Key CRE lending Terms:

-Loan Types:

**Permanent Financing** (for 1-4 unit investment and pure commercial properties): This is a loan for a property that is already fully renovated and leased up (meaning all units are rented out or at least rent ready). For pure commercial properties the units actually need to be rented. For 1-4 unit investment properties the units just need to be rent ready. DSCR (Debt Service Coverage Ratio) on the property should generally be 1.20 or more.

**Permanent Loan**

A [permanent loan](https://www.c-loans.com/knowledge-base/permanent-loans-1) is a garden-variety first mortgage on a commercial property.  It will have a term of at least 5 years and some amortization; i.e., the payment will contain some portion of principal pay down.  Most commercial loans are amortized over twenty-five years.

**Portfolio Loan**

A [portfolio loan](http://info.c-loans.com/banks-make-commercial-loans-on-these-properties) is a (commercial) real estate loan that the lender has no intention of ever selling off.  The loan, as long as its prudent, therefore does not need to be underwritten in a standard manner.

**Portfolio Loan/Blanket Loan**- One loan on several different properties. Sometimes they are also called portfolio loans.

**Bridge Loan**- (This is a commercial real estate loan for any property type that needs to be bought or refinanced very quick (30 days or less) and is already stabilized or needs to become stabilized. This is a value-add situation. No renovations need to be done to this property. Sometimes a borrower also needs to go into a bridge loan b/c they need to refinance or purchase a property and their fico scores are under 600 and they do not qualify for permanent financing.)

**Ground Up Construction** (This is for a property that needs to be built ground up. Ground up construction involves starting a building project from a parcel of land and working toward a finished building.)

**Rehab Loan Submission:** A commercial real estate loan on a property needing renovations. Most of the times these properties are vacant. We do these loans for 1-4 Unit investment properties and pure commercial properties (Ex. Strip Mall, Self-Storage facility, Multi Family Building 5+ units).

**TRANSACTIONAL FUNDING / WHOLE SALE DEAL**- This is for a wholesaler that is looking to do a double close in one day. They are buying a property from party A and going to “wholesale” it to an end buyer, Party C, for more. Our Wholesaler is always Party B in the transaction.

-Documents:

-Key words:

-Lender: A company that lends out money to borrowers in need.

-Loan Officer: A person that works for a lender whose job is to originate and bring loans into the company.

-Loan Processor: A person that works for a lender whose job is to go through loan documents and make sure they are correct/make sense. They often coordinate with 3rd parties such as appraiser/AMC, title companies, law offices, insurance professionals, pay off lender, survey, environmental.

-Underwriter: Go through the loan file and give a final approval, or request more revisions, and issues the clear to close.

-Loan Funder: Employee at a lenders office that acknowledges the Clear to Close and then makes sure loan documents are sent to the title company for closing. Once those loan documents are sent make that funder sends their wire to the title company.

-CTC: Clear to Close

-EMD- Earnest Money Down

-Credit Committee-

-Mortgage Broker

-Appraiser

-Title Company/Closing Attorney

-CPL- Closing Protection Letter

-Surveyor

\*-Fico:  Credit Scores, our lenders always go off the middle score.
\*-Loan Term: How long the interest rate on the loan is fixed for. Also called an ARM in our business.

\*-Loan Amortization-

-Fixed Term
\*-LTV: Loan to Value.

\*-ARV: After Repair Value. The value of the property once all construction is done.

-Draws:

-Site Inspector
-Interest Rate:
-Property Types: NNN Lease Tenant, Special Use Property

-Turn-Key property loans: Fully rehabbed and ready to rent property
-Pre-Payment Penalty:

-Exit Fee:

-Interest Guarantee: an amount of interest only payments the lender wants to receive to do the deal.
-Use of Funds:
-Points:

-LOC- Line of Credit. Rehab

-Par:
Par in the agency world means that our origination fee gets built into the rate and on these deals normally that is what happens. However we have no issue doing it with our fee being built outside of the rate making this a fee deal vs par.

YSP-

**Lending Territory:** States and cities the lender lends in
**Closing Time Frame:** The average time it takes the lender to close the loan
**Experience Requirement**:

**Asset Verification:** How the lender verifies the borrower has the assets to close the loan. Lenders request bank statements proving this.

**Liquidity Requirement:** How much money the borrower must already have on hand, prior to the lender closing the loan.

**Construction draws:**

1st position loan-

2nd position loan

Lien- a right to keep possession of property belonging to another person until a debt owed by that person is discharged. A lien is a form of security interest granted over an item of property to secure the payment of a debt or performance of some other obligation. The owner of the property, who grants the lien, is referred to as the lienee and the person who has the benefit of the lien is referred to as the lienor or lien holder.

Mortgage- A mortgage is a [debt instrument](https://www.investopedia.com/terms/d/debtinstrument.asp), secured by the collateral of specified real estate property, that the borrower is obliged to pay back with a predetermined set of payments.

Deed- a legal document that is signed and delivered, especially one regarding the ownership of property or legal rights. convey or transfer (property or rights) by legal deed."they **deeded** their property **to** their children"

Contract for Deed- Under a Contract for Deed, the buyer makes regular payments to the seller until the amount owed is paid in full or the buyer finds another means to pay off the balance. The seller retains legal title to the property until the balance is paid; the buyer gets legal title to the property once the final payment is made. If the buyer defaults on the payments, the seller can repossess the property. In some states, a seller who repossesses a property must reimburse the buyer for the fair value of improvements to the house, as well as a reasonable amount for rent.

