Glossary

Acceleration Clause – A clause in a mortgage or deed of trust that advances the due date of the debt. These are frequently found in private money commercial loans.

Additional Principal Payment – A payment by a borrower of more than the scheduled principal amount due in order to reduce the remaining balance on the loan.

Advances – Payment of funds by a lender, investor, or loan servicer for something that was supposed to have been paid for by the borrower, or for services required to protect the collateral.

After Repair Value - The after repair value (ARV) estimates the future value of a distressed property after it's been repaired. ARV is not a property's current value when purchased but rather the estimated value of the property once improvements are made.

All Inclusive Deed of Trust — a deed of trust (mortgage) incorporating the balance due under a prior deed of trust.

Amortization – The gradual reduction of a loan balance, generally made in regular payments over a specified period of time. Payments are typically made to cover interest and principal. Many private money loans will typically be interest only because they are for a shorter duration than bank loans.

Amortization Schedule –A table showing the break down of amortized loan payments into principal and interest portions as well as the remaining loan balance after each payment.

Annual Percentage Rate (APR) – The cost of credit, including points and fees, on a yearly basis, expressed as a percentage.

Application Fee – A fee charged by a hard money lender to submit an application.

Appraisal –A written professional opinion and analysis of the estimated market value of real estate which will be used as collateral for the private money loan.

Appraisal Fee –The appraisal fee is a payment for the appraiser who assess the value of the property you are looking to buy or refinance.

Arrears – An overdue debt caused by a missed payment. Assessor's Parcel Number (APN). Number used by the tax assessor to identify a parcel of land.

Assignee — Person to whom rights to a property, title or other interest are transferred.

Assignment – Document transferring rights to a property, title or other interest from one person to another.

Automated Valuation Model (AVM) – A method of evaluating real property using a mathematical formula.

Bad Boy Clause – A common name given to fraud indemnity and guarantee clauses in a loan agreement.

Balloon Loan – A balloon loan is one that calls for a large sum to be paid at the end of the loan term.

Balloon Payment – A lump-sum payment that may be required at the end of some mortgage loans, or at a specified period of time (e.g. 5 years into a loan). A balloon payment due may be for all or some of the loan amount and will generally be specified in the promissory note.

Bankruptcy – A proceeding authorized by federal law which provides debtors with various kinds of relief from their debts.

Beneficiary Demand – Document detailing the requirements for a borrower to be released from a debt.

Beneficiary's Statement – Statement of the remaining principal balance and other information about a loan.

Binder Title Policy – An offer to insure title on a property which will be resold in a short period of time (e.g. a few years). Binder policies are typically a small percentage over the original policy price and is substantially less expensive than purchasing a policy when a property is purchased and later resold.

Blanket Loan - A blanket loan, or blanket mortgage, is a type of loan used to fund the purchase of more than one piece of real property.

Blended Interest Rate – The combined interest rate for two or more loans of different rates. For example, a $200,000 loan at 6% and a $50,000 junior lien at 8.5% would yield a blended rate of 6.5% ($16,250 of combined annual interest / $250,000 loan balance).

Blended Net Present Values (Blended NPVs) – A tool to evaluate an investment scenario with multiple outcomes. A probability is assigned to each outcome and a weighted average result determined. This is also known as the Probability Weighted Average of the Net Present Values.

Borrower – The individual or individuals extended a loan and mortgage for the purchase or refinance of a house and/or property. Borrower is responsible for making all payments and fees associated with the loan over the life of the loan. Legal mortgagor.

Bridge Loan – Short term financing which bridges the gap of other financing and is typically for a term of less than one year. This is sometimes called a swing loan or bridge financing.

Broker Price Opinion ("BPO") – A property inspection by a licensed real estate broker which results in a written evaluation of the property and the estimated sale price.

Buy-and-Hold – Buy-and-hold real estate investing is the purchase of rental property with the intention of holding it for a long period.

Cap – A cap is a provision of loan agreement (typically, an adjustable rate loan) that limits how much the interest rate may increase or decrease over the life of the loan.

Carrying Costs - The recurring costs that the property owner is responsible for during the duration of owning the property such as homeowners insurance, taxes, maintenance, homeowner association dues if applies, real estate commission upon sale of the home.

Cash Flow – Cash receipts minus cash payments over a particular time period.

