



Initiative Capital - Glossary of Common Terms

<i>Accrued Interest</i>	Interest earned on a principal balance over a period of time.
<i>Acre</i>	A two-dimensional measure of land equaling 43,560 square feet.
<i>Advance</i>	Usually associated with a Line of Credit, it is a request for funds by the borrower on a loan that already exists or will be created. A loan with an advance will be tied to some type of future commitment.
<i>Amortization</i>	To reduce a debt by regular payments of both principal and interest.
<i>Amortization Table</i>	A printed schedule of the monthly payments required to amortize a loan for specific interest rates and time periods.
<i>Asset Based Lending</i>	Loans based primarily on the value of the debtor's collateral, rather than on their overall credit.
<i>Assignment</i>	The method by which a right or contract is transferred from one person to another. In banking, this refers to an agreement by which the borrowers give the bank their rights to or interest in certain assets (e.g., rents ("assignment of rents"), certificate of deposit, etc.).
<i>Balloon Mortgage</i>	A mortgage with periodic installments of principal and interest that do not fully amortize the loan. The balance of the mortgage is due in a lump sum at the end of the term ("balloon payment").
<i>Break-Even Point</i>	The amount of rent or the occupancy level needed to pay operating expenses and debt service.
<i>Bridge Loan</i>	Financing for only a short term in anticipation of longer-term financing.
<i>Cash Flow</i>	The spendable income from an investment after subtracting from gross income all operating expenses, loan payments, and the allowance for the income tax attributed to the income.



<i>Cross Collateralization</i>	Pledging the same collateral as security on more than one obligation. If the collateral on one loan is insufficient to cover the amount due, the bank may draw against the collateral on other loans.
<i>Cross Default Clause</i>	Tying a default clause to all obligations of one borrower such that default on one obligation causes all obligations to be in default.
<i>Debt Coverage Ratio</i>	The relationship between net operating income (NOI) and annual debt service (ADS). The formula is NOI divided by ADS.
<i>Debt Service</i>	Required principal and interest payments for a loan (can be given on a monthly or annual basis).
<i>Effective Gross Income</i>	Stabilized income a property is expected to generate after a vacancy allowance.
<i>Equity</i>	In real estate, the difference between fair market value and current indebtedness, usually referring to the owner's interest.
<i>Escrow</i>	An agreement between two or more parties providing that certain instruments or property being placed with a third party for safekeeping, pending the fulfillment or performance of a specified act or condition.
<i>Facility</i>	A specific credit arrangement.
<i>Fair Market Value</i>	The price at which property is transferred between a willing buyer and a willing seller, each of whom has a reasonable knowledge of all pertinent facts and neither being under any compulsion to buy or sell.
<i>Feasibility Study</i>	A study or analysis which determines whether a real estate project, proposed or existing, successfully meets desired objectives.
<i>Gross Income</i>	Total income from property before any expenses are deducted.
<i>Gross Lease</i>	A lease of property whereby the landlord (lessor) is responsible for paying all property expenses, such as taxes, insurance, utilities, and repairs (commonly found in office space leases).



<i>Guarantor</i>	Guarantees payment of the loan and is primarily liable for a loan and in the event of default can be sued without first liquidating collateral or pursuing other obligors.
<i>Guaranty</i>	An unconditional promise of payment or performance by one party on behalf of another. It may be limited or unlimited. Limited guarantees outline the guarantors' liability as it relates to the amount of indebtedness the guarantor is responsible for repaying. Guarantors with an unlimited guarantee are responsible for any and all current outstanding and future indebtedness.
<i>Highest and Best Use</i>	An appraisal term meaning the legally and physically possible use that, at the time of the appraisal, is most likely to produce the greatest net return to the land and/or buildings over a given period.
<i>LIBOR</i>	London Interbank Offering Rate. This is the rate quoted for short term (30, 60, or 90 days) borrowings by banks at a central exchange in London.
<i>Line of Credit</i>	A facility recognizing the maximum amount that has been committed to lend, usually on a revolving basis.
<i>Market Rent</i>	The rent that a comparable unit would command if offered in the competitive market.
<i>Net Lease</i>	A lease whereby, in addition to rents stipulated, the lessee (tenant) pays such expenses as taxes, insurance, and maintenance. The landlord's rent receipt is thereby "net" of those expenses.
<i>Net Operating Income</i>	Income after deducting for operating expenses, but before deducting for income taxes and interest.
<i>Operating Expenses</i>	Costs and expenses of whatever kind or nature incurred or paid on behalf of landlord to maintain, repair, insure, operate, manage, secure and replace the property.
<i>Pro Forma</i>	"According to form". Financial statement showing what is expected to occur.
<i>Reserve Fund</i>	An account maintained to provide funds for anticipated expenditures required to maintain a building. A reserve may be required in the form of an escrow to pay upcoming taxes and insurance costs. A replacement reserve may be maintained to provide for replacement costs of short-lived components (e.g., HVAC system).

Triple Net Lease

One in which the tenant is to pay all operating expenses of the property.

Underwriting

The analysis of risk through financial information and the matching of it to an appropriate rate and term if approved.

Vacancy Rate

The percentage of all units or space that is unoccupied or not rented. On a pro-forma income statement, a projected vacancy rate is used to estimate the vacancy allowance, which is deducted from potential gross income to derive effective (or adjusted) gross income.