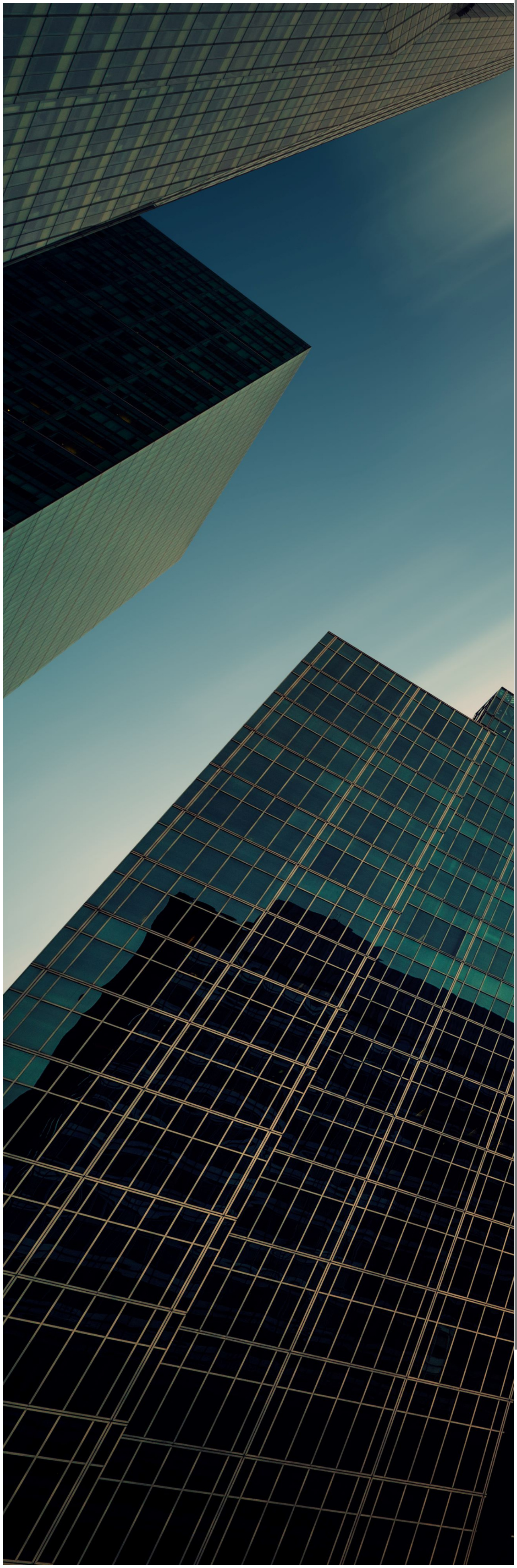

NATIONAL PRIVATE LENDERS ASSOCIATION

PRIVATE LENDING GLOSSARY

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NPLA
National Private Lenders Association

STANDARDIZING DEFINITIONS IN PRIVATE LENDING

As the Private Lending industry evolves and matures, it becomes increasingly crucial to establish a set of standardized terms and definitions. The need for a comprehensive glossary becomes more evident as Private Lending transitions from a niche sector into a more institutionalized industry.

A standard glossary is a valuable asset to the industry for various reasons. It ensures uniformity in communication, understanding, and interpretation across diverse stakeholders – including legislators, the general public, and the lenders themselves.

The National Private Lenders Association (NPLA) Private Lending Glossary was authored in a collaborative effort by leading firms in the Private Lending Industry.

The definitions provided mirror the ever-evolving business and legal landscapes. As the private lending industry progresses, terms may need to be revised, or new ones might emerge. The NPLA Glossary serves as a living document that keeps pace with these changes, ensuring that all industry participants stay aligned and up-to-date.

This commitment to continuous adaptation and relevance is another reason why a standard glossary of terms is essential for the ongoing growth and success of the Private Lending industry.

If you have suggestions for term additions or edits, please contact info@nplaonline.com.

Jonathan Hornik, Esq., NPLA Executive Director
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Terms are organized by category.

If you have suggestions for term additions or edits, please contact info@nplaonline.com.

LENDER TYPES

Broker
An intermediary who connects borrowers with lenders, helping to facilitate loan transactions and negotiate terms.

Correspondent Lender
A financial institution that originates and funds loans on behalf of a larger lender, such as a bank or mortgage company, with the larger lender purchasing the loans shortly after closing.