Contracts for deeds are valid options, and even the primary option for **seller financing** in most states.

<https://www.rocketlawyer.com/article/what-is-a-contract-for-deed-ps.rl>

Chapter 13- A **chapter 13** bankruptcy is also called a wage earner's plan. It enables individuals with regular income to develop a plan to repay all or part of their debts. Under this **chapter**, debtors propose a repayment plan to make installments to creditors over three to five years.

Chapter 11- form of a bankruptcy. **Chapter 11** is a form of bankruptcy that involves a reorganization of a debtor's business affairs, debts, and assets. Named after the U.S. bankruptcy code **11**, corporations generally file **Chapter 11** if they require time to restructure their debts. This version of bankruptcy gives the debtor a fresh start.

Chapter 7- form of a bankruptcy. A **chapter 7** bankruptcy case does not involve the filing of a plan of repayment as in **chapter** 13. Instead, the bankruptcy trustee gathers and sells the debtor's nonexempt assets and uses the proceeds of such assets to pay holders of claims (creditors) in accordance with the provisions of the Bankruptcy Code.

-Foreclosure- Foreclosure is a legal process in which a lender attempts to recover the balance of a loan from a borrower who has stopped making payments to the lender by forcing the sale of the asset used as the collateral for the loan.

-Short Sale- A short sale is a sale of real estate in which the net proceeds from selling the property will fall short of the debts secured by liens against the property. In this case, if all lien holders agree to accept less than the amount owed on the debt, a sale of the property can be accomplished.

-SREO- Schedule Real Estate Owned. Also

Real estate owned or REO is a term used in the United States to describe a class of property owned by a lender—typically a bank, government agency, or government loan insurer—after an unsuccessful sale at a foreclosure auction

Personal Guarantor/ PG

**Debt Service Coverage Ratio.**

The [Debt Service Coverage Ratio](https://www.c-loans.com/knowledge-base/debt-service-coverage-ratio) is defined as the Net Operating Income of the proposed project, as projected by the appraiser, divided by the annual principal and interest payments on the proposed takeout loan.  A takeout loan is just a garden-variety permanent loan that pays off a construction loan.  Remember, the construction loan will only have a 12 to 18 month term.  As soon as the project is constructed and leased out, the developer will rent it out.  When it is 90% occupied, the developer will apply to a permanent lender, typically a money center bank, for his takeout loan.

Debt Service Coverage Ratio = Net Operating Income / Proposed Annual Payment on the Takeout Loan

The Debt Service Coverage Ratio is customarily expressed to two digits, such as 1.17 or 1.32.  The Debt Service Coverage Ratio must usually exceed 1.25.  In other words, the projected Net Operating Income, as determined by the independent appraiser selected by the bank, must be at least 125% of the annual principal and interest payment on the proposed takeout loan.

-Cap Rate- **Capitalization rate** (or "**cap rate**") is a [real estate valuation](https://en.wikipedia.org/wiki/Real_estate_appraisal) measure used to compare different [real estate investments](https://en.wikipedia.org/wiki/Real_estate_investing). Although there are many variations, a cap rate is often calculated as the ratio between the [net operating income](https://en.wikipedia.org/wiki/Earnings_before_interest_and_taxes) produced by an [asset](https://en.wikipedia.org/wiki/Asset) and the original [capital cost](https://en.wikipedia.org/wiki/Capital_cost) (the [price](https://en.wikipedia.org/wiki/Price) paid to buy the asset) or alternatively its current [market value](https://en.wikipedia.org/wiki/Market_value).

-Seasoning- on relates on a refinance

-LOI

-CLA-

-Purchase and Sales Agreement / Agreement of Sale- AOS, PSA, Contract

**Dutch Interest-** Interest is being charged on the full loan amount from day one.

**Dutch interest** is an **interest** accruing technique included in construction loans.  **Interest** is accrued on an entire loan even though the loan money is paid out at different times in advancements.

-Interest Reserve- **Interest Reserve**. A **reserve** account held by the lender of a construction loan and used by the borrower to cover loan **interest** shortfalls during construction and lease-up.

-Interest Guarantee-

-Primary Market-

-Secondary Market/ Sub-prime-

-Fannie- https://www.fanniemae.com/portal/about-fm/lending.html

Fannie Mae is a leading provider of mortgage financing in the U.S. We support the market with:

* Liquidity – providing financial capital to help make mortgages available.
* Accessibility – expanding access to credit to better serve the needs of today’s buyers.
* Stability – working toward a safer housing finance system.

We don't provide mortgages to consumers, but we do help provide liquidity for the housing market. We provide the financing lenders need, so buyers have access to mortgages. That includes the popular 30-year, fixed-rate mortgage, which provides predictable, stable payments over the life of the loan. Without this option, homeownership would be unattainable for many.

They also provide LARGE MF 5+ unit mortgages, typically loan amounts are over 1M

-Freddie- The Federal Home Loan Mortgage Corporation, known as Freddie Mac, is a public government-sponsored enterprise, headquartered in Tysons Corner, Virginia. Freddie Mac is ranked No. 38 on the 2018 Fortune 500 list of the largest United States corporations by total revenue.

