

Alt-A loan

appraisal board or appraiser board^(US)

Architecture and Design Scotland (A+DS)^(Scot)

bulk sale^(US)

collateralized bond obligation (CBO)

collateralized debt obligation (CDO)

Commission for Architecture and the Built Environment (CABE)^(Eng)

component value

distressed debt

exchange program

Federal Home Loan Banks (FHLBanks)^(US)

Federal Housing Finance Agency (FHFA)^(US)

green lease

government sponsored enterprise (GSE)^(US)

home valuation code of conduct (HVCC)^(US)

jingle mail

jus accrescendi praefertur oneribus^(Lat)

leveraged lease

low-doc loan or low-doc mortgage

mark-to-market

mass appraisal^(AmE)

option price

Pfandbrief (*pl.* Pfandbriefe)

realise^(BrE) or **realize**^(AmE)

resecuritization

special servicing

subprime loan or subprime mortgage

tenancy deposit scheme^(Eng)

toxic asset

Alt-A loan

An 'alternative documentation loan'. A mortgage loan granted on atypical terms. For example, a loan to a borrower with a good credit record, but where limited information is provided as to the borrower's income or assets; or a loan granted on favourable terms, such as a low initial interest rate or delayed principal repayments. An Alt-A loan is generally granted to such borrowers as the self-employed, divorcees or those whose pay is based predominately on commission. The interest rate on an Alt-A loan is usually slightly higher than a more conventional loan, but unlike a **subprime loan/subprime mortgage** there are not excessive fees, or penalties for early repayment.

An 'option' **adjustable-rate mortgage (ARM)**, which is granted at a low initial interest rate that is reset after a few years, may be considered as an Alt-A loan if the borrower would not have qualified for the loan when assessed on the basis of the true interest rate. Sometimes called an 'Alt-minus loan'. See also **toxic asset**. See also **toxic asset**.

appraisal board or appraiser board^(AmE)

A state agency that oversees the licensing and regulating of real estate appraisers in compliance with federal guidelines. The board assesses appraisal license holders to ensure that they have adequate education and experience and have demonstrated that they are sufficiently competent to provide a quality service in accordance with their specific credentials. See also **appraiser**.

Architecture and Design Scotland (A+DS)^(Scot)

Scotland's national champion for good architecture, design and planning in the built environment. Established by the Scottish Government in April 2005 A+DS has taken over the independent design review and advisory roles of the Royal Fine Art Commission for Scotland (RFACS). Architecture and Design Scotland's main aim is to inspire better quality in design and architecture in the public and private sectors so that Scotland's built environment contributes in a positive way to Scotland's quality of life and built heritage. It has a wider and more proactive role in advocating the benefits of good design than the RFACS through Enabling, Research and Communications activities. A+DS works with a wide range of organisations at national, regional and local level. Architecture and Design Scotland is a Non Departmental Public Body (NDPB) and operates as a Company Limited by Guarantee funded directly by the Scottish Government. A+DS acts as a key delivery mechanism for the objectives of the Scottish Government's Policy on Architecture for Scotland. See also www.ads.org.uk.

bulk sale^(US)

1. A sale, or a series of sales, of more than half of a seller's inventory, as measured by value, when that is not in the ordinary course of a seller's business (UCC § 6-102(c)). Such a sale may well be fraudulent, especially if

the sale is to a related corporation without a commensurate assumption of debt. A bulk sale of goods may not constitute a **fraudulent conveyance** if made at arm's length and in good faith, but it may still be fraudulent if made with the intention of avoiding creditor's claims, especially when such a sale is not carried out in a way that would not be normal for the business of a debtor. A sale of a large part of a debtor's inventory may be acceptable if notice of the sale is given to all creditors, has been published in a general circulation paper or filed with the appropriate government department, or the sale is carried out through an orderly public auction, and plans for the sale are submitted to all known creditors. After such a sale the funds for the sale should be held for a reasonable period of time to enable creditors to make claims against the money. Bulk sale laws based on Article 6 of the Uniform Commercial Code have been adopted by most states. Such laws also prohibit a sale of assets at below fair market value in a 'sweetheart sale' by which the seller continues to maintain control over the use or will benefit from a future disposition of the assets. As a rule, the 'bulk sale' laws do not apply to real estate assets, unless the primary use of the realty is to support a business or equipment is sold with real property. Sometimes called a 'bulk transfer'.

