GLOSSARY

Effective Rent: If a landlord gives away free rent at the beginning of a lease term in order to sign a tenant, the "true" or "effective" rent is not the contractual rent after the free rent period, but some lower number. Normally you total the rent for the term and divide it by the number of months. For example: Free rent *for* one year and then $1.50 per square foot for two more years equals an effective rent of$1.00 per square foot ($1.50 + $1,50 = $3.00 divided by a 3 years = $1.00/sf)

Stabilized Rent: Assumes the property is 100% occupied at current market rents. Most often used by commercial realtors when trying to market a building whose rents are less than market.

Recourse: A loan where the lender preserves the right to go after a borrower for a deficiency judgment if the borrower defaults, the lender forecloses and the lender loses money.

Non-recourse: A loan where the lender and the borrower agree in advance that the lender has no right to go after the borrower for a deficiency judgment in the event of a foreclosure.

Carve-out: An exception provision in a non-recourse loan whereby the lender preserves the right to still seek damages for its losses. Non-recourse lenders will frequently create carve-outs for fraud and toxic contamination. If you defraud the lender or fail to disclose toxic contamination, the lender will therefore still be able to come back after you *for* its losses.

Third Party Reports: Reports from third part professionals such as appraisals, toxic reports, title reports, structural engineering reports, surveys, etc.

Loss of Yield Prepay: A huge prepayment penalty equal to essentially all of the interest until maturity, adjusted only slightly by the amount of interest the lender can earn in U.S. Treasuries between now and maturity.

Lock-Out Clause: A provision in a mortgage or deed of trust that prohibits early prepayments. You walk in with a wheelbarrow full of money and dump it on the lender's desk. He counts it and mails you back a cashier's check for the amount of your prepayment with a note saying you can't pay off his loan early.

Due-on-Encumbrance Clause: A provision in a mortgage or deed of trust that prohibits junior financing. If you put a second mortgage on the property, the lender has the right to accelerate the loan and demand that you pay him off in full.

<u>Tranche:</u> When investment bankers take a pool of commercial mortgages and issue mortgage-backed securities (securitization) based on the payments to be received on the pool of loans, they will often sell off different layers of risk at different yield. For example, they might take *that portion* of the loan that is between 0% and 30% loan-to-value and sell them off at 6.5%. Then *they might* take the layer between 30% LTV and 55% LTV and sell this off at 7.5%. Then they might take the layer between 56% LTV and 75% LTV and sell it off at 15%. In the event of a loss, the first investor to suffer the loss will be the owner of the layer between 56% and 75% LTV. Then if there is still more losses, the next highest layer looses. Each layer is called a tranche, and a typical securitization might have as many as 12 different tranches, each at a different yield and exposed to a different level of risk.