<https://en.wikipedia.org/wiki/Freddie_Mac>

-SBA- Small Business Administration

<https://en.wikipedia.org/wiki/Small_Business_Administration>

The **U.S. Small Business Administration** (**SBA**) is a [United States government](https://en.wikipedia.org/wiki/United_States_government) agency that provides support to [entrepreneurs](https://en.wikipedia.org/wiki/Entrepreneurship) and [small businesses](https://en.wikipedia.org/wiki/Small_businesses). The mission of the Small Business Administration is "to maintain and strengthen the nation's economy by enabling the establishment and viability of small businesses and by assisting in the economic recovery of communities after disasters". The agency's activities are summarized as the "3 Cs" of capital, contracts and counseling.[[3]](https://en.wikipedia.org/wiki/Small_Business_Administration#cite_note-3)

**SBA loans are made through banks, credit unions and other lenders who partner with the SBA. The SBA provides a government-backed guarantee on part of the loan. Under the Recovery Act and the Small Business Jobs Act, SBA loans were enhanced to provide up to a 90 percent guarantee in order to strengthen access to capital for small businesses after credit froze in 2008. The agency had record lending volumes in late 2010.**[**[4]**](https://en.wikipedia.org/wiki/Small_Business_Administration#cite_note-4)

SBA helps lead the federal government's efforts to deliver 23 percent of prime federal contracts to small businesses. Small business contracting programs include efforts to ensure that certain federal contracts reach woman-owned and service-disabled veteran-owned small businesses as well as businesses participating in programs such as 8(a) and HUBZone.[[5]](https://en.wikipedia.org/wiki/Small_Business_Administration#cite_note-5) Another resource the SBA launched earlier this year is the SBA Franchise Directory, aimed to connect entrepreneurs to lines of credit and capital in order to grow a business.[[6]](https://en.wikipedia.org/wiki/Small_Business_Administration#cite_note-6)

Collateralize

FHA-

**Acceleration Clause**

The [acceleration clause](http://info.c-loans.com/commercial-loans-and-second-mortgages) is the section in a mortgage that says if the borrower sells the property or places a second mortgage / mezzanine loan on the property that the bank can immediately demand to be paid in full.

**\*Asset-Backed Security**

A bond that is backed by a mixed collection of security, such as car loans, credit card paper, aircraft loans, scratch-and-dent residential loans, and supprime commercial loans.

**B-Piece Buyer**

The [B-piece buyer](http://info.c-loans.com/huge-development-in-commercial-mortgage-backed-securities) is the buyer of the mortgage-backed bonds rated lower than BBB by Standard & Poors.  The B-piece is often called the first loss piece, and it is by far the riskiest investment in the offering.  B-piece buyers enjoy a lot of power because without someone to buy the first loss piece, the offering will fail.  They therefore enjoy very high yields , sometimes as high as 20%.  They also enjoy the right to kick weak loans out of the mortgage pool, creating thereby scratch-and-dent loans that have to be sold off by the sponsor of the offering at a discount.

**\*Black Hair**

A black hair is a slang term used in the commercial real estate finance community to describe a flaw, deficiency, or weakness in a commercial loan application.  In real life, virtually every commercial loan application has at least one or two black hairs.

**\*Bond**

A [bond](http://info.c-loans.com/huge-development-in-commercial-mortgage-backed-securities) is just a garden variety promissory note whereby some borrower promises to pay back some money to some investor.  Bonds are typically issued by companies or trusts, as opposed to by individuals.

A **bond** is a contract between two parties. Companies or governments issue **bonds**because they need to borrow large amounts of money. They issue **bonds** and investors buy them (thereby giving the people who issued the **bond** money). ... This means that at some point, the **bond** issuer has to pay back the money to the investors.

**\*Buy-to-Rent Loans**

[Buy-to-rent loans](http://info.c-loans.com/fix-and-flip-loans-and-buy-to-rent-loans) are loans made to investors to allow them to buy residential properties (1-4 family dwellings), usually single family residences, and then rent them out for the long term.

**Capital Stack**

The [capital stack](http://info.c-loans.com/bid/91360/Commercial-Loans-Mezzanine-Loans-and-Senior-Stretch-Financing) is the sum of the first mortgage plus any second mortgage plus any mezzanine loans plus any preferred equity plus the buyer's downpayment or the developer's equity contribution.  In plain English, its the sum of all of the pieces of food that make up the whole hamburger; e.g., the first bun, the beef patty, the cheese, the onion, the lettuce, and finally the second slice of the bun.

**\*Contingency Reserve**

The [Contingency Reserve](http://info.c-loans.com/commercial-loans-mezzanine-loans-preferred-equity-and-venture-equity) is that part of the construction loan budget that is reserved to cover cost overruns.  It is usually calculated as 5% of hard and soft costs.

**Credit Tenant Lease Financing (CTL Financing)**

[Credit tenant lease financing](http://info.c-loans.com/bid/53475/Commercial-Financing-with-a-Credit-Tenant-Lease-CTL-Financing) is a method of financing real estate at a very low interest rate. The landlord borrows money to finance the property and pledges as security the rents to be received from the investment grade tenant. Usually the financing is structured as nonrecourse debt, and the loan is fully-amortized over the term of the lease.  Credit tenant leases may be created either in sale/leaseback transactions or new purchase transactions.

