

# Glossary of Real Estate Terms

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**ACQUISITION FINANCING** Funds obtained for the purpose of purchasing vacant land or properties that require extensive rehabilitation.

**APPRAISAL** Official report required by lenders and regulators, giving an estimate or opinion of value based on analysis of pertinent data by a qualified appraiser.

**APPRAISED VALUE** An estimate of the highest value a piece of property will bring if sold on the open market.

**AS OF RIGHT USE** Ways in which a property may be used without alterations or variances in the building code or zoning ordinance.

**BID SPECIFICATIONS** Detailed set of instructions prepared by an architect specifying how a property is to be constructed or renovated and identifying the types of materials to be used. These specifications form the basis for soliciting bids from general contractors.

**BORROWER RISK** Lender's assessment of the loan applicant's ability to successfully finish construction or manage the occupied building.

**BUILDING CODE** Regulations, ordinances or statutory requirements of a governmental unit relating to building construction and occupancy.

**CASH FLOW** The income remaining after all expenses and debt service have been paid.

**CERTIFICATE OF OCCUPANCY** A document from a government building department stating that a structure was built or remodeled in compliance with regulations and is ready for occupancy.

**CHANGE ORDER** A written order to the contractor signed by the owner and the architect, issued after the execution of the contract, authorizing a change in the work or an adjustment in the contract sum or contract time.

**CLOSING COSTS** Expenses involved in transferring real estate from a seller to a buyer, including lawyer's fees, survey charges, title searches and insurance, and fees to file deeds and mortgages.

**COLLATERAL** Stocks, bonds, evidence of deposit, and other marketable properties which a borrower pledges as security until a loan is repaid. In mortgage lending, the collateral is the specific real property being financed which the borrower pledges as security.

**COMMERCIAL BANK** Government chartered financial institutions that accept deposits and make loans for consumer purchases, business or commercial development and real estate development.

**COMMITMENT** A statement in writing representing a bank's legal commitment to a borrower that it will loan a certain amount of money at a particular rate of interest, contingent upon specific conditions being met by the borrower.

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**COMMITMENT FEE** Lender's charge for agreeing to hold credit available for a specific period of time and to reimburse them for administrative and staff costs in underwriting the loan. The fee is usually payable upon the applicant's signing of the commitment letter.

**COMMUNITY DEVELOPMENT CREDIT UNIONS** Credit unions that serve predominately low-income communities. They offer a wide range of consumer financial services including small mortgages and loans for housing rehabilitation to individuals and tenant associations often with a particular emphasis on homesteading and the formation of limited equity co-operatives.

**COMMUNITY REINVESTMENT ACT** Passed in 1977, it states that commercial banks and thrifts have a continuing and affirmative obligation to help meet the credit needs of the local communities which they serve. It requires regulatory agencies to evaluate these institutions' record of meeting the credit needs of their designated community, consistent with the safe and sound operation of the institution.

**COMPLETION GUARANTEE** A guarantee made to the lender by the owner and/or the general contractor that they will complete, or pay to have completed, the construction of the project for which financing is obtained.

**CONSTRUCTION CONTINGENCY** Portion of the construction loan set aside to cover unexpected hard expenses.

**CONSTRUCTION DOCUMENTS** Drawings, specifications and legal documents setting forth in detail the requirements for the construction of a project.

**CONSTRUCTION INTEREST** Interest paid to the lender on a monthly basis for the construction loan. The total amount of interest to be paid often is included in the loan amount.

**CONSTRUCTION LOAN** A loan, usually short-term, which is made to finance the actual construction or renovation of improvements on land. The funds are disbursed as needed or in accordance with a prearranged plan, and the money is repaid on completion of the project, usually from the proceeds of a permanent mortgage.

**CONTINGENT LIABILITY** Borrower's potential liability, such as a guarantee of payment or completion guarantee, which is incurred by borrower's failure to perform under the terms and conditions of the loan.

**CONTRACT OF SALE** Document which states the conditions under which a property will be transferred and the rights and duties of each party during the contract period.

**CONTRACTOR'S BID** Price submitted by a contractor for construction of a project according to the design and specifications of an architect or engineer.

**COST OF FUNDS** The interest rate that a bank must pay to obtain funds in the financial markets that it then lends to its customers.

