Mortgage Glossary of Terms

Adjustable Rate Mortgage
Mortgage where the interest rate adjusts periodically up or down through a set index. Also called a floating rate mortgage.

Adjusted Gross Income
Gross income of a building if fully rented, less an allowance for estimated vacancies.

Adjustment Interval
The period of time between changes in the interest rate for an adjustable-rate mortgage. Typical adjustment intervals are one year, three and five years.

After Repair Value (ARV)
The expected market value of a property after any work, construction or repairs have been completed. Generally this is derived by the value of dollars per square foot of surrounding properties times the after repair square footage of the target property.

Amortization
The process of paying the principal and interest on a loan through regularly scheduled installments.

Annual Percentage Rate (APR)
This is the actual rate of interest your loan would be if you included all of the other associated costs such as closing costs and points.

Apartment Rehabilitation
Extensive remodeling of an older apartment building.

Appraisal
An estimate of the value of a property, made by a qualified professional called an appraiser.

ARM
See Adjustable Rate Mortgage.

Assumable Loans
Loans that can be transferred to a new owner if a home is sold.

Balloon (Payment) Mortgage
Usually a short-term fixed-rate loan which involves small payments for a certain period of time and one large payment for the remaining principal balance, due at a time specified in the contract.

Basis Points (BP)
1/100th of 1% expressed as margin over index rate. Example: 150 BPS = 1.5%

Buydown
The process of paying additional points on the loan to reduce the monthly mortgage.

Bridge Loan
Financing which is expected to be paid back relatively quickly (days or weeks), versus a subsequent longer – term loan. Also called a swing loan.

Cap
The maximum which an adjustable-rate mortgage may increase, regardless of index changes. An interest rate cap limits the amount the interest can change, while a payment cap limits the increase in monthly payment to a specific dollar amount.

Cap Rate
A net yield set by an investor to determine the value of an income producing property.

Capital Expenditures
Line items on a profit and loss statement that would not be expensed on an annual basis. This category would include replacement of major building systems, such as roofs, driveways, etc.

Capitalization Rate
A method used to estimate the value of a property based on the rate of return on investment.

Closing
The meeting between the buyer, seller and lender (or their agents) where the property and funds legally change hands. Also referred to as "settlement".

Closing Costs
The cost and fees associated with the official change in ownership of the property and with obtaining the mortgage, that are assessed at the closing or settlement.

Commercial Conduit
Direct link to an institutional lending source.

Comparative Market Analysis (CMA)
An estimate of the value of a property based on an analysis of sales of properties with similar characteristics.

Conduit
The financial intermediary that sponsors the conduit between the lender(s) originating loans and he ultimate investor. The conduit makes or purchases loans from third party correspondents under standardized terms, underwriting and documents and then, when sufficient volume has been obtained, pools the loans for sale to investors in the CBMS markets.

Construction Loan
A short term loan to pay for the construction of commercial or residential buildings. These loans typically provide periodic disbursements to the builder as the building is completed. When construction is completed a take-out or permanent loan is used to pay off the construction loan.

Convertible
An option available on some adjustable rate mortgages (ARM's) that allows the loan to be converted to fixed rate mortgage. Conversion usually involves paying a one-time fee and conversion may be limited to within a certain time – frame.

Co-signer
Someone who is willing to sign mortgage loan obligation with you in case you default on your monthly payments. Normally, the cosigner is required to go through the same application and approval process as the original signer of the loan.

Credit Company
A lending organization that obtains it source of funds from the commercial market.

Credit Enhancements
A loan to provide improvements to the property.

Debt Service Coverage Ratio (DSC)
A 1.0 means breakeven. The ratio is calculated by taking the net operating income and dividing it by the monthly mortgage payments(PITI) plus any applicable association dues (A). Most lenders look for a ratio of 1.25 or higher. DSCR = Gross Monthly Rent(s) /(PITA + A)

Debt Service
The periodic payments (principal and/or interest) made on a loan.

Debt Ratio
One of several financial calculations performed by your lender to determine if you can afford a particular monthly payment. The debt ratio (also known as the obligations ratio) is the sum of all your monthly debt payments including your total monthly mortgage payment divided by your total monthly income. Typical acceptable debt ratios for Conventional Loan are 36 – 38%, FHA Loans are 41 – 43%, and VA Loans Are 41%.