**Credit Tenant Lease**

A [credit tenant lease](http://info.c-loans.com/bid/53475/Commercial-Financing-with-a-Credit-Tenant-Lease-CTL-Financing) is a long-term lease on a triple-net (NNN) basis to an investment grade company - a company with a credit rating from Standard and Poor's of BBB or better.  A commercial building leased on a long-term, NNN basis to CVS Pharmacy is an example of a credit tenant lease.

**Collar**

A floater, a large adjustable rate commercial loan, with both a cap and a floor is said to have a [collar](http://info.c-loans.com/topic/collar).  The borrower will usually want some sort of interest rate ceiling or cap. The lender will usually want some of floor on the loan. These interest rate caps cost money - usually an extra point or two. Sometimes a borrower can "pay" for his cap by agreeing to a floor. For example, a borrower can pay two extra points for a 4% ceiling; but if he agrees to a floor equal to the start rate, the lender might waive the two-point cap fee.

**Core Asset**

A [core asset](http://info.c-loans.com/archive/2011/01) is an essential asset for a business, an asset without which a business cannot carry on its main activity.  For commercial real estate investors, their core assets are those commercial-investment properties that can be relied upon to stay rented and generate cash flow, even in the severest of recessions.  Typically core assets are Class A office buildings, R&D buildings, and retail centers that are leased to very strong tenants.

**\*Crowd-Funding**

[Crowd-funding](http://info.c-loans.com/peer-to-peer-lending-crowd-funding-and-commercial-loans) is the practice of funding a project or venture by raising many small amounts of money from a large number of people, typically via the Internet.  The difference between peer-to-peer lending and crowd-funding is that P2P lending typically involves small loan amounts ($5,000 to $50,000), and just one investor lends the entire loan amount. Crowd-funding can sometimes involve much larger amounts, where lots of different investors chip in a little bit to make the loan or the equity investment.

 \***Debt Yield Ratio**

The [Debt Yield Ratio](https://www.c-loans.com/knowledge-base/debt-yield-ratio) is defined as the Net Operating Income (NOI) divided by the first mortgage debt (loan) amount, times 100%.  For example, let's say that a commercial property has a NOI of $437,000 per year, and some conduit lender has been asked to make a new first mortgage loan in the amount of $6,000,000.  Four-hundred thirty-seven thousand dollars divided by $6,000,000 is .073.  Multiplied by 100% produces a Debt Yield Ratio of 7.3%.  What this means is that the conduit lender would enjoy a 7.3% cash-on-cash return on its money if it foreclosed on the commercial property on Day One.The Debt Yield Ratio is defined as the Net Operating Income (NOI) divided by the first mortgage debt (loan) amount, times 100%.  For example, let's say that a commercial property has a NOI of $437,000 per year, and some conduit lender has been asked to make a new first mortgage loan in the amount of $6,000,000.  Four-hundred thirty-seven thousand dollars divided by $6,000,000 is .073.  Multiplied by 100% produces a Debt Yield Ratio of 7.3%.  What this means is that the conduit lender would enjoy a 7.3% cash-on-cash return on its money if it foreclosed on the commercial property on Day One.

**Defeasance**

[Defeasance](https://www.c-loans.com/knowledge-base/conduit-loans) is the substitution of government securities for the property as collateral. A Borrower desiring to obtain a release of its property from the trust may purchase and pledge to the trust a collection of government securities that are specifically selected to generate sufficient cash to make all monthly payments due on the loan through and including any balloon payment due on the maturity date. Defeasance is not prepayment. Technically the note remains outstanding, but is repaid from cash flow from the government securities purchased rather than through cash flow generated by a property. The property is released to the Borrower free from the mortgage lien.  In an interest rate environment higher than the loan coupon, a Borrower may even be able to defease for legal, accounting and rating agency fees.  Defeasance is prohibited for at least the first two years following securitization due to REMIC prohibitions on substitution of collateral.

**\*DIP Financing**

[DIP Financing](http://info.c-loans.com/commercial-loans-in-bankruptcy) stands for Debtor-in-Possession Financing.  The borrower is in a Chapter 11 bankruptcy, and the Bankruptcy Court authorizes some additional secured financing, often to protect the assets of the debtor.  Usually the existing secured creditors must subordinate to this new secured financing.

**\*Doors**

Apartment units are sometimes called [doors](http://info.c-loans.com/commercial-loans-rental-rolls-and-schedules-of-leases).

**\*End Loan/Take Out Loan**

An [end loan](http://info.c-loans.com/topic/commercial-mortgage-terminology) is a permanent loan that is used specifically to pay off a construction loan.  Takeout loans are more commonly known as takeout loans.  All takeout loans are permanent loans, but not all permanent loans are takeout loans.  For example, a refinance used to pull equity out of a property would be a permanent loan but not a takeout loan.

**\*Equity**

In the context of commercial real estate development, [equity](https://www.c-loans.com/knowledge-base/equity-for-commercial-projects) is the sum of the capital that the developer has in the proposed construction project - including his down payment on the land and his prepaid costs, like archtectural fees and engineering fees - plus any value that the developer has added through his efforts - like assembling contiguous parcels and getting the property rezoned.

**\*Exit Fee**

An [exit fee](http://info.c-loans.com/what-is-a-standby-takeout-commitment) is a fee owed to a commercial real estate lender when a loan pays off - regardless of whether you pay the loan off early, late, or exactly at maturity.  It's like a prepayment penalty that you just can't escape.  It is a way for a commercial lender to earn a higher yield, without raising the interest rate so high that the monthly payments destroy the borrower or without raising the points so high that the borrower can't get enough proceeds from the loan.