2. The sale of a pool of loans. In particular, the sale of a portfolio of mortgage loans in exchange for mortgage-backed securities. See also **mortgage backed obligation (MBO)/mortgage-backed security (MBS)**.

3. The sale of a large number of properties in bulk, especially by a bank or other lender as a means of reducing its holdings of corporate-owned or foreclosed properties. Such bulk sales are common at the time of a financial crisis, as at the time of the Savings and Loan Crisis in the late 1980's and early 1990s and the Subprime Mortgage Crisis in the late 2000's.

collateralized bond obligation (CBO)

A form of **collateralized debt obligation (CDO)** that backed by a portfolio of bonds. The bonds may be secured or unsecured, issued by corporations or sovereign obligors and may be senior or junior. The CDOs may comprise a particular group of bonds or may be any combination thereof. The CDO may even include direct loans.

collateralized debt obligation (CDO)

A collection of loans that are packaged together to create a single financial instrument. The packaged or 'securitized' loans may be backed by corporate bonds, credit card loans, mortgage or other asset-backed loans, auto loans, future receivables, any other types of debt, or a combination of such debts. The term may be used to refer to any form of securitized debt obligation, including collateralized bond obligations (CBOs), collateralized fund obligations (CFOs), asset-backed securities (ABSs), various synthetic credit structures (credit derivatives, credit default swaps, collateralized debt obligations of asset-backed securities (CDO of ABS) securities, or CDOs of CDOs (CDO squared or CDOⁿ), and many other complex packages of

financial instruments. The term collateralized debt obligation is generic, although it is sometimes used to refer to any structured financial instrument that is not solely a **collateralized mortgage obligation (CMO)**. See also **securitisation**^(BrE) / **securitization**^(AmE).

J.A. Tavakoli. *Structured Finance & Collateralized Debt Obligations* (Hoboken, NJ: 2008).

Commission for Architecture and the Built Environment (CABE)^(Eng)

The government's advisor on architecture, urban design and public spaces for England and Wales. CABE is funded by central government and champions well-designed buildings and public spaces. It advises central, local and regional government on architecture and urban design. In particular, CABE helps to formulate planning policy, and systems that can deliver the best design for schools, hospitals, homes, town centre developments, and public spaces. The Commission's members include architects, engineers, environmental specialists, academics, property developers and planners. CABE was formed in 1999 to replace the Royal Fine Arts Commission in England, which was first established in 1841 to advise central government, local government and others on all matters affecting the visual environment. See also www.cabe.org.uk.

component value

The value of a property broken down into the value of its separate interests, e.g. the value of the fee simple interest and the value of a leasehold interest. See also **fractional interest**^(US).

distressed debt

A **debt** that has a high risk that it will not be repaid. Any corporate debt that is trading at less than its face value may be considered distressed as the market has indicated that the recovery of the original principal is unlikely to be paid, although debt may not be considered truly distressed until there has been a default on payments of interest or principal or the borrower is considered likely to enter bankruptcy or plan major financial restructuring. See also **junk bond**.

exchange program

See **timeshare**.

Federal Home Loan Banks (FHLBanks)^(US)

A system of 12 regional banks that were first set up in 1932 to provide liquidity in the primary mortgage market. The FHLBanks and their members are a source of stable, low-cost funds to financial institutions for home mortgage, small business, rural and agricultural loans are the largest source of home mortgages and community credit in the United States. The FHLBanks raise money through bond issues and make loans to their 8,100 members, which includes 80% of the US mortgage lenders. FHLB paper earns high-grade investment rating through the implicit government backing on their

debt, although there is no explicit guarantee. An innovative component of the FHLBanks member services is their acquired mortgage assets (AMA) or mortgage programs. These FHLBank mortgage programs serve as an alternative to the secondary mortgage market. The programs split the associated risks according to expertise of the member lenders and Home Loan Banks. Member lenders keep the credit risk and maintain the customer relationship, while the FHLBanks manage the interest rate risk. Unbundling these risks allows the member and the FHLBanks to manage what each knows best. See also www.fhlbanks.com.