Discount Rate
Many lenders may offer you a lower "teaser" rate on an adjustable rate mortgage for the first adjustment period. After this period is over, the lender will adjust your loan according to the normal lenders margin rate.

Down – Payment
The amount of money you put down, normally anywhere from 15% – 35%.

Due Diligence
When an individual compiles information and investigates the property to be purchased or lent on for title issues, judgements, financial issues (loans and liens) in order to determine if the property is suitable for the investment outcome desired. This may also include flood plane review, topography of the property, neighborhood features and issues, as well as the condition of the structure and lot.

Effective Gross Income
Gross income of a building if fully rented, less an allowance for estimated vacancies.

Engineering Report
Report generated by an architect or engineer describing the current physical condition of the property and its major building systems, i.e., HVAC, parking lot, roof, etc. The report also determines an amount for calculating replacement reserves, if needed.

Environmental Report
Report generated by a qualified environmental firm to determine potential environmental hazards in a building’s region or within the building itself. See Phase I Report.

Environmental Risk
Risk of loss of collateral value and of lender liability due to the presence of hazardous materials, such as asbestos, PCB’s, radon or leaking underground storage tanks (LUSTS) on a property.

Equity
1.The difference between the fair market value and current indebtedness, also referred to as “owner’s interest”.

2. The difference between the amount owed on the loan and the current purchase price of the home or property

Equity Capital
Capital raised from owners. In a commercial real estate case, a lender will also provide equity capital for a percentage of ownership.

Escrow
1. A special account set up by the lender in which money is held to pay for taxes and insurance. The account may also be required by a lender for the borrower to deposit a certain number of months of interest payments on a loan. This is assure timely payments to the lender.

2. A third party who carries out the instructions of both the buyer and seller to handle the paperwork at the settlement.

Fair Market Value
An appraisal term for the price a property would bring in a competitive market, given a willing seller and willing buyer, each having a reasonable knowledge of all pertinent facts, with neither being under any compulsion to buy and sell.

Fannie Mae (Federal National Mortgage Association – FNMA)
A congressionally chartered corporation which buys mortgages on the secondary market from Banks, Savings & Loans, etc; pools them and sells them as mortgage-backed securities to investors on the open market. Monthly principal and interest payments are guaranteed by FNMA but not by the U.S. Government.

FHA
Federal Housing Administration, a government agency.

Fixed Rate Mortgage
A mortgage with an interest rate that remains constant for the life of the loan. The most common fixed-rate mortgage is repaid over a period of 30 years; 15 and 20 year fixed-rate mortgages are also available.

Floating Rate Mortgage
See Adjustable Rate Mortgage.

Floor – To – Area Ratio (FAR)
The relationship between the total amount of floor space in a multi – story building and the base of that building. FAR’s are dictated by zoning laws and vary from one neighborhood to another, in effect stipulating the maximum number of stories a building may have.

Foreclosure
The process by which a lender takes back a property on which the mortgagee had defaulted. A servicer may take over a property from a borrower on behalf of a lender. A property usually goes in to the process of foreclosure if payments are no more than 90 days past due.

Forward Commitment
A written promise from a lender to provide a loan at a future time.

Freddie Mac (Federal Home Loan Mortgage Corporation)
Entity buys loans from conventional lenders and packages them for sale to investors as securities. (See Fannie Mae for similarities)

Freestanding Retail
A building which contains only one retail business. Fast-food franchises and retail stores are often freestanding buildings.

Government Loans
One of two loan types called FHA or VA loan. These loans are partially backed by the federal government and can help low-to-moderate income families and veterans afford homes. The advantages of these types of loans in that they often have a lower interest rate, are easier to qualify for, have lower down-payment requirements, and can be assumed by someone else if the home is sold. Many mortgage bankers can obtain these types of loans for you.

Graduated Payment Mortgages
A type of mortgage where the monthly payments start low but increases by a fixed amount each year for the first five years. The payment shortfall or negative amortization is added to the principal balance due on the loan. The advantages if this type of loan is a lower monthly payment at the beginning of the loan term. The disadvantages are typically a slightly higher rate than traditional fixed rate mortgage loan and lenders usually require a larger down payment. In addition, the negative amortized amount increases the balance due on the total loan which can be a problem if the value of the home declines.

Gross Income
Total income, before deducting taxes and expenses. The scheduled (total) income, either actual or estimated, derived from a business or property.