**Experience-Based Retail**

[Experience-based retail](http://info.c-loans.com/commercial-loans-and-experience-based-retail) is shopping that is fun, interesting, and intellectually-stimulating, where the retailer often provides extraordinary service and where the center often provides dining and/or entertainment.

**FinTech**

[FinTech](http://info.c-loans.com/peer-to-peer-lending-crowd-funding-and-commercial-loans) is short for financial technology. FinTech is a line of business based on using software to provide financial services. Financial technology companies are generally startups founded with the purpose of disrupting incumbent financial systems and corporations that rely less on software. Peer-to-peer lenders and crowd-funding companies are all examples of FinTech companies.

**Fix and Flip Loans**

A [fix and flip loan](http://info.c-loans.com/fix-and-flip-loans-and-buy-to-rent-loans) is a short-term loan used to acquire a one-to-four family dwelling and then to renovate it in anticipation of an immediate sale.

**Floaters**

[Floaters](http://info.c-loans.com/topic/collar) are adjustable rate commercial mortgage loans with a term of usually only five years. Floaters are typically large commercial loans written on conduit-quality commercial properties.  They are usually readjusted monthly according to changes in one-month LIBOR. A typical margin is 300 to 400 basis points.  During the fear and confusion of the Great Recession, when conduit lending almost completely dried up, floaters were made by the large money center banks instead to tide the borrowers over until calm returned to the market.

**Forward Takeout Commitment**

A [forward takeout commitment](https://www.c-loans.com/pre_joomla/takeout_loan.html) is a letter from life company or other bankable commercial mortgage lender promising to provide a takeout loan, upon request of the borrower, twelve to twenty-four months in the future.  All forward takeout commitments contain conditions, the most important of which is that the property be built in a workmanlike manner according to the plans and specifications and that the property be at least 90% to 95% leased out at the projected rents or higher.  Forward takeout commitments typical cost the borrower **just for the letter** one to two points at the time of issuance, plus an additional one-half point to one full point if the borrower eventually asks the lender to fund his loan.  Forward takeout commitments are extremely rare modernly.

**Gateway City**

A [gateway city](http://info.c-loans.com/commercial-loans-and-the-definition-of-a-gateway-city), as it relates to commercial real estate finance, is a very large city, containing over 1,000,000 residents and a number of first-tier universities, where young, ambitious executives feel safe living and walking the streets of downtown.  These are the cities where new industries are most likely to be created and where new workers are most likely to be hired.

**Gross Rent Multiplier**

The [Gross Rent Multiplier](http://info.c-loans.com/commercial-loans-and-the-gross-rent-multiplier) is defined as the Market Value divided by the Gross (Annual) Rents of an apartment building.  Put another way, you can roughly value an apartment building by multiplying the Gross (Annual) Rents by the correct Gross Rent Multiplier.

**Hard Costs**

The [hard costs](https://www.c-loans.com/pre_joomla/educational_pages/construction_loans/commercial_construction_hard_costs.html) are a part of a construction loan budget.  Included in hard costs are all of the costs for the visible improvements, including such line items as grading, excavation, concrete, framing, electrical, carpentry, roofing, and landscaping.  Another way to describe hard costs are the "brick and mortar" expenses.

**Horizontal Improvements**

To make horizontal improvements means to clear the land, to grade it, to bring utilities (water, sewer, gas, electricity) to the site, and to construct roads, curbs, and gutters.

**Investment Bank**

An [investment bank](http://info.c-loans.com/topic/commercial-mortgage-terminology) is just a fancy name for a stock broker.  An investment bank takes companies public (issues Initial Public Offerings) and maintains a market in the shares of the company.

**Investment Grade**

An investment is considered [investment grade](http://info.c-loans.com/huge-development-in-commercial-mortgage-backed-securities) if it is rated BBB or better by Standard & Poors.

**\*Keys**

Hotel rooms, especially in hotels with suites, are often called [keys](http://info.c-loans.com/commercial-loans-rental-rolls-and-schedules-of-leases).  This is a 200-key hotel.  Rooms is a confusing term when a hotel has suite units that have more than one room each.

**\*Loan-to-Cost Ratio**

The most important ratio in commercial construction loan underwriting is, by far, the [Loan-To-Cost Ratio](https://www.c-loans.com/pre_joomla/loan_to_cost_ratio.html).  The Loan-to-Cost Ratio is the construction loan amount divided by the total cost of the project, the result being mutiplied by 100%.

Loan-To-Cost Ratio = (Construction Loan Amount / Total Project Cost) x 100%

Loan-to-Cost Ratio's look like this:  86.1% LTC or 80.0% LTC or 76.4% LTC.  Obviously the lower the Loan-to-Cost Ratio, the safer the loan is for the bank.

**\*Loan-to-Value Ratio**

The [Loan-to-Value Ratio](https://www.c-loans.com/knowledge-base/loan-to-value-ratio-for-commercial-loans), as it pertains to underwriting a commercial construction loan, is defined as the Fully-Disbursed Construction Loan Amount divided by the Value of the Property When Completed, as determined by an independent appraiser selected by the bank, all times 100%.