**CREDIT ANALYSIS** Assessment of the borrower's financial capability to complete the project.

**CREDIT HISTORY** Record of a borrower's previous track record in meeting its financial obligations.

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**CREDIT UNION** A not-for-profit financial institution typically formed by employees of a company, a labor union, or a religious group and operated as a cooperative. Credit unions may offer a full range of financial services and may pay higher rates on deposits and charge lower rates on loans than a commercial bank.

**DEBT SERVICE COVERAGE RATIO** The ratio of estimated project net operating income to debt service. This ratio is used by lenders to provide a cushion between the amount of funds remaining after the payment of a project's operating costs and the annual mortgage payment. Generally, lenders require a minimum of 1.10 or 1.15. Referred to as DSC or DCR.

**DEVELOPMENT TEAM** Group of individuals or firms who carry out a development project, usually including the developer, the architect and engineer, the contractor, and the technical consultant.

**DISBURSEMENT OF FUNDS** The paying out of money by the lender to the borrower.

**EFFECTIVE GROSS INCOME** Rental income actually collected by property owner during a specific time period. In estimating an operating budget, it is determined by subtracting estimates of uncollectible rent and rent lost due to vacancies from gross rents (defined below).

**ENVIRONMENTAL ASSESSMENT** Official report required by lenders which evaluates a piece of property to determine whether the site may have been contaminated by hazardous wastes. Usually only a Phase One report is performed, but additional phases may be required if phase one uncovers evidence that possible environmental problems might exist.

**ENVIRONMENTAL SURVEY** Assessment of the project site, conducted as part of the loan review process, to identify physical problems such as poor soil condition or soil contamination.

**EQUITY** The amount of an owner's free and clear or unencumbered interest in real property which represents the difference in the property's market value and the amount of debt and other liabilities.

**ESCROW** Money, securities, or other properties or instruments held by a third party until the conditions of a contract are met.

**EXTENSION OF THE CONSTRUCTION PERIOD** Agreement by the lender to allow additional time for completion of a project.

**FIELD CONDITIONS** Unforeseen or unforeseeable conditions underground or within a building that substantially alter the conditions and assumptions on which the owner and general contractor negotiated a final contract price.

**FINANCIAL INSTITUTIONS REFORM, RECOVERY, AND ENFORCEMENT ACT OF 1989 (FIRREA)** Legislation which restructured the lending requirements of savings and loans and commercial banks in an attempt to strengthen those financial institutions

**FINANCIAL STATEMENT** Written record of the financial status of an individual, association, or business organization. The financial statement includes a balance sheet and an income statement and may also include a statement of changes in working capital and net worth.

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**FIRST LIEN** The first right to hold property as security until the debt which it secures is paid. In real estate lending, the lien is evidenced by a first mortgage which has precedence over all other mortgages in case of default.

**FIXED PRICE CONTRACT** A type of contract where the price is preset and invariable, regardless of the actual costs of production. In construction, a contract between the developer and the general contractor where the contractor agrees to complete the project for its final bid.

**FORECLOSURE** The elimination of all rights of ownership and interest in a property through legal process after the owner has failed to satisfy the terms of a mortgage, trust deed or contract.

**FORGIVABLE LOAN** A loan with no repayment obligation if program requirements are met for a specific time period. Usually only provided by public sector programs.

**FUND BALANCE** The net worth of an organization, determined by subtracting the organization's liabilities from its assets.

**GENERAL CONTRACTOR** The main contractor for a building or project who may hire smaller, more specialized sub-contractors to perform actual labor, etc.

**GENERAL FUND BALANCE** The assets of a nonprofit in excess of liabilities that are unrestricted in their use. Also called unrestricted fund balance.

**GROSS RENT** The amount of total income expected to be derived from a property if all of the rentable space is leased.

**GUARANTEE OF PAYMENT** A pledge by a corporation or individual to provide repayment of a loan.

**HARD COSTS** The direct costs to construct a building or structure, otherwise known as "brick and mortar" costs, as distinguished from legal, financing, architects', and similar fees required for the project.

**INTEREST ONLY** A loan in which the payments represent only the interest for a period of time. The entire loan amount (principal) is then paid off in one lump sum payment when the loan is due.

**INTEREST RATE** The ongoing cost set by a lending institution for the use of its money, usually expressed as an annual percentage.

**JOINT VENTURE** A legal entity comprised of two or more parties working together on a project, usually limited to one project. Joint ventures may be represented in different forms of ownership.

