GLOSSARY TERMS

- **Adjustable rate mortgage (ARM)**: Mortgage with an interest rate that can go up or down at pre-set intervals. Adjustments depend on changes in a financial market index selected by the lender
- **Amortization:** Repayment of a loan over a specified time through periodic payments of principal and interest.
- **Appraisal:** Professional estimate of a property's market value, usually based on market comparables, income potential or construction value.
- **Balloon:** Final payment on a debt that is substantially larger than the preceding payments. Loans or mortgages are structured with balloon payments when some projected event is expected to provide extra cash flow or when refinancing is anticipated.
- **Caps:** Limits set on periodic and total interest rate changes permitted with an adjustable rate mortgage (ARM).
- **Closing costs:** Fees paid by the buyer and seller at time property sale is completed (or often by the borrower when a loan is closed). These include points and other costs such as title, deed recording and appraisal.
- **Collateral:** Asset pledged to a lender until a loan is repaid. If the borrower defaults, the lender has the legal right to seize the collateral and sell it to pay off the loan.
- **Comparables:** A professional appraiser's estimate of similar properties in a local area used to establish a fair appraisal of a real estate asset. Used to show what similar properties that have recently been sold are worth in order to establish an up-to-date value for the property.
- **Debt Coverage Ratio (DCR):** Amount of cash flow from income or other sources that can be used to cover interest and principal payments of a loan. For instance, if a person has a $2,000 monthly mortgage payment and has income from all sources of $6,000 per month, then she has a 3X debt coverage ratio.
- **Equity:** The interest or value that the owner has (or contributes to) in real estate over and above the *liens* against it. For example, if a property has a value of $100,000 and the owner owes $80,000 in loans, the owner's equity is $20,000.
- **Grant:** Money, funds, assets or services given to a person or project without an obligation for that person or project to repay the value of the asset given.
- **Guarantor:** Someone who takes responsibility for payment of a debt or performance of some obligation if the person primarily liable fails to perform.
- **Hard costs:** Costs or expenses for "bricks and mortar" items. Hard costs include but are not limited to: acquisition of property, construction materials, etc.
- **Lien/lien position:** Creditor's claim against property. For example, a mortgage is a lien against a house; if the mortgage is not paid on time, the house can be seized to satisfy the lien.
- **Lien release:** A creditor or lender's acknowledgement that they have no further claim to a property.
- **Loan-To-Value:** A ratio that compares the loan amount to the appraised value of the collateral (property).

- **Mortgage:** Debt instrument by which the borrower (mortgagor) gives the lender (mortgagee) a lien on property as security for the repayment of the loan. The borrower has use of the property, and the lien is removed when the obligation is fully paid. A mortgage usually involves real estate.
- **Mortgagee / mortgagor:** Lender/borrower
- **Option:** Right to buy or sell property that is granted in exchange for an agreed-upon sum. If the right is not exercised after a specified period, the option expires and the option buyer forfeits the money.
- **Point:** One point equals one percent (1%) of the principal of the morgage loan. Points may be charged by the lender at closing.
- **Predevelopment:** Process and expenses that occur before the physical construction of the building and/or before the project is definite. Typically, these ***soft costs*** cannot be recovered if the project does not move forward. These feasibility steps include but are not limited to: environmental assessment, construction estimate, aligning community and political support, option agreements, appraisals, etc.
- **Principal:** Amount borrowed, excluding interest.
- **Pro Forma:** (from the Latin "according to form") Financial statement or development budget that shows expected income and expenses
- **Security:** Collateral offered by a debtor to a lender to secure a loan called collateral security. For instance, the security behind a mortgage loan is usually the real estate being purchased with the proceeds of the loan.
- **Soft costs:** Costs or expenses for items other than "bricks and mortar" (hard costs). Soft costs include but are not limited to: environmental assessment, construction estimate, aligning community and political support, option agreements, appraisals, architectural fees, etc.
- **Tax credits:** A significant source of capital for affordable housing projects. Investors contribute money to the project in exchange for a reduction in their federal taxes.
- **Title:** Legal document establishing proof of real estate ownership.