Federal Housing Finance Agency (FHFA)^(US)

An independent federal agency that was created on July 30, 2008, under the provisions of the Federal Housing Regulatory Reform Act of 2008 (Division A of the Housing and Economic Recovery Act of 2008) (12 USCA § 4568 ??), to promote “a stable and liquid mortgage market, affordable housing, and community investment through safety and soundness oversight of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks”, Mission Statement of FHFA (www.fhfa.gov). FHFA was created as a successor to the Federal Housing Finance Board (FHFB) and the office of Federal Housing Enterprise Oversight (OFHEO), absorbing the powers and authority of both agencies. FHFB has a statutory responsibility to ensure that Fannie Mae, Freddie Mac (the primary sources of secondary mortgage financing) and the FHLBanks (one of the principal sources of primary mortgage financing) operate in a financially safe and sound manner, are adequately capitalized, able to raise funds in the capital markets, and carry out their housing finance missions. It also has the power to place a **government sponsored enterprise (GSE)** into receivership or conservatorship. (On September 4, 2008 it placed Fannie Mae and Freddie Mac into conservatorship.) See also **Federal National Mortgage Association (FNMA or Fannie Mae, Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), Federal Home Loan Banks (FHLBanks)**.

government sponsored enterprise (GSE)^(US)

One of a group of privately held (or predominately privately held) corporations created by the United States Congress to encourage the flow and reduce the cost of capital to targeted sectors of the economy, such as the residential or farm mortgage market. These GSEs include the twelve **Federal Home Loan Banks (FHLBanks), Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), Federal National Mortgage Association (FNMA or Fannie Mae, Government National Mortgage Association (GNMA or Ginnie Mae), Federal Agricultural Mortgage Corporation (FAMC or Farmer Mac), the Federal Farm Credit Banks Funding Corporation (www.farmcredit-ffcb.com).** See also **Federal Housing Finance Agency (FHFA)**.

green lease

A lease that aims to ensure the lease property is energy efficient. In particular, a green lease should set out the landlord's and tenant's respective responsibility for energy efficiency and such aspects as waste recycling. Matters covered should include energy performance rating, environmental management policies, metering and monitoring data, policy for energy compliance in the common areas, audit and reports on the efficiency of the building systems, recycling systems and any environmental issues such as asbestos abatement. The landlord should formulate an environmental policy, including such aspects as energy monitoring and targets for energy conservation, water consumption, environmental policies, building management systems and waste recycling and these should then be made available to the tenant's for their implement wherever possible ??

home valuation code of conduct (HVCC)^(US)

A code of practice that has been established for appraisals carried out when a loan is to be made or supported by the **Federal National Mortgage Association (Fannie Mae)** or the **Federal Home Loan Mortgage Corporation (Freddie Mac)**. The primary aim of the Code is to eliminate conflicts of interest, fraud and other misconduct in the mortgage industry. The Code will be effective for single-family mortgage loans (except government-insured loans) that are originated on or after January 1, 2009, and delivered to Fannie Mae or Freddie Mac. ??

The Office of Federal Housing Enterprise Oversight (OFHEO) (www.ofheo.gov), an independent agency in the Department of Housing & Urban Development, was appointed in 2008 to oversee Fannie Mae and Freddie Mac and to establish a regulatory regime to guide those organizations in their efforts to resist and report mortgage and appraisal fraud or suspected fraud. (From July 30, 2009 the OFHEO ceased to exist and its functions were taken over by the **Federal Housing Finance Agency (FHFA)**.)