**LETTER OF COMMITMENT** A letter from a lender, committing itself to lend a fixed sum of money to a specific borrower under specific terms subject to certain conditions being met by the

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borrower.

**LETTER OF CREDIT** An instrument or document issued by a bank guaranteeing the payment of a customer's drafts up to a stated amount for a specified period, for which the customer is charged a fee.

**LETTER OF INTEREST OR INTENT** A letter from a lender expressing its interest in reviewing an application for a loan. The letter does not represent a commitment to make a loan.

**LIQUIDITY** Amount of assets in cash or cash equivalents in excess of short-run liabilities.

**LOAN** Transaction wherein an owner of property, called the lender, allows another party, the borrower, to use the property. The borrower customarily promises to return the property after a specified period with payment for its use, called interest.

**LOAN CLOSING** Legal session where final loan documents are executed and loan is funded.

**LOAN REVIEW PROCESS** Financial process used by a lending institution to evaluate applications for loans.

**LOAN TERM** The amount of time over which a borrower is expected to repay the loan.

**LOAN-TO-VALUE RATIO** The ratio of money a lender is willing to loan relative to the appraised value of the property. Maximum loan-to-value ratios have been specified by banking regulators.

**MORTGAGE** Debt instrument by which the borrower (mortgagor) gives the lender (mortgagee) a lien on property as security for the repayment of a loan.

**MORTGAGE INSURANCE** An insurance policy obtained by the borrower, under which the public or private insuring entity pays all or some specified portion of a loan to the lender upon default of the borrower under the terms of the mortgage.

**MORTGAGE PAYMENT** Payment of money by the borrower to the lender according to an agreed upon schedule, as specified in the loan document.

**MORTGAGE RECORDING TAX** Fee for the filing of the written mortgage and related documents with public officials and entry into the public record.

**MULTI-FAMILY MORTGAGE** A loan for properties with three or more dwelling units.

**NET OPERATING INCOME (NOI)** The amount of income left after total operating expenses, but not the mortgage payment, have been paid out of effective gross income.

**NET WORTH** The value of assets over and above the liabilities of an individual or business.

**NO-INTEREST LOAN** A loan, primarily from a public sector program, for which the lender does not charge interest. Repayment of the loan may be made in periodic payments or in one lump sum at the due date.

**NON-BANK INSTITUTION** A non-repository institution such as a mortgage banker, life

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insurance company, or community loan fund which provides credit for housing needs.

**OPERATING AND MAINTENANCE EXPENSES** The ordinary expenses of operating and maintaining an income property, such as taxes, insurance, repairs, utilities, etc.

**OPERATING RESERVE** Funds set aside annually to be used to offset possible operating losses due to unexpectedly low rent collection or unusually high operating and maintenance costs.

**OWNER'S REPRESENTATIVE** The person designated as the official representative of the owner in connection with a project, especially in monitoring construction progress on site. (also known as Construction Manager)

**PARTNERSHIP** Legal entity formed by a contract between two or more people or firms in a joint business who agree to pool their funds and talents and share in the profits and losses of the enterprise.

**PAYMENT AND PERFORMANCE BOND** A bond obtained by a contractor from a surety company and offered by a contractor to a bank guaranteeing that it will pay its subcontractors and perform its work in accordance with the contract documents.

**PERMANENT LOAN** A long-term loan, usually with a term between 10 and 40 years, the proceeds of which are used to repay a construction loan.

**PLEGGED DEVELOPMENT FEES** Fees, earned by a developer for the construction of a project, that are used to satisfy part or all of the equity requirement for the loan. The payment of the fees to the developer is withheld until completion of the project.

**PRE-DEVELOPMENT FINANCING** Funding to cover upfront project costs—such as architectural, engineering, legal, and environmental services—that are incurred before the funds to pay for project construction are available to the developer.

**PRE-LEASING** Leases solicited prior to the beginning of construction in order to obtain a construction loan commitment. Pre-leasing is required by a lender to ensure adequate cash flow to repay the debt.

**PRE-SALES** Sales solicited prior to the beginning of construction on single family homes in order to obtain a construction loan commitment. Pre-sales are required by a lender to ensure adequate cash flow to repay the debt.

**PRIME RATE** The lowest rate charged by banks or commercial lenders on short-term loans to their best qualified customers. Also called the reference rate.