Direct or Retail Lender
A lender that originates and funds loans directly to the borrower rather than working through intermediaries such as brokers or other financial institutions.

Private Lender
An individual, group, or company that provides 1-4 family and/or small balance multifamily/commercial property loans for real estate transactions. These lenders generally do not make loans directly to consumers for personal, family, or household use; all loans are made to a formal corporate entity (e.g., corporation, LLC, etc.) on non-owner-occupied real estate.

Table Funder
A lender that provides the funds for a loan at the closing table rather than requiring the originator to secure financing from another source. These loans are funded in the originator's name or the name of the ultimate lender "funding" the loan.

White Label Lender
A company that provides loan products or services under its own branding but relies on a third-party provider for underwriting, closing, funding, and servicing. This arrangement allows the white-label lender to offer a range of loan products without directly arranging warehouse financing or developing the infrastructure and expertise required to manage the entire lending process in-house. The third-party provider typically operates in the background, enabling the white-label lender to focus on marketing, customer acquisition, and building its brand.

Wholesale Lender
A lending institution that provides loan programs through mortgage brokers, correspondent lenders, or other financial institutions rather than directly to individual borrowers. Typically, these loans close in the name of the originating 3rd party lender/broker and acquires the loan by assignment or table funds the originating lender at closing.

LOAN TYPES

Blanket/Portfolio Loans
A single loan that covers multiple properties, allowing borrowers to consolidate their debt under one mortgage.

Bridge Loan
A first lien mortgage loan, generally with a term of 2 years or less but not to exceed five years, used to finance a property purchase or the short-term construction or rehabilitation for a project before obtaining long-term financing or the selling of another property. This loan category often includes single-family, 1-4 family, and small-balance multifamily property types.

Ground Up Construction Loan
A first lien mortgage specifically designed for new construction projects, providing funds for land acquisition and/or construction costs.

Mezzanine Loan
A hybrid form of financing that combines debt and equity features, usually secured by a subordinate lien on the equity interest of the borrower entity and typically used for acquisition, refinancing, or construction projects.

Non-Performing Loan (NPL)
A loan that fails to make principal and/or interest payments as required by the loan agreement. This includes loans that are making payments at a rate less than the full principal and interest payments required by the mortgage.

Private Loan
A loan typically used in commercial real estate transactions which is offered and held by a non-institutional lender, such as a private individual or company.

Rehab Loan or Fix-n-Flip
A specialized loan designed for financing the renovation or rehabilitation of an existing property. Generally, has a term of 3 years or less.

Residential Transitional Loan (RTL)
A category of loans within the securitization market that includes short-term financings used to facilitate the transition of a property from one phase to another, such as from distressed to stabilized or from vacant to occupied. These loans can include both single-family and multifamily property types.

Second Lien Loan
A subordinate mortgage or loan secured by a property that is already encumbered by a first lien.

Small Balance Commercial
A category of commercial real estate loans or properties characterized by smaller loan amounts, typically ranging from $1 million to $5 million. Small-balance commercial properties can include various property types, such as multifamily, small office buildings, retail centers, and mixed-use properties.

Term Loan
A loan with a set repayment schedule and maturity date, generally used for long-term financing of more than five years and does not provide for the funding of construction advances.

PROPERTY TYPES

Commercial
Typically referring to a type of property primarily used for business activities, such as office buildings, retail centers, warehouses, and industrial facilities. Commercial properties are typically leased to businesses or investors rather than individual occupants. The value of commercial real estate is often based on factors such as rental income, location, and the quality of the tenants.

Ground-Up
A term used to describe a real estate property where construction starts with an undeveloped piece of land or a complete demolition of an existing structure. Ground-up projects involve building new structures from the ground up rather than renovating or rehabilitating existing buildings.

Mixed Use
A property that combines multiple types of real estate uses within a single building or development. Mixed-use properties often include a combination of residential, commercial, and retail spaces, allowing residents to live, work, and shop within the same area. This property type is commonly found in urban and suburban environments.

Multifamily
A type of residential property of 5 or more units designed to accommodate multiple separate housing units within a single building or complex.

Real Estate Owned (REO)
Properties that have been foreclosed upon and are now owned by a private lender, bank, or other financial institution as a result of a borrower defaulting on their loan.