The Code of Conduct prohibits a lender, or its representative, influencing in any way the work of an appraiser. This does not prohibit the lender (or any third party acting on behalf of the lender) from requesting that an appraiser (i) provide additional information or explanation about the basis for a valuation, or (ii) correct objective factual errors in an appraisal report. In underwriting a loan, a lender is prohibited from using any appraisal report prepared by an appraiser employed by the lender, an affiliate or any entity that, in whole or in part, owns or is owned by the lender. Any lender making a loan that is to be originated and delivered to Fannie Mae or Freddie Mac shall certify, warrant and represent that the appraisal report was obtained in a manner consistent with the Code of Conduct.

(www.efanniemae.com/sf/guides/ssg/relatedsellinginfo/appcode/pdf/appraisalcode.pdf).

jingle mail

The sound of keys being returned through the letter box when an owner leaves his property and hands it back to the lender. This may happen in cases of dire necessity when the owner is unable to make mortgage payments and there is no equity left in the property. See also **recourse**.

jus accrescendi praefertur oneribus^(LAT)

The right of survivorship is preferred to encumbrances (2 *Co Litt* 185a). A principle that in the case of a **joint tenancy** a charge or encumbrance (but not a mortgage) given by one of the joint tenants will not override the right of survivorship. Thus, if the grantor predeceases the other joint tenant the charge or encumbrance is extinguished. However, in English law and in states in the US that adhere to the 'title' or hybrid' theory of mortgages, the grant of a charge or mortgage will sever the joint tenancy as the two forms of encumbrance essentially have the same effect (*First National Securities Ltd v Hegerty* [1985] QB 850, 862G-H, [1984] 3 All ER 641; *Yannopoulos v. Sophos*, 243 Pa Super 454, 365 A.2d 1312). In US jurisdictions that adhere to the 'lien' theory of mortgages, opinion is divided.

leveraged lease

A lease that is entered into so the rental income is secured to cover the cost of servicing a mortgage secured against the property. Thus, the lease involves three parties, the lessor, lessee and the lender. The mortgage loan secured on the property then provides that the lender has an assignment of the lease and the lease payments as additional security for the loan.

low-doc loan or low-doc mortgage

See **subprime loan/subprime mortgage**.

mark-to-market

1. The revaluing of a financial instrument, security or derivative to its current market price instead of the book value or cost. A security underlying a futures contract should be marked-to-market to determine the cash flow requirements for a **margin** position.
2. An accounting requirement that the assets of an organization are reported at their **fair value**. Sometimes called 'fair-value accounting'. A requirement that was made law in the US in 1993 after the Savings and Loan crisis when banks used historical values or cost instead of recognizing the declining value of their assets, especially real estate assets. A requirement that may create problems when the market price for an asset or liability is difficult to determine, as when there are few, if any, buyers (as when there is a significant shortage of liquidity or credit). In such situations, the rule may be relaxed to avoid a firm having to use forced sale prices or prices that are artificially low when taking into account determinable cash flows. Thus, assets or liabilities for which there is an active market, a 'Level 1' assets or liabilities, should be marked-to-market. 'Level 2' assets or liabilities – assets or liabilities for which

there is a no quoted prices nor an active market – can be ‘marked-to-model’ based on the best assessment of fair value based on prices for identical or similar assets or liabilities in the same or other markets. ‘Level 3’ assets or liabilities – assets or liabilities for which there is no market or any comparable value – are reported on the basis of the management’s best assessment of value, using the best information available. In addition, it may be less essential to revalue assets that are not to be traded in the short term. However, the financial statement of a company should disclose the amount of the assets or liabilities in each of the above categories so that they reflect a true position of the balance sheet at the date of the accounts.

US Statement of Financial Accounting Standards (FAS 157), ‘Fair Value Measurement’ §§ 18-30. www.fasb.org

3. In the case of a mutual fund, the setting of the net asset value based on the current market price of the underlying investments. This is normally done on the basis of prices at the close of each trading day.

mass appraisal ^(AmE)

A systematic appraisal of a group of properties as of the same date and using similar methodology. A mass appraisal is generally carried out using uniform data and the results are compiled so that they may be reviewed and analysed statistically. A mass appraisal is generally carried out to enable a review of the market levels of the subject properties, especially to enable a statutory authority to adjust property for *ad valorem* property taxation. The valuation may also be carried out for statistical or economic studies.