Growing Equity Mortgage
A type of mortgage where the monthly payments start low but increase by a fixed amount each year for the entire life of the loan as compared to five years with a Graduate Payment Mortgage. The advantage of this type of loan is that the loan can usually be paid off in a shorter duration than a traditional fixed rate loan. This disadvantage of this loan is that the payment continues to go up irrelevant of the income of the borrower.

Hard Equity
High interest rate financing.

HUD
Housing and Urban Development, a federal government agency.

Index
An economic indicator, usually a published interest rate, that determines changes in the interest rate of an adjustable – rate mortgage. ARM rates are adjusted to reflect changes in an index. The margin is the amount a lender adds to the index to establish the actual interest rate on an ARM.

Interest
The sum paid for borrowing money, which pays the lender's costs of doing business.

Interest Rate
The sum charged for borrowing money, expressed as a percentage.

Interest Rate Cap
Limits the interest rate or the interest rate adjustment to a specified maximum. This protects the borrower from increasing rates.

Interest Shortfall
The aggregate amount of interest payments from a borrower that is less than the accrued interest on the certificate.

Investment Banker
An individual or institution which, acts as an underwriter or agent for corporations and municipalities issuing securities, but which does not accept deposits or make loans. Most also maintain broker/dealer operations, maintain markets for previously issued securities, and offer advisory services to investors also called investment banker. See also bank, commercial bank, and originator, syndicate.

Joint Venture
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.

Lease Assignment
An agreement between the commercial property owner and the lender that assigns lease payments directly to the lender.

Leasehold Improvements
The cost of improvements for a leased property. Often paid by the tenant.

Lender Margin
This is simply the profit the lender expects to receive from the loan. You can ask your lender what the margin is on an adjustable rate mortgage. Typically, lenders use a discount rate initially as a "teaser" rate. You must be sure to get the normal margin after the discount period is over.

Lines of Credit
An arrangement in which a bank or vendor extends a specified amount of unsecured credit to a specified borrower for a specified time period.

Loan Origination Fee
The fee charged by a lender, to prepare all the documents associated with a mortgage.

Loan Processing Fee
The fee charged by a lender, to prepare all the documents associated with a mortgage.

Loan-To-Value (LTV)
The ratio between the principal amount of the mortgage balance, at origination or thereafter, to the current value of the underlying real estate collateral. The ratio is commonly expressed to a potential borrower as the percentage of value a lending institution is willing to finance. The ratio is dynamic, and varies by lending institution, property type, geographic location, property size, etc.

Lock – In
The process of fixing the interest rate for a specific period of time irrelevant of future or impending economic changes that would normally affect the interest rate. This process may require a fee or premium as it reduces your risk of the monthly payments will increase while the loan paperwork is filed.

Lock – Out Period
A period of time after loan origination during which a borrower cannot prepay the mortgage loan without paying the full amount of interest due for the prescribed time period.

London Interbank Offered Rate (LIBOR)
The short – term rate (1year or less) at which banks will lend to each other in London. Commonly used as a benchmark for adjustable – rate financing.

Low Doc
Low Doc (or Low Document) loans are loans for individuals that cannot provide the traditional required paperwork such as tax returns. This is mostly for Self-Employed borrowers or investors without normal pay period income.

LTV
See Loan to Value Ratio.

Margin
The amount that is added to an index rate to determine the total interest rate.

Maturity
1. The termination period of a note (e.g., a 30 – year mortgage has maturity of 30 years.)

2. In sales law, the date a note becomes due.

Mezzanine
Late-stage capital financing.

Mortgage Banker
An entity that makes loans with its own money and then sells the loan to other lenders.

Mortgage Broker
An entity that arranges loans for borrowers.

Mortgage Insurance
A type of insurance charged by most conventional lenders to offset the risk of the loan when the down payment is less than 20% of the value of the home. Prevalent in FHA and VA loans.

Multi – Family Property Class A
Properties are above average in terms of design, construction and finish; command the highest rental rates; have a superior location, in terms of desirability and / or accessibility; generally are professionally managed by national or large regional management companies.

Multi – Family Property Class B
Properties that do not possess design and finish reflective of current standards and preferences; construction is adequate; commands average rental rates; generally are well maintained by national or regional management companies; unit sizes are usually larger than current standards.