**PRO FORMA INCOME AND EXPENSES** Statement showing the projected annual income and operating expenses of a project.

**PROJECT RISK** The degree of likelihood that a project will not be completed on schedule and within budget or that a loan will not be repaid.

**RATE OF RETURN** Measure of the profitability of a project; usually calculated on an annual basis. Determined by dividing the income earned by the amount of owner's investment, (equity), in the project.

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**RECOVERABLE GRANT** A no-interest loan which has to be repaid to the private lender making the grant.

**REGULATORY AGENCIES** State or federal agencies responsible for the chartering of financial institutions, the development of regulations governing their operations, and for assuring the institutions' compliance with those regulations.

**RENT ROLL** Listing of tenants' lease terms and base rents.

**REQUISITION** Requests for payment by the general contractor for work completed.

**REQUISITION PROCESS** The process whereby the general contractor's requisitions are evaluated and construction loan proceeds are paid out to the developer over time as work on the project is completed.

**REPLACEMENT RESERVE** Funds set aside on an annual basis to be used to pay for anticipated replacement of parts of the physical plant of a building.

**RESERVES** Money set aside to pay for future anticipated expenses.

**RETAIL BANK** A commercial bank which emphasizes provision of banking services to consumers and small businesses.

**RETAINAGE** Portion of each payment of a general contractor's requisition under a construction loan held in reserve by the lender until the project is completed.

**RETURN ON RISK** Analysis to determine a level of return in line with the level of risk of a project.

**RISK-BASED CAPITAL REQUIREMENTS** Banking regulations which force lenders to place money in reserve against each loan made. The funds placed in reserve are adjusted for the risk of the loan so that the amount set aside in reserve increases as the risk of a loan increases.

**SAVINGS AND LOAN INSTITUTION** A financial intermediary which receives savings and traditionally reinvested those savings mainly in mortgage loans.

**SAVINGS BANK** A financial intermediary which receives savings and invests those deposits in mortgages and other securities allowed by law.

**SECURITY** Real or personal property collateral used to back up a mortgage or lien, which gives the lender tangible property that may be sold upon default to pay off the indebtedness.

**SELF-AMORTIZING LOAN** A loan whose repayment schedule is designed to retire the debt by the end of the mortgage term.

**SINGLE FAMILY** A property designed and zoned for use by a single dwelling.

**SITE CONTROL** Evidence that a developer has, or will have, control of a site by the time construction financing is approved.

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**SOFT COSTS** Expenses, other than hard costs, incurred in developing a real estate project. These costs include financial, architectural, and legal fees.

**SOURCES AND USES OF FUNDS** A schedule submitted as part of a financing application that identifies the different sources of funding for the construction of the project and provides a line-item identification of how those funds will be used in the construction process.

**SUBORDINATED LOAN** A loan that is repayable only after other debts with a higher claim have been satisfied.

**SURVEY** A legal record of the exact boundaries and location of a property, to be included with the title.

**TAX CREDITS** Tax benefits, granted for engaging in particular activities, that are subtracted on a dollar-for-dollar basis from taxes owed.

**THRIFT INSTITUTION** A financial intermediary that specializes in gathering the savings of individuals; savings and loan associations, savings banks, credit unions.

**TITLE INSURANCE** A policy of insurance which protects an owner or other party of interest against defects in title created by improper parties signing an instrument of conveyance, fraud, incompetency, etc.

**UNDERWRITING PROCESS** Process used to analyze the credit-worthiness of a loan application and to determine the terms and conditions of a loan.

**UNDERWRITING STANDARDS** Guidelines by which a loan is analyzed to ensure that it meets credit standards and that the terms and conditions of a loan are appropriate to its risk and maturity.

**VACANCY ALLOWANCE** The anticipated amount of income that will be lost during one year from rental property units remaining empty for a period of time. The "rule of thumb" is to use a 5% vacancy rate for residential projects and 10% for special needs and commercial projects.

**VALUE** The worth of a property as established by the willingness of a buyer to purchase it and a seller to sell it under terms accepted by both, both being fully informed of market conditions.

**WHOLESALE BANK** A bank which serves predominately large corporations, multinational companies, other financial institutions, and governmental agencies, with little or no consumer activity.

**ZONING** Local regulations establishing the use of property and the size, height, and location of structures placed on it.