Loan-to-Value Ratio = (Fully-Disbursed Construction Loan Amount / Value of the Property When Completed) x 100%

Generally banks want this loan-to-value ratio to be 75% or less on typical commercial-investment properties (rental properties like multifamily, office, retail, and industrial) and 70% or less on business properties, such as hotels, assisted living facilities, and self storage facilities.

**Lockout Clause**

A [lock-out clause](http://info.c-loans.com/commercial-loans-from-life-insurance-companies) is an absolute prohibition against an early prepayment.  Let's suppose you have a $7 million commercial loan from a conduit, and you win a $50 million lottery.  You trot down to your mortgage company and hand them $7 million in cash to pay off your loan.  Three days later you're likely to receive a certified letter, along with a cashiers check for $7 million, saying, "Sorry, sir, but prepayments are prohibited."

Typically commercial real estate loans from life insurance companies and conduits have a lock-out clause for the first half of the term (the first five years of a ten-year loan), followed by a very larege defeasance prepayment penalty.

**Major Loans**

Commercial construction loans, bridge loans, or permanent loans larger than $5 million are referred to, within most banks, as [Major Loans](http://info.c-loans.com/how-to-screen-large-commercial-loans).  Commercial loans smaller than $5 million ($7.5 million) are considered to be [small balance commercial loans](http://info.c-loans.com/commercial-loans-and-the-size-of-the-bank).

**Merchant Bank**

A [merchant bank](http://info.c-loans.com/what-is-a-merchant-bank) is a financial institution that provides capital to companies in the form of share ownership instead of loans. A merchant bank also provides advisory services on corporate matters to the firms in which they invest.  Merchant bankers are go-go investors.  They are almost like speculators.  They take very high risks in order to earn very high returns.  Caution:  There are only a tiny number of true merchant bankers in the whole world.  If some mortgage company claims to be a merchant banker, he is usually either blowhard or a crook, out to steal your advance fee.

**\*Mezzanine Loan**

A [mezzanine loan](https://www.c-loans.com/knowledge-base/mezzanine-loans) is similar to second mortgages, except a mezzanine loan is secured by the stock of the corporation that owns the property, as opposed to the real estate.  Because stock is personal property and not real property, a lender can foreclose on a mezzanine loan in just 5 weeks, as opposed to 18 months.

**\*Mini-Perm**

[Mini-perms](http://info.c-loans.com/topic/commercial-mortgage-terminology) are short term commercial first mortgages, typically made by commercial banks at interest rates that are much lower than those offered by bridge lenders.  Most mini-perms are written at a floating rate, typically at 1.5% to 2% over prime.  Mini-perms typically have a term of two years or three years.  Occassionally a mini-perm will have a term as long as five years.  Many times mini-perms are written as interest-only loans.

Mini-perms are most often created as part of a construction loan request.  Rather than demanding that the developer find a forward takeout commitment (very difficult!), a commercial bank might offer its own forward takeout commitment in the form of a mini-perm.  The advantage to the bank is that the bank gets to charge an extra one-point for the forward takeout commitment.  In real life, the developer will seldom exercise his commitment for the mini-perm because the mini-perm has a floating rate.  Yuck!  Once a commercial property is completed and leased, its easy to find attractive, fixed rate financing.

**Mortgage-Backed Security**

A [mortgage-backed security](http://info.c-loans.com/huge-development-in-commercial-mortgage-backed-securities) is a bond secured by a portfolio of mortgages.  These could be residential mortgages or commercial mortgages, but usually not both.

**Net-Worth-to-Loan-Size Ratio**

The [Net-Worth-to-Loan-Size Ratio](https://www.c-loans.com/knowledge-base/net-worth-to-loan-size-ratio) is defined as the Net Worth of the Developer divided by the Construction Loan Amount.

Net-Worth-to-Loan-Size Ratio = Net Worth of the Developer / Construction Loan Amount

This ratio usually must exceed 1.0.  In other words, the developer needs to be worth more than the amount of the construction loan.   After all, a bank doesn't want borrowers with a modest $800,000 net worth borrowing $5 million from the bank.  What if the loan goes bad?  What if there is a cost overrun?  What if apartment rents plummet while the proposed apartment building is under construction?  If the borrower's net worth is only $800,000, what could he possibly sell to raise enough cash to rescue a $5 million project?

**New-Money-to-Old-Money Ratio**

This ratio is used by a commercial lender when considering whether to make a commercial second mortgage loan.  The [New-Money-to-Old-Money Ratio](http://info.c-loans.com/commercial-loans-and-second-mortgages) is defined as the size of the proposed second mortgage divided by the size of the first mortgage, the dividend (result) being multiplied by 100%.  The New-Money-to-Old-Money Ratio should always be larger than 33%.

New-Money-to-Old-Money Ratio = (Size of Second Mortgage / the Size of First Mortgage) x 100%

**Open-Ended Construction Loan**

A commercial construction loan made without the requirement of a forward takeout commitment is known as an [open-ended construction loan](http://info.c-loans.com/what-is-a-standby-takeout-commitment).  Most commercial construction loans made today are open-ended.  Also known as an uncovered construction loan.

**Pads**

Spaces in a mobile home park are most properly called [pads](http://info.c-loans.com/commercial-loans-rental-rolls-and-schedules-of-leases).  Spaces is also ac acceptable term, especially for one-star and two-star mobile home parks and trailor parks.