Appraisal Standards Board of the Appraisal Foundation. Uniform Standards for Professional Appraisal Practice (USPAP) (Washington, DC: 2008-2009 Edition), ‘Definitions’ & ‘Standard 6: Mass Appraisal, Development and Reporting’ (www.appraisalfoundation.org).

IVSC. *International Valuation Standards* (8th ed. London: 2007), Guidance Note 13 ‘Mass Appraisal for Property Taxation’.

option price

The price paid by the purchaser of an **option** for the right to buy or sell a property, security or commodity at a specified time in the future. Also called the ‘option premium’. The price payable when the option is exercised is the ‘exercise price’ or ‘strike price’ (regardless of the market price).

Pfandbrief (pl. Pfandbriefe)

A bond issued by a German bank and backed by long-term assets (such as mortgage loans ‘*Hypothekendarpfandbrief*’ and ship loans ‘*Schiffspfandbrief*’) or public sector debts. When backed by a number of property mortgages a Pfandbrief is similar to a **mortgage-backed obligation**. Such forms of security have been in existence for over 200 years. When backed by mortgage loans they are generally rated triple-A as the loan-to-value ratio cannot be greater than 60 percent and generally the borrowers have a good credit rating. A Pfandbriefe

have an average maturity of five to seven years, may not be prepaid and are retained on the balance sheet of the lending bank. However, they may be pledged a collateral. Such securities are regulated by the Pfandbrief Act (Pfandbriefgesetz), which covers such matters as supervision by a German supervisory authority (BaFin or Bundesbank), transparency, appraisal standards, disclosure and monitoring and stress testing standards. Also, in the event of insolvency (which is virtually unheard of), there is special priority granted to creditors. See also www.pfandbrief.org

realise^(BrE) or realize^(AmE)

1. To sell and convert into **cash**. To convert an asset into cash or **money**. To dispose of an asset in order to provide cash that can be distributed to one or a number of investors or beneficiaries. See also **conversion**.
2. To convert an intangible asset into **real property**.

res securitization

The packaging of a number of existing securitized debt obligations into a new tradable security. Securitized debt obligations may be packaged together either as a collection of similar obligations (collateralized mortgage obligations (CMOs), real estate mortgage investment conduits (REMICs), or commercial mortgage-backed securities (CMBSs)), or in the form of a diversified or mixed class of obligations (credit card loans and mortgage loans). As a rule classes of assets or loans are kept together to assist risk assessment, but creating 'multisector' pools of structured assets in order to provide diversification has become more prevalent. A pool of securitized debts is generally referred to as a **collateralized debt obligation (CDO)**, although a multisector securitized pool of debts is also a CDO. Nearly all forms of asset-backed securities (ABSs) and mortgaged-backed securities (MBSs) have found their way into res securitized CDOs. See also **mortgage-backed obligation/mortgage-backed security, securitization**.

special servicing

A specialist credit management service that aims to maximize the return on troubled loans and protect the value of assets secured by such loans. A special servicer offers advice to lenders and servicers to prevent and correct monetary and non-monetary default. This may include predictive analysis such as assessing the investment value of loans or securities, analysing default issues such as the time loans have been in default, the frequency or severity of defaults, foreclosure time frames and bankruptcy risks. A special servicer also offers advice on collection of arrears, restructuring loans, negotiating moratoriums, ensuring the protection of loans by the payment of taxes and insurance and arranging refinancing to eligible borrowers. In addition, the special servicer is required to pursue foreclosure and repossession when other avenues have been exhausted. A special servicer unit may include valuation,

facilities management, engineering, environmental, insurance, legal and accounting services. See also **servicer**.

subprime loan or subprime mortgage

A loan made to a borrower that has a poor credit record or to a party who would not obtain a loan from most other finance sources. For example, a borrower who has no income, no job or no assets (NINJAs); does not wish to provide any proof of income or details of assets or liabilities; has an adverse credit record; has an existing high level of debt (especially when combined with an existing mortgage to another lender); or one who has made an arrangement to prevent immediate bankruptcy. Generally a subprime loan is secured by a home mortgages and as a rule the borrower pays a higher fee and a higher interest rate compared to a conventional mortgage loan to compensate the lender for the greater risk of default. It is common practice for a subprime loan to place limits on the ability of the borrower to reduce the interest rate during the term of the loan and the loan may well carry a penalty for early repayment. A mortgage granted on the basis of limited information or documentation provided by the borrower may also be called a 'low-doc mortgage'. Also spelled 'sub-prime'. See also **Alt-A loan**.