Cash Out Refi – Cash-out refinance is a mortgage refinancing option in which the new mortgage is for a larger amount than the existing loan in order to convert home equity into cash.

Chapter 7 Bankruptcy – A bankruptcy which is a court appointed trustee managed liquidation (as opposed to Chapters 11 and 13 which is the process of reorganization of a debtor in bankruptcy). It is Chapter 7 of the Title 11 of the United States code (Bankruptcy Code) and governs the process of liquidation under the bankruptcy laws of the US.

Chapter 13 Bankruptcy – A reorganization bankruptcy process (as opposed to a chapter 7 which is a liquidation). Chapter 13 of the Title 11, United States Code allows individuals to undergo a financial reorganization and is frequently given three to five years to repay their obligations.

Closing – The "closing" is the period that marks that a loan transaction is final.

Closing Costs – Fees paid at closing for loan origination and processing, including attorneys' fees, fees for preparing and filing a mortgage, fees for title search, taxes and insurance.

Collateral – For real estate loans, the collateral is the real property used to secure repayment of a loan.

Collection – A loan goes into collection when payment on a loan is delinquent and efforts are made to collect the amount due. This is also the stage at which the lender files the papers necessary to prepare to proceed with foreclosure. Collection is typically handled by the loan servicer. Hard money lenders will be more aggressive than banks at collecting on loans because their private money investor clients keep a more watchful eye on the loans than do government sponsored agencies and/or banks. In addition, the banks do not want to make "headlines" by foreclosing too quickly.

Combined Loan to Value (CLTV) – The sum of all liens on the property divided by the value of the property.Hard money lenders often use the term LTV synonymously with CLTV. CLTV is typically used when there's more than one lien and LTV when there is only one lien.

Commercial Property – Commercial property refers to real estate property that is used for business activities. Commercial property usually refers to buildings that house businesses, but it can also refer to land that is intended to generate a profit, as well as larger residential rental properties.

Conditional Personal Guarantee – A guarantee by a borrower to a lender for the entire outstanding loan amount plus legal fees, accrued interest, and costs associated with collecting the loan. The guarantee entitles the lender to look to the borrower's personal assets to recover any unrealized balance due in which foreclosure and resale of the asset does not satisfy the debt but only if a specific "trigger" event occurs.

Co-signer/Co-Borrower – Another person who signs the loan and assumes responsibility for the payments and the liability.

Credit Bureau – An organization that gathers, records, updates, and stores financial and public records information about the payment records of individuals who are being considered for credit. Hard money loans usually involve a credit report from a bureau, but generally do not rely on it as much as banks do. Private money lenders are typically more interested in the nature of the loan, the amount of equity in the collateral than a credit score.

Credit Report – Information collected by credit bureaus about an individual's credit history, including a list of credit accounts, their balances, and monthly payments along with collection accounts and public record information such as liens and bankruptcies.

Credit Score – A number, based on information in your credit report that is used by most lenders to decide whether to extend credit and at what cost. The most common score used is called a FICO score.

Creditor – A person or business from whom you borrow or to whom you owe money.

Debt Consolidation – Refinancing one or more existing debts into a new loan. In the mortgage-lending context, relatively short-term, unsecured debt is often rolled into a long-term mortgage loan.

Debt-to-income Ratio – The amount of money you have to pay out each month as a percent of your gross income. For example, \$2,500 of debt service / \$5,000 of gross income = 50% DTI (debt-to-income) ratio.

Default – Default on a loan is when a borrower fails to comply with any of the terms of an agreed-upon loan, including timely repayment.

Default Interest Rate – An increased interest rate imposed if there is a breach of the loan terms.

Deferred Loan - A loan arrangement in which the borrower is allowed to start making payments at some specified time in the future.

Depreciation – Loss of value in real property brought about by age, physical deterioration, or functional/economical obsolescence.

Disclosures – Information that must be given to borrowers to make them aware of acts and laws that affect their financial dealings.

Discount Rate – The opportunity cost of money. This rate is frequently used in a net present value analysis.

Equity – The difference between the fair market value (appraised value) of real property and any outstanding loans, liens and encumbrances. Hard money lenders require substantially more equity than banks on their loans because their private money investors are not insured by the government and therefore require more protection.

Escrow – Escrow is a separate account where money and/or documents are held by a third party until agreed upon terms and conditions are met. Escrows serve as a neutral third party upon which lenders, borrowers, investors and loan originators may rely.