**Peer-to-Peer Lending**

[Peer-to-peer lending](http://info.c-loans.com/peer-to-peer-lending-crowd-funding-and-commercial-loans) is the practice of lending money to individuals or businesses through online services that match lenders directly with borrowers. It is sometimes abbreviated P2P lending. The important thing to understand about peer-to-peer lending is that there is no bank involved. A single private investor is lending money directly to a private borrower.  The difference between peer-to-peer lending and crowd-funding is that P2P lending typically involves small loan amounts ($5,000 to $50,000), and just one investor lends the entire loan amount. Crowd-funding can sometimes involve much larger amounts, where lots of different investors chip in a little bit to make the loan or the equity investment.

**Permanent Loan**

A [permanent loan](https://www.c-loans.com/knowledge-base/permanent-loans-1) is a garden-variety first mortgage on a commercial property.  It will have a term of at least 5 years and some amortization; i.e., the payment will contain some portion of principal pay down.  Most commercial loans are amortized over twenty-five years.

**Portfolio Loan**

A [portfolio loan](http://info.c-loans.com/banks-make-commercial-loans-on-these-properties) is a (commercial) real estate loan that the lender has no intention of ever selling off.  The loan, as long as its prudent, therefore does not need to be underwritten in a standard manner.

**Primary Location**

A [primary location](http://info.c-loans.com/commercial-loans-primary-locations-and-secondary-locations), in terms of commercial real estate finance, is one of the most desireable locations in a gateway city in terms of traffic count, accessibility, safety, and affluence of the neighborhood.  In other words, a lot of Lexus'es, Mercedes, and BMW's need to be driving by.  You will rarely find a life company lending in a city of less than 500,000 residents.

**Profit Ratio**

Just about the last thing that a bank wants is for the developer to skip out of town before completing a project.  This most frequently happens when the developer runs into cost overruns, and the developer realizes that there is no point in completing the construction.  He won't be able to sell the property at a profit anyway because of the cost overruns.  Banks therefore insist on verifying first that the developer stands to earn a good projected profit going into the deal, just in case there are cost overruns.  If the projected profit is huge, then the developer has a capitalistic incentive to stick around, even if there are cost overruns. The Projected Profit of a construction project is the Value of the Property Upon Completion minus the Total Cost.

Projected Profit =  Value of the Property Upon Completion - Total Project Cost

The [Profit Ratio](https://www.c-loans.com/knowledge-base/profit-ratio) is defined as the Projected Profit divided by the Total Cost, all times 100%.

Profit Ratio = (Projected Profit / Total Cost) x 100%

The general rule is that bankers want the Profit Ratio to be larger than 20.0%.

**REIT**

A [REIT](http://info.c-loans.com/what-is-a-standby-takeout-commitment) is a real estate investment trust, sort of like a mutual fund that buys and operates commercial buildings.  REIT's are exempt from Federal income taxes, as long as they pass 90% of their earnings through to their sharehodlers.  There are several hundred property investment REIT's.  Therer are also about two-dozen mortgage REIT's that either make expensive bridge loans or buy risky mortgage-backed securities.

**Rent Roll**

A [Rent Roll](http://info.c-loans.com/commercial-loans-rental-rolls-and-schedules-of-leases) is a list of the tenants by unit number and the amount of each tenant's monthly rent.  If the property is an apartment building, the Rent Roll will also contain the number of bedrooms and bathrooms in each unit and sometimes the square footage of the unit.  If the property is a mobile home park, the Rent Roll will list whether the home on the pad is a single-wide, double-wide, or triple-wide.  If the property is a self storage facility, the Rent Roll will always contain the square footage of the unit.

**Repricing a Commercial Loan**

[Repricing](http://info.c-loans.com/repricing-of-commercial-loans) occurs when a life company, conduit, or commercial bank - after it has issued a term sheet and completed its third party reports - raises its interest rate on a commercial loan already in process.  This normally occurs only after a significant negative event in the bond market.

**Risk Retention**

After December of 2016, sponsors of mortgage-backed securities are required by the Dodd-Frank Act to [retain 5% of the offering](http://info.c-loans.com/huge-development-in-commercial-mortgage-backed-securities) in their own portfolios as an incentive not to put risky loans into the mortgage pool.

**Schedule of Leases**

A [Schedule of Leases](http://info.c-loans.com/commercial-loans-rental-rolls-and-schedules-of-leases) is a summary of the tenants in a commercial building that contains the (1) unit number or letter; (2) the name of the tenant; (3) the square footage of the unit; (4) the amount of the monthly rent; (5) the lease expiration date (and sometimes the starting date of the tenancy); and (6) any rent contribution paid by the tenant.

**Scratch-and-Dent Loan**

A [scratch-and-dent loan](http://info.c-loans.com/huge-development-in-commercial-mortgage-backed-securities) is one that is flawed and has been kicked out of the pool of loans that some sponsor has assembled.  Perhaps the debt ratio was too high.  Perhaps the home lacked a proper foundation.

**Secondary Location**

A [secondary location](http://info.c-loans.com/commercial-loans-primary-locations-and-secondary-locations) is defined as a middle-class, less-commercially-active area in a large city or an affluent, vibrant, and desireable area in a smaller city.  A secondary location is typically a nicer-than-average location, but it is just not an incredible location.  Is there a lot of brass and glass around?  If not, you're not in a primary location.