tenancy deposit scheme^(Eng)

A scheme that is set up for the purpose of safeguarding a tenancy **deposit** paid in connection with an **assured shorthold tenancy (AST)** and facilitating the resolution of disputes arising in connection with such deposits (Housing Act 2004, ss. 212–5, Sch. 10, as amended). In England and Wales, with effect from 4 April 2007, any landlord or agent who takes a deposit (for rent up to £25,000) under an AST must protect that deposit using a government-authorised tenancy protection deposit scheme. Such a scheme may take the form of either (a) a "custodial scheme" or (b) an "insurance scheme". The custodial scheme requires that an amount equivalent to the deposit is paid into a designated account maintained by a "scheme administrator" solely for that purpose. Under an insurance scheme the deposit may be paid to the landlord, but on the basis that the agreed amount will be repaid to the tenant or, if not repaid due to a dispute, will be paid into a designated account held by the scheme administrator and the administrator is required to set up insurance against the possibility of the landlord failing to reimburse any amount due to the tenant. Amounts held in the designated account are only released to the landlord or tenant when both parties are in agreement or on the resolution of any dispute. The tenant can apply for a court order requiring the return of any deposit or its protection by one of the schemes. Failure to comply with such an order may require the payment of compensation equal to three times the value of deposit within 14 days of the order. If the deposit is not protected by one of the schemes, it is not possible for the landlord to serve notice on the tenant and obtain possession of the demised premises (HA 2004, s. 215). The scheme must also provide a facility

to enable any dispute to be resolved without recourse to litigation (HA 2004, s. 212, Sch. 10).

In addition, the landlord is required to give the tenant certain prescribed information, such as the address of the property to which the tenancy applies, the amount of the deposit, contact details of the scheme administrator, the parties to the tenancy and any other relevant party, the circumstances when all or part of the deposit may be retained by the landlord by reference to the terms of the tenancy, the procedures that are applicable to the scheme, the facilities for dispute resolution, together with a certificate of authenticity of the information provided by the landlord and confirmation that the landlord has given the tenant the opportunity to sign any document containing information provided by the landlord as being accurate to the best of his knowledge and belief (The Housing (Tenancy Deposits) (Prescribed Information) Order 2007 (SI 2007/797); www.opsi.gov.uk/si/si2007/pdf/uksi_20070797_en.pdf).

For this purpose a “deposit” is defined as “a transfer of property intended to be held (by the landlord or otherwise) as security for – (a) the performance of any obligations of the tenant, or (b) the discharge of any liability of his arising under or in connection with the tenancy”, HA 2004, s. 213(8). Any such deposit can only take the form of money (HA 2004, s. 213(7)). See also www.direct.gov.uk/en/TenancyDeposit/index.htm; www.opsi.gov.uk/si/em2007/uksiem_20070796_en.pdf; www.communities.gov.uk/housing/rentingandletting/privaterenting/tenancydepositprotection

toxic asset

An asset, or more usually a security, that is worth well below the price originally paid and, therefore, could have a detrimental effect of the holder. In particular, a securitized loans where the value of the underlying assets are likely to be far less than the amount due on the loan. A toxic asset may take the form of a **collateralized mortgage obligation (CMO)** or **mortgage-backed security (MBS)**, a **collateralized debt obligation (CDO)**, or any similar loan that is backed by high risk debt. The toxicity of the ‘asset’ often arises because the security is mispriced or inadequately rated so that it does not adequately reflect the true risk of default by the borrowers or does not take into account the counter party risk (the chance that the party on the other side of the transaction may be unable to deliver on its obligation). See also **Alt-A loan**, **distressed debt**, **mark-to-market**, **subprime mortgage**.