning Ordinance

The act of city or county or other authorities specifying the type of use to which property may be put in specific areas. The act of city or county or other authorities specifying the type of use to which property may be put in specific areas.