Escrow Company – Oversees the execution of real estate transactions to include closing documents, disbursement of funds, and the recording of documents at the county offices. Also know as a Settlement Services Company.

Estoppel Certificate – A form used in real estate to verify facts on a property regarding rents, leases, mortgage balances, monthly payments, etc.

Equal Credit Opportunity Act (ECOA) – The Equal Credit Opportunity Act (ECOA) is a federal law that prohibits lenders from discrimination on the basis of race, color, religion, national origin, age, sex, marital status, or receipt of income from public assistance programs or the exercise of certain consumer rights.

Experience Worksheet - An Experience Worksheet details the number of projects that a Borrower has completed in the past. This information is taken into consideration during the underwriting of a loan.

Fair Credit Reporting Act – The Fair Credit Reporting Act is a federal consumer protection law that regulates the disclosure of consumer credit reports and establishes procedures for correcting any errors that may appear on a credit report.

Fair Market Value – The value of a property, which is typically based on comparable sales ("comps") of similar properties within the last six months. Often times, hard money lenders will drive the "comps" themselves, or, they may even have their private investor in the real estate loan drive the comps to personally determine value on a privately funded loan.

FICO Score – A credit score developed by Fair Isaac & Co. that determines the likelihood that credit users will pay their bills. Scoring is widely accepted by lenders as a reliable means of credit evaluation. It is not used by private money lenders as much as it is used by banks.

Finance Charge – Similar to an interest rate. It's the amount charged to borrow funds. This term is generally used in the context of consumer credit such as credit cards and revolving lines of credit.

Fixed-Rate Loan – A fixed-rate loan is one in which the interest rate or scheduled principal and interest payment amount does not change during the course of the loan.

Flood Certification – In most real estate cases a lender will require a flood certification before making a loan on a home. In areas where a property falls in a flood zone, the borrower may be required to purchase standalone flood insurance before a mortgage and/or home loan is approved.

Forced Place Insurance – Insurance placed on a property by the private money investor (lien holder) in the event that a borrower allows coverage to lapse. The cost is advanced by the investor and added to the balance of the lien.

Foreclosure – The legal process by which an owner's right to real property is terminated; typically due to a default. Each state has their own foreclosure process. In states where deeds of trust are used in place of mortgages, the foreclosure begins when the lender records the Notice of Default. In mortgage states, the lender must file a lawsuit with the court. Hard Money lenders generally foreclose faster than banks because their private money investors want to put their funds to additional use.

Foreclosure Fees – Costs incurred by a lender to foreclose on a property. These costs are typically added to the balance of the loan.

Fractionalized Loan – A single loan funded by two or more different investors. Private money loans are often fractionalized to reduce the amount of funds required by any one investor.

Full Recourse Loan – A loan in which the lender is entitled to pursue the borrower's other assets owned if the debt is not fully satisfied by the collateral.

Gross Margin – Gross revenue less direct costs. Real estate example: Property sales price less costs of acquisition, holding time and disposal.

Hard Money Lender – A lender which makes private money loans. Funds are typically from the lender's personal account, or raised from a private investor. To find a hard money lender to borrower funds for real estates, view our hard money lender directory. To become a hard money lender, view various hard money investment opportunities in this private money lending guide.

House Flipping – The purchase of a house or property at a reduced market rate for the purpose of a quick turnaround, a "flip," and profit. Most house flippers must do some renovation or home fix-up in order to turn a profit on a property.

Index – A published rate that serves as a base to adjust the rate of a loan per the terms in the loan agreement. A loan may, for example, adjust to 3 percentage points over the prime rate index at the beginning of each month.

Interest Only Loan - (I/O loan) The borrower only pays the interest on the mortgage through monthly payments for a term that is fixed on an interest-only mortgage loan. The term is usually between 5 and 7 years. After the term is over, many refinance their homes, make a lump sum payment, or they begin paying off the principal of the loan

Interest Rate – The percentage rate that lenders charge for use of their money.

Internal Rate of Return (IRR) – The rate of return on an investment that considers positive and negative cash flows over a specific period of time.

Junior Lien – A lien against a property not in first priority or position.

Late Fee – Paid by borrower if a loan payment is not made on time.

Lender – A private, public or institutional entity which makes funds available to others to borrower. Finding a private money lender is challenging which is why this guide was created. Browse through the articles to learn more about finding hard money lenders, and select the lender directory to find private money or hard money lenders to fund your transactions, or who can coordinate an investment in a private money loan.