Multi – Family Property Class C
Properties that provide functional housing; exhibit some level of deferred maintenance; commands below average rental rates; usually located in less desirable areas; generally managed by smaller, local property management companies; tenants provide a less stable income stream to property owners than Class A and B tenants.

Negative Amortization
Occurs when interest accrued during a payment period is greater that the scheduled payment and the excess amount is added to the outstanding loan balance (e.g., if the interest rate on ARM exceeds the interest rate cap, then the borrower's payment will be sufficient to cover the interest accrued during the billing period – the unpaid interest is then added to the outstanding loan balance) See Graduated Payment Loan.

Net Effective Rent
Rental rate adjusted for lease concessions.

Net Operating Income (NOI)
Total income less operating expenses, adjustments, etc., but before mortgage payments, tenant improvements and leasing commissions.

Net – Net Lease (NN)
Usually requires the tenant to pay for property taxes and insurance in addition to the rent.

No Doc
No Doc (or No Document) loans are similar to Low Doc loans and refer to loans that do not require the borrower to provide documentation of their income.

Notice of Default (NOD)
To initiate a non – judicial foreclosure proceeding involving a public sale of the real property securing the deed of trust. The trustee under the deed of trust records a Notice of Default and Election to Sell ("NOD") the real property collateral in the public records.

Non – Recourse
A finance term for a mortgage or deed of trust securing a note without recourse allows the lender to look only to the security (property) for repayment in the event of default, and not personally to the borrower. A loan not allowing for a deficiency judgment. The lender's only recourse in the event of default is the security (property) and the borrower is not personally liable.

Operating Expense
Periodic expenses necessary to the operation and maintenance of an enterprise (e.g., taxes, salaries, insurance, maintenance). Often used as a basis for rent increases.

Participation
A type of mortgage where the lender receives a percentage of the gross revenue in addition to the mortgage payments.

Percentage Lease
Commonly used for large retail stores. Rent payments include a minimum or "base rent" plus a percentage of the gross sales "overage." Percentages generally vary from 1% to 6% of the gross sales depending on the type of store and sales volume.

Phase I Report
An assessment and report prepared by a professional environmental consultant who reviews the property – both land and improvements – to ascertain the presence or potential presence of environmental hazards at the property, such as underground water contamination, PCB's, abandoned disposal of paints and other chemicals, asbestos and a wide range of other potentially damaging materials. This Environmental Site Assessment (ESA) provides a review and makes a recommendation as to whether further investigation is warranted (a Phase II Environmental Site Assessment). This latter report would confirm or disavow the presence of any mitigation efforts that should be undertaken. See Environmental Report

PITI
Principal, interest, taxes and insurance. Your calculated estimated of monthly payments.

Points
Loan fees paid by the borrower. One point is 1% of the loan amount.

Prepayment Penalty
Fees paid by borrowers for the privilege of retiring a loan early.

Pre – qualification
The process of determining the amount of money a particular lender will let you borrow. You should strive to obtain pre-qualification with at least two or three lenders.

Prime Rate
An artificial rate set by commercial bankers. Many banks will use the Wall Street Prime rate. This is a rate set by the top lending banks in the country.

Principal
1. The amount of debt, not including interest, left on a loan.

2. The face amount of the mortgage.

Property Appraisal
A report showing a professionally prepared value of the particular home. The report should include similar properties (comparable - comps) from the same area as the target property. These should be within about +/- 250-300 square feet of the target house, similar in age and number of rooms. Appraisers calculate the value based on the aforementioned items as well as the general condition of the property and the neighborhood.

Property Classification
Most lenders will classify a property by its age and needed maintenance. As an example, many insurance companies will only loan on properties that are class A, meaning that the properties age is 10 years old or less and is not in need of repair.

Property Tax
Taxes based on the market value of a property. Property taxes vary from state to state, county to county and local jurisdiction to jurisdiction.

Rate Index
An index used to adjust the interest rate of an adjustable rate mortgage loan (e.g., the changes in U.S. Treasury securities (T-bill) with 1-year maturity. The weekly average yield on said securities, adjustable to a constant maturity of 1 year, which is the result of weekly sales, may be obtain weekly from the Federal Reserve Statistical Release H.15 (519). This changes in interest rates is the "index" for the change in a specific Adjustable Mortgage Loan).

Recourse
A loan for which the borrower is personally liable for payment is the borrower defaults.