Single Family Residence (SFR)
A 1–4-unit residential property designed to accommodate individual families or households. SFRs typically include detached homes with individual yards and separate entrances for each unit. These properties are often owner-occupied or rented to a single tenant and may consist of single units, duplexes, triplexes, or quadplexes on a single parcel.

LOAN SERVICING RELATED

Amortization Schedule
A table that details the breakdown of each loan payment into principal and interest components over the life of the loan, showing the outstanding balance after each payment.

Debt Service
The scheduled payments due on a loan, including principal, interest, and other fees required by the loan agreement.

Default
The failure of a borrower to meet their loan obligations, such as making timely payments or complying with other terms and conditions of the loan agreement.

Delinquency Rate
Refers to the percentage of loans within a financial institution's loan portfolio whose payments are delinquent.

Escrow Account
An account held by the loan servicer or lender, into which a portion of the borrower's monthly payments is deposited for the purpose of paying property taxes, insurance premiums, or other recurring expenses associated with the property.

Forbearance
A temporary arrangement in which the lender agrees to reduce or suspend the borrower's loan payments for a specified period of time to help them overcome financial hardships to avoid foreclosure.

Foreclosure
The legal process through which a lender or loan servicer takes possession of a property to recover the outstanding loan balance when the borrower defaults on the loan.

Late Fees or Default Interest
Fees or additional interest assessed by the loan servicer if the borrower fails to make a payment by the due date or within the specified grace period.

Loan Assumption
A process in which a buyer takes over the existing mortgage on a property, assuming responsibility for the remaining loan balance and terms.

Loan Delinquency
Occurs when a borrower misses a loan payment according to the agreed-upon terms. Often reported or referred to in 30-day increments such as 30-59 days delinquent, 60-89 days delinquent, 90+ days delinquent, or simply 30 or more days delinquent.

Loan Extension
An agreement between a borrower and lender to extend the term of a loan, often in exchange for additional fees or an increased interest rate.

Loan Modification
A formal documented change in the terms of a loan, such as the interest rate, payment amount, or loan term, to help the borrower better manage their payments and avoid default.

Loan Payoff
The total amount needed to completely repay a loan, including the remaining principal balance, any accrued interest, and any fees or penalties.

Loan Servicer
The entity responsible for managing and administering a loan on behalf of the lender or investor.

Loan Servicing
The process of managing and administering a loan includes collecting and processing payments, maintaining loan records, handling borrower communications, and handling any issues arising during the loan term.

Loan Workout
A process in which a lender and borrower work together to renegotiate the terms of a loan to avoid default or foreclosure, often involving adjustments to the interest rate, principal balance, or repayment schedule.

Loss Mitigation
Strategies and programs designed to help borrowers avoid default or foreclosure, such as loan modifications, forbearance, or short sales.

Principal and Interest (P&I)
The components of a loan payment, with the principal representing the portion applied to the outstanding loan balance and the interest representing the cost of borrowing.

Reconveyance
The process of transferring the title of a property back to the borrower once the loan has been paid in full, effectively releasing the lien held by the lender.

Rehab Draw Management or Construction Management
Refers to the process of administering and overseeing the disbursement of funds from a construction or rehabilitation loan to the borrower. Typically, this includes reviewing the funds request and ensuring it is a budgeted/qualified expenditure as approved by the lender.

Short Sale
A transaction in which the lender agrees to accept the proceeds from the sale of the property as full satisfaction of a loan note, even if they are less than the outstanding loan balance, to avoid the foreclosure process.

LOAN DOCUMENTS

Allonge
A document used to add, modify or extend the terms of a promissory note or mortgage note when there is insufficient space on the original document for additional endorsements or assignments. The allonge is securely attached to the original note and must include the signatures of all parties involved in the transfer or endorsement. This document is particularly relevant when a mortgage or promissory note is transferred or sold between parties, ensuring a clear record of the transaction and maintaining the chain of title for the loan.

Assignment of Mortgage (AoM)
A legal document that transfers the mortgage lien, including the rights and obligations associated with the loan, from one party (the assignor) to another party (the assignee). This document is typically used when a mortgage is sold or transferred between lenders, investors, or mortgage servicers. The assignment of mortgage must be recorded in the appropriate public land records to provide notice of the change in ownership and maintain the priority of the lien.

Deed of Trust
A legal document used in some states that secures a mortgage loan by transferring the title of a property to a neutral third party, called a trustee, who holds the title in favor of the lender until the loan is repaid in full.