Lien – A legal claim on real property generally for the payment of a debt or obligation.

Limited Personal Guarantee – A guarantee by a borrower to a lender for the entire outstanding loan amount plus legal fees, accrued interest, and costs associated with collecting the loan. The guarantee entitles the lender to look to the borrower's personal assets to recover any unrealized balance due in which foreclosure and re-sale of the asset does not satisfy the debt but sets a dollar or some other limit on the amount of liability. Many limited personal guarantees contain conversion clauses that state if fraud is involved in the transaction the guarantee converts to an unlimited personal guarantee.

Liquidity – The measure of an individual or entity to convert assets to cash without significant loss or time delay.

Loan-to-Value Ratio – The amount of outstanding debt on real property divided by the fair market property value.

Mortgage (Deed of Trust) – A pledge of collateral as security. In some states, the term mortgage also describes the document signed to show that the lender is granted a lien on a property. See our article to learn the difference between a mortgage and a trust deed.

Mortgage Broker – The entity that acts as a go-between a homebuyer and mortgage lender, handling paperwork and finally effecting a mortgage. A broker does not make direct loans to buyers, but works to find the best deal and finally collects fees as part of the mortgage process.

Multi-Family – Multi-family residential (also known as multi-dwelling unit or MDU) is a classification of housing where multiple separate housing units for residential inhabitants are contained within one building of several buildings within one complex.

Net Operating Income – The result of gross operating income less operating costs. Net operating income does not include deductions for income taxes and interest.

Net Present Value (NPV) – The value of a cash flow stream in today's dollars. Calculated by applying a discount rate to a cash flow stream. Components of the calculation are the amount of the cash flow stream, the timing of the stream, and the opportunity cost. More details on how to perform this calculation may be found in the article we have posted on the subject.

Non-Recourse Loan – A loan in which the lender is not entitled to pursue the borrower's other assets owned if the debt is not fully satisfied by the collateral in the event of foreclosure and re-sale of the property.

Note – An abbreviation for "promissory note". It discloses the interest rate and terms of your loan.

Offer – A verbal and written offer to buy a property for a certain dollar amount made from a buyer to a seller.

Payoff – The act of paying off a loan by paying the outstanding principal amount and any additional interest and/or costs due to completely satisfy the loan obligation.

Payoff Statement – A statement which provides information on the amount of money required to pay off a loan.

Personal Guarantee – A guarantee by a borrower to a lender for the entire outstanding loan amount plus legal fees, accrued interest, and costs associated with collecting the loan. This type of guarantee entitles the lender to look to the borrower's personal assets to recover any unrealized balance due in which foreclosure and re-sale of the asset does not satisfy the debt. There are different types of personal guarantees. See "Conditional Personal Guarantee", "Limited Personal Guarantee", and "Unlimited Personal Guarantee".

PITI – An acronym for Principal + Interest + Taxes + Insurance. PITI is often used to calculate the front end debt ratio for a borrower.

Points – Points are finance charges paid at closing. Each point equals 1% of the loan amount. Some lenders charge a flat fee, rather than points. For example, 1 point on a $100,000 loan is the equivalent to $1,000.

Prepayment Penalty – A lender may impose a prepayment penalty if a loan is paid off before it is due. This is usually because the lender incurs costs when making a loan and will build these costs into the borrower's payments over the life of the loan. When a borrower pays the loan off early, the lender tries to recoup some of its costs through a prepayment penalty. Hard money loans frequently incorporate this penalty because the private investor wants a commitment from the lender and borrower that the funds provided will be used over a specified period of time.

Principal Balance – The outstanding balance of principal on a loan which does not include interest or other charges.

Private Money Lender (PML) – A highly specialized entrepreneur in the business of originating real estate loans that require non-traditional sources of funding. To find a private money lender, view our directory of lenders.

Prohibited Transactions – The term is frequently used in connection with a transaction which is not allowed by the Internal Revenue Service (IRS) in conjunction with a retirement account. Conducting a prohibited transaction could lead to the retirement plan being disqualified. More details may be discovered within our article on the subject.

Promissory Note – The document which obligates a borrower to pay a debt at agreed upon terms. More information may be found about private money promissory notes in our article.

Purchase Price - The price that has been agreed upon by owner and buyer for the transferring of a property.