REIT (Real Estate Investment Trust)
Pooled funds that purchase and hold commercial real estate. Depending on the size and structure a REIT may be held privately by a corporation or may be traded in the general securities market. These trusts normally invest in commercial properties, retail and apartment complexes.

Refinance
The renewal of an existing loan by the same borrower.

Rent Coverage Ratio (RCR)
Used for short term, 2 years or less, multifamily property financing where the loan payments are interest only. The general formula is the Gross Monthly Income / Interest Payment = RCR

Rent Step – Up
A lease agreement in which the rent increases every period for a fixed amount of time or for the life of the lease.

Replacement Reserves
Monthly deposits that a lender may require a borrower to put into or have in a reserve account, along with principal and interest payments for future capital improvements of major building systems; i.e., HVAC, parking lot, carpets, roof, etc. See Escrow Account

Reserve Funds
A portion of the proceeds that are retained to cover losses on the mortgage pool. A form of credit enhancement (also referred to as "reserve accounts"). See Escrow Account

Residual Income
The amount of money left over after you have paid all of your ordinary and necessary debts including the mortgage. This calculation is typically used with VA loans.

Sale / Lease Back
When a lender buys a property and leases it back to the seller for any period of time.

Savings & Loans
A federally or state charted financial institution that takes deposits from individuals, funds mortgages, and pays dividends.

SBA
Small Business Administration, a federal government agency.

Second Mortgage
A mortgage on real estate, which has already been pledged as collateral for an earlier mortgage. The second mortgage carries rights, which are subordinate to those of the first lien or mortgage.

Secondary Financing
A loan secured by a mortgage or trust deed, in which the lien is junior, or secondary, to another mortgage or trust deed.

Spread
Number of basis points over a base rate index.

Standby Commitment
A formal offer by a lender making explicit the terms under which it agrees to lend money to a borrower over a certain period of time.

Stated Income
Stated Income is a mortgage where the lender does not verify income by looking at pay stubs, W-2 forms, or income tax returns to qualify a loan. Borrowers are taken at their word for the amount they state.

Structural Report
(see Engineering Report)

Tax & Insurance Impound or Escrow
Monthly deposits that a lender may require to be included with principal and interest payments for the payment of taxes and insurance.

Tenant Improvements (TI)
The expense to physically improve the property to attract new tenants to new or vacated space which may include new improvements or remodeling. May be paid by tenant, landlord, or both. Typically, tenants are provided with a market rate TI allowance ($/sq. ft.) that the owner will contribute towards improvements. The tenant must pay for amounts above the TI allowance desired by the tenant.

Term
The length of a mortgage.

Third Party Costs
Costs resulting from third party reports, whether it be appraisal reports, environmental reports or structural engineering reports.

Title Insurance
An insurance policy which insures you against errors in the title search – essentially guaranteeing your and your lender's, financial interest in the property.

Triple – Net Lease
A lease that requires the tenant to pay for property taxes, insurance and maintenance in addition to the rent (also referred to as " Net Net Net Lease").

Underwriting
The process of deciding whether to make a loan based on credit, employment, assets and / or other factors.

Uniform Residential Loan Application (1003)
This application, also called a URL – 1003 is the standard loan application used by all lenders.

Underwriter
The underwriter is the lender or company who actually provides the money for a loan. A mortgage broker represents several different underwriters and depending on your situation they choose the "best" underwriter for you and your lender.

Upfront Fees
Generally, refer to fees charges to pay for third party costs like appraisals.

Workouts
Attempts to resolve a problematic situation, such as a bad loan.

Yield Maintenance
A prepayment premium that allows investors to attain the same yield as if the borrower made all scheduled mortgage payments until maturity. Yield maintenance premiums are designed to make investors indifferent to prepayments and to make refinancing unattractive and uneconomical to borrowers.

Yield To Maturity (YTM)
Concepts used to determine the rate of return an investor will receive if a long – term, interest – bearing investment, such as a bond, is held to its maturity date. It takes into account purchase price, redemption value, time to maturity, coupon yield and the time between interest payments. Recognizing time value of money, it is the discount rate at which the present value of all future payments would equal the present price of the bond (also referred to as “internal rate of return”). It is implicitly assumed that coupons are reinvested at the YTM rate. YTM can be approximated by using a bond value table (also referred as a “bond yield table”) or can be determined using a programmable calculator equipped for bond mathematics calculations.