First Lien
A mortgage or loan that has priority over all other liens on a property, meaning the holder of the first lien has the first claim to the property in the event of a default or foreclosure.

Mortgage
A legal agreement in which a borrower pledges a property as collateral for a loan, allowing the lender to take possession of the property and sell it if the borrower defaults on their payments. The mortgage effectively puts a "lien" on the collateral in favor of the lender.

Mortgage Note
A legal document signed by a borrower that evidences the borrower's debt to a lender. The Mortgage Note outlines the terms and conditions of a mortgage loan, including the principal amount, interest rate, and repayment schedule.

Prepayment Premium or Prepayment Penalty
Language in loan documents requiring a borrower to pay a premium or penalty for any prepayments made on a mortgage loan. Most prepayment premiums are structured either as yield maintenance or a percentage of the unpaid principal balance at the time of prepayment (i.e., penalty points).

Promissory Note
A written, legally binding agreement between a borrower and a lender, which evidences the borrower's debt to a lender. The Promissory Note contains agreements in which the borrower promises to repay a specified sum of money to the lender according to agreed-upon terms and conditions.

Secured Overnight Financing Rate (SOFR)
Benchmark interest rate for variable rate mortgage loans that is expected to replace (LIBOR).

Subordinated Debt or Second Lien
A type of debt that has a lower priority for repayment compared to other debts in the event of a default or bankruptcy; typically carries a higher interest rate to compensate for the increased risk. Also known as a Junior Lien.

Yield Maintenance
A prepayment premium that makes investors whole for any loss in yield resulting from a prepayment; i.e., the premium, or yield maintenance amount compensates the lender for scheduled interest payments above a risk-free rate that would have been made if no prepayment had occurred. The fee is designed to make investors economically indifferent to prepayments.

LOAN TAPE DATA ITEMS

As-Is Value
The current market value of a property in its existing condition, without any improvements or renovations.

As-Repaired Value
The estimated market value of a property after repairs, renovations, or improvements has been completed.

Construction Reserve
An account set aside by the lender to fund construction or rehab costs as the project progresses.

Cross Collateralization or Blanket Loan
A provision in a mortgage by which the collateral for one mortgage also serves as collateral for other mortgage(s). Thus, should the collateral on the one mortgage fall short in repayment of the debt, the collateral of the other mortgage(s) could be claimed as well (but only in the event of such a shortfall). Loans backed by cross-collateralized properties have reduced delinquency risk; a set of properties with the same owner might be both cross-defaulted and cross-collateralized which can serve as a form of credit enhancement.

Cross Default
A provision in the mortgage by which a breach of terms or default under the loan documents of one loan will automatically trigger a default under other mortgage(s). A set of properties with the same owner might be both cross-defaulted and cross-collateralized which can serve as a form of credit enhancement.

Day 1 Loan Amount
The initial disbursement of loan funds on the first day of the loan term.

Debt Service Coverage Ratio (DSCR)
The ratio of a property' 's net operating income or net operating cash flow to the debt service payments on the loan backed by the property, calculated by dividing the NOI or NCF by total debt service. DSCR is a measure of a mortgaged property' 's ability to meet monthly debt service payments; higher ratios are more desirable. A DSCR less than 1.0 means that there is insufficient cash flow by the property to cover debt payments.

Example: If a business has a net operating income of 100K and a total debt of 60K its DSCR would be 1.67%

Foreign National
A person who is not a citizen or permanent resident of the country where the property is located and is seeking a loan for a real estate transaction.

Interest Reserve
An account set aside by the lender to cover interest payments on the loan, typically used in construction or rehab loans.

Loan-to-Cost Ratio (LTC)
The ratio of the loan amount to the total cost of the project or property. Normally this is calculated at the time of loan origination.

Loan-to-Value Ratio (LTV) or Loan to As-Repaired Value (LTARV)
The ratio of the principal amount on a mortgage to the appraised value of the collateral property. The ratio is commonly expressed to a potential borrower as the percentage of value a lending institution is willing to finance. The ratio is not fixed and varies by lending institution, the borrower's credit history, the property type, geographic location, size, and other variables. The ratio will change over time as the loan balance and valuation change and is used as a measure of risk on a secured loan (higher LTV ratios are reflective of higher risk).