Realtor Commission - A fee paid to a real estate agent or broker for their services.

Referral Fee – A fee paid by one Private Money Lender to another for referred business. Referral fees are common for commercial loan transactions between hard money lenders, brokers and investors.

Refinance – Obtaining a new loan on a property to pay off an existing loan(s).

Reinstatement Statement – A statement for borrowers in default on their loan which provides information on the amount of money needed to reinstate the loan to a performing status including past due payments, late fees, and any other costs.

Relief of Stay – Court granted relief from the automatic stay of collection actions against a debtor in a bankruptcy filing. This allows a creditor to proceed with collection and/or foreclosure actions.

Renewal Fee – A fee paid by a borrower to renew an existing loan for an additional term.

Renovation Costs - The cost incurred to improve a broken, damaged, or outdated structure.

Rescission – A rescission period is required by federal law for certain qualified loans (usually owner-occupied homes) to allow a property owner to cancel a loan transaction. This period is within 3 business days after the latest of the following events: opening date of the borrower's account, date borrower received HELOC disclosures, or date borrower receives notice of their right to cancel.

Scope of Work - A Scope of Work is a detailed outline of all of the planned construction and renovations which are set to be undertaken. You'll be able to use your SOW: to manage and document the various steps of your construction project.

Second Mortgage – Second priority (or second position) lien against a property. Also referred to as a junior lien.

Secured Loan – A secured loan is one in which the borrower offers up something of value as collateral for the loan. In a private money lending context, the security is real estate.

Security Interest – An interest that a lender takes in the borrower's property to ensure repayment of the debt. The promissory note spells out the terms (the interest rate, the duration, etc.) and the security instrument (e.g. mortgage or deed of trust) secures the note to the property and is recorded to put the public on notice.

Self-directed IRA – An individual retirement account in which a custodian handles alternative investments at the direction of the account owner. This arrangement enables private money investors to make hard money loans from their retirement accounts.

Servicer – A servicer is a company that handles all payment-related transactions with borrowers including accepting monthly payments, issuing monthly statements, providing year-end tax statements and paying property taxes and insurance when due.

Settlement Services Company – Oversees the execution of real estate transactions to include closing documents, disbursement of funds, and the recording of documents at the county offices. Also known as an Escrow Company.

Stay – The automatic prohibition of collection actions against a debtor in a bankruptcy filing.

Takeout Loan — a long term loan replacing a short term or interim loan (e.g. a construction loan).

Time Value of Money – A core finance principle stating money is worth more the sooner it is received.

Title – The evidence of the right to ownership of real property.

Title Company – Searches county and public records for liens and encumbrances against a subject property and the borrower. Provides a preliminary title report and an offer of title insurance based on the report. Issues title insurance at transaction settlement.

Title Insurance – An indemnity policy that insures an owner and/or lender against loss due to title defects, liens, or other matters.

Total Project Costs - All costs specific to a project incurred through the renovation of a Fix and Flip project.

Trust Deed – A security instrument which secures the promissory note to real property, and is recorded in the county as evidence of the debt.

Truth in Lending Act – The Truth in Lending Act is a Federal law that requires creditors to fully disclose the terms and conditions of consumer loans, in writing. Disclosure must include the loan's annual percentage rate and any additional fees and charges to be paid by consumers.

Underwriting – Underwriting is the process lenders use to determine the risks involved in any given loan.

Unlimited Personal Guarantee – A guarantee by a borrower to a lender for the entire outstanding loan amount plus legal fees, accrued interest, and costs associated with collecting the loan. This type of guarantee entitles the lender to look to the borrower's personal assets to recover any unrealized balance due in which foreclosure and re-sale of the asset does not satisfy the debt.

Unrelated Business Income Tax (UBIT) – The tax on unrelated business taxable income (UBTI). This typically refers to income earned on retirement income that does not qualify as tax deferred.

Usury – Charging a greater payment or interest rate for the lending of money than is permitted by law. Mortgage brokers are often exempt from usury laws which is why private money transactions can be priced higher than usury laws permit if otherwise transacted between private individuals.

Variable Rate – An interest rate that changes periodically in relation to an index. Payments may increase or decrease accordingly.

Voluntary Lien – A lien internationally created or entered into by a debtor.

Wrap-Around-Mortgage – A mortgage incorporating the balance due under a prior mortgage.