**Securitization**

[Securitization](http://info.c-loans.com/huge-development-in-commercial-mortgage-backed-securities) is the process of turning a pool of mortgages into bonds that can easily be traded in the organized securities market.

**See-Through Building**

A [see-through building](http://info.c-loans.com/commercial-loans-and-second-mortgages) is a newly constructed commercial building, with no tenants and hence no tenant improvements.  It is just an empty shell, and if you looked through the windows, you could see all the way through to the other side.

**Shadow Banking**

A [shadow banking system](http://info.c-loans.com/peer-to-peer-lending-crowd-funding-and-commercial-loans) refers to the financial intermediaries involved in facilitating the creation of credit across the global financial system but whose members are not subject to regulatory oversight.  When [Blackburne & Sons](http://www.blackburneandsons.com/), my commercial hard money lending company, arranges a hard money loan, we are creating credit without banking oversight. When LendingClub.com arranges a $25,000 start-up loan to a recent immigrant wishing to buy and equip a truck to serve lumpia and other fast food at a worksite, this is another example of shadow banking.

**Small Balance Commercial Loans**

A [small balance commercial loan](http://info.c-loans.com/commercial-loans-and-the-size-of-the-bank) is one that is less than around $5 million, although Freddie Mac's Multifamily Platform considers any apartment loan of less than $7.5 million to be a small balance loan.  Commercial real estate loans larger than $5 million tyo $7.5 million are considered by most banks to be [major loans](http://info.c-loans.com/how-to-screen-large-commercial-loans).

**Soft Costs**

The [soft costs](https://www.c-loans.com/pre_joomla/educational_pages/construction_loans/commercial_construction_soft_costs.html) are the construction costs that you cannot visibly see. Soft costs include the architect's fees, the engineering reports and fees, the appraisal fee, the toxic report fee, any government fees - including the plan check fee, the cost of the building permit, any assessments, and any sewer and water hook-up fees - plus the financial costs, such as construction period interest and loan fees.

**Standby Takeout Commitment**

A [standby takeout commitment](http://info.c-loans.com/what-is-a-standby-takeout-commitment) is defined as a letter promising to deliver a takeout loan upon the proper completion of a commercial building.  The terms of a standby takeout commitment are typically horrible - a very high interest rate and a big slug of points - just for issuing the letter, and another big slug of points if the loan ever funds.  In truth, a standby loan is never expected to actually fund.  It issued merely to satisfy some construction lender that a lender exists to eventually pay off his construction loan.

**Sizing a Commercial Loan**

Lenders [size a commercial loan](http://info.c-loans.com/sizing-a-commercial-loan) by using the lower of the Loan-to-Value Ratio, Debt Service Coverage Ratio, and Debt Yield Ratio.

**Stuctured Financing**

[Structured financing](http://info.c-loans.com/mezzanine-loans-preferred-equity-and-venture-equity-part-ii) is a type of sophisticated commercial real estate finance that includes mezzanine loans, preferred equity, venture equity and joint ventures, senior stretch financing, A/B Notes, and syndicated loans.  Structured loans are usually quite large; i.e, larger than $5 million.

**Takeout Loan**

A [takeout loan](https://www.c-loans.com/knowledge-base/takeout-loans) is just a garden-variety permanent loan that pays off a construction loan.

**Tertiary Location**

Any location not deemed a primary location or a secondary location.  Most commercial properties are located in [tertiary locations](http://info.c-loans.com/commercial-loans-primary-locations-and-secondary-locations).

**Total Project Cost**

The [Total Cost of the Project](https://www.c-loans.com/knowledge-base/loan-to-cost-ratio) is the sum of the land cost, the hard costs, the soft costs, and a contingency reserve equal to around 5% of hard and soft costs.  Usually a commercial bank will insist on a Loan-to-Cost Ratio of 80.0% or less.  In other words, the developer must have at least 20% of the total cost of the project invested in the deal.

**Tranche**

A [tranche](http://info.c-loans.com/huge-development-in-commercial-mortgage-backed-securities) is slice of the yield of a mortgage-backed security.  There are always various (6-12) tranches in a secuitized offering.  The buyers (investors) of the lower tranches enjoy lower yields, but they enjoy priority of payment if problems develop within the pool of underlying loans.  For example, the buyers of the lowest tranche enjoy the lowest yield of all, but they are the first to be paid.  The investors in the second-lowest tranche don't get paid a penny of interest or of principal repayment until the investors in the lowest tranche get repaid all of their principal and all of their scheduled interest.  During the Great Recession, many buyers of higher yielding tranches were completely wiped out after real estate fell by 45%.

**Uncovered Construction Loan**

A commercial construction loan made without the requirement of a forward takeout commitment is called an [uncovered construction loan](http://info.c-loans.com/what-is-a-standby-takeout-commitment).  Most commercial construction loans made today are uncovered.  Also known as an open-ended construction loan.

**Venture Equity**

[Venture equity](http://info.c-loans.com/commercial-loans-mezzanine-loans-preferred-equity-and-venture-equity) is like venture capital, except it is for real estate projects.  Venture equity investors provide the ***equity*** shortfalls to developers on large commercial construction deals.  Venture equity investors typically expect total returns of 16% to 20%.  A typical venture equity investor might require a 10% ***preferred return***, plus 50% of the total profit in a construction deal