Net Operating Income (NOI)
Total revenues earned by a property minus operating expenses but before capital items and debt service. NOI is typically used to analyze the profitability of income-generating real estate investments and as the basis for calculating debt service coverage ratios.

Personal Guaranty
A legally binding commitment by an individual (usually the borrower or a related party) to repay a loan if the borrowing entity fails to do so.

Rehab Budget
The estimated cost of repairs, renovations, or improvements to a property.

Seasoning
The length of time elapsed since the origination of a mortgage loan—i.e., the longer a loan has been outstanding and performing to its terms, the more "seasoned" it is. The presumption is that more seasoned loans have a lower probability of default.

Total Loan Amount
The entire principal amount of the loan, including any additional disbursements for construction or rehab costs.

Weighted Average Coupon (WAC)
The average coupon or interest payment on a set of mortgages, weighted by the size of each mortgage in the pool.

Weighted Average Life (WAL)
The average time until all scheduled principal payments are expected to have been made, weighted by the size of each mortgage in the pool.

OTHER TERMS

Adjustable Rate Mortgage (ARM)
A mortgage loan on which the interest rate adjusts periodically (e.g., monthly, every six months, annually). The rate is stated as a spread over a published index rate such as the 10-Year Treasury, the London InterBank Offer Rate (LIBOR), or a successor rate to LIBOR such as the Secured Overnight Financing Rate (SOFR). Also known as a variable rate mortgage.

Asset-Based Lending
A type of financing that mainly relies on the value of a borrower's assets, such as real estate, as collateral for the loan.

Bad Boy Personal Guaranty
A limited personal guaranty of the guarantor to the lender if the borrower commits certain "bad acts" as defined by the loan documents.

Business Purpose Loan
A mortgage loan where the borrower is a corporate entity (e.g., corporation, LLC, etc.) and the borrower does NOT occupy the property. These loans are typically underwritten to commercial mortgage standards.

Capitalization Rate (Cap Rate)
Defined as the net operating income (I) for the year divided by the value of the property (V) [I/V = R]. It is used as a measure and/or benchmark for a property's value based on current performance. Cap rates also serve as an indicator of investor expectations of risk and return.

Dry Funding
A mortgage loan where the closing and loan proceeds are made available to the borrower after all required loan documentation has been signed, completed, and reviewed /approved by the mortgage lender.

Due Diligence
The process of conducting research and analysis to assess the risks and potential benefits of a real estate investment or loan transaction.

Dutch Interest
Interest charged by the lender on the full loan amount approved, including the construction holdback that has not yet been disbursed to the borrower.

Loan Aggregator
A financial institution, company, or investor that acquires and combines multiple loans, typically of similar types, into a single pool or portfolio. Loan aggregators often purchase these loans from various lenders, such as banks or mortgage originators, with the intention of securitizing the pooled loans or selling them to other investors. By aggregating loans, these entities can create larger, more diversified portfolios that may offer more attractive investment opportunities and risk management benefits.

Mark-to-Market
Periodic adjustments of estimated value of an asset, or of future cash flows from an asset, to reflect current market levels. In a falling or weak market this is likely to create a downward adjustment of current value based on lower expected future income streams, such as if rental rates on existing leases are greater than rental rates being charged for new leases in the market (i.e., if there are several above-market leases in a building that are terminating). The opposite is true in a strong or rising market. This term may apply to the value of a specific loan or any security subject to price movements.

Non-Dutch Interest
Interest which is charged by the lender on only the funds which have been disbursed to the borrower.

Non-Recourse
A loan that does not carry any personal liability of a guarantor excluding "bad acts" as defined by the loan documents.

Rating Agency
An agency that examines the securities and their underlying collateral and assigns credit ratings to the securities based on its benchmarks. Ratings range from triple-A, the highest rating, to triple-C, the lowest rating possible, and are a major influence on securitization structure and pricing.

Securitization
The creation of a new financial instrument representing an undivided interest in a segregated pool of assets such as commercial mortgages. The ownership of the assets is usually transferred to a legal trust or special purpose, bankruptcy-remote corporation to protect the interests of the security holders. This security is underwritten and sold by the capital markets in the form of bonds.

Title Insurance
Protects real estate owners and lenders against property loss or damage from mistakes or missing information from the title due to liens, encumbrances, or defects.

Wet Funding
A mortgage loan where the closing and availability of loan proceeds occurs once the original loan documents have been signed by the borrower(s) and delivered to the lender.