Glossary

A

Acquisition Financing–Funds obtained for buying vacant or underused land or properties that require extensive rehabilitation or remediation.

Adaptive Re-Use–The rehabilitation of old property for a new purpose.

Adjustable Rate Mortgage (ARM)–A mortgage loan that allows the interest rate to be changed at specific intervals over the life of the loan.

Affordable Housing–Housing units for which the occupants pay no more than 30 percent of their gross income. Furthermore, housing costs over 30 percent are considered to be an excessive cost burden, and costs over 50 percent are considered a severe cost burden.

Amortization–Reduction of debt by regular payments of interest and principal sufficient to pay off a loan by maturity.

Annual Percentage Rate (APR)–Finance charge over a full year, expressed as a percentage, reflecting all costs of the loan. It is disclosed as a requirement of the federal Truth in Lending Act.

Annual Report–A yearly report of an organization's financial statements and accomplishments.

Appreciation–Increase in the value of property due to improvements made to the property or the surrounding area by the owner or other parties, including the government and/or general market forces.

Articles of Incorporation–The instrument by which a corporation is formed that states the purpose, place of business, amount of capital stock, amount of paid-in capital, and the number and names of the officers.

Assets–Any advantages or resources, goods or services that are available for use in community development. All resources having commercial or exchange value that are owned by or due an individual, business, institution or corporation.

Assumable Loan–A loan that the lender is willing to transfer from the previous owner of the home to the new owner, sometimes at the same interest rate, sometimes at a new rate. An assumable loan can make a home more attractive to potential buyers.

Audit–An official examination of the financial records of an organization to ensure they are complete and accurate and they conform with generally accepted accounting principles.

B

Balance Sheet–A financial statement showing a "snapshot" of the assets, liabilities and net worth (fund balance) of an organization on a given date.

Bank Holding Company–A company that owns or controls one or more banks. The Board of Governors of the Federal Reserve System has responsibility for regulating and supervising bank holding companies. Among other things, the Board approves acquisitions and mergers and inspects the operations of such companies. This authority applies although a bank owned by a holding company may be under the primary supervision of the Comptroller of the Currency or the Federal Deposit Insurance Corp.

Bank-Owned Community Development Corporation (CDC)–A corporation, either for-profit or nonprofit, that is capitalized by one or more banks for the purpose of making debt and/or equity investments in projects that promote community and economic development, including affordable housing. The corporation can be a wholly owned subsidiary of an individual bank or bank holding company, or a shared ownership corporation among several banks, other financial institutions, community organizations, and public and private investors. Requirements and restrictions on a bank-owned CDC's structure and activities vary according to regulatory agencies.

Board of Directors–The policy-making unit of the organization that is legally responsible for the corporation.

Business Incubator–A facility that provides below-market rents, shared services and technical assistance to new businesses. Tenants typically include manufacturing, service and technology firms. Sponsors may be private developers, public agencies or universities.

Business Plan–A document prepared by an organization that guides the development, operation, marketing and financial management of the organization.

Bylaws–The rules governing the internal affairs of an organization.

C

Capacity–One of the five Cs of credit. Capacity measures the applicant's ability to repay the loan on a timely basis.

Capital–One of the five Cs of credit. Capital measures the net value of individual or organizational assets. More widely defined, capital is the existing stock of resources that have been produced and includes money, goods, services and information used for the production of further wealth. Capital can be in the form of money, raw materials, technology, human labor and information.

Cash Flow–Incoming cash to the organization less the outgoing cash during a given period.

Certified Development Company (504 Corp.)–A nonprofit corporation that provides small businesses with 10- and 20-year private Small Business Administration (SBA) guaranteed financing. The company's structure and activities must meet certain SBA guidelines, including a membership representing public agencies, lenders, businesses and community organizations.

Character–One of the five Cs of credit. Character involves an assessment of the applicant's willingness and ability to repay a loan on a timely basis.

Closing–The transfer of ownership of a property from seller to buyer in accordance with a sales contract.

Closing Costs–Expenses incidental to the sale of real estate, such as loan fees, title fees, etc.

Co-Housing–A hybrid form of housing that combines private and communal forms of living. Residents occupy individual housing units and share additional kitchen, dining and recreational facilities with other residents. Ownership and design may take a variety of forms. Limited equity cooperatives are a common form of urban co-housing.

Collateral–One of the five Cs of credit. Collateral is the specific property pledged by a borrower to secure a loan or other credit. The lender has the right to sell the collateral to liquidate the loan if the borrower defaults. Collateral serves as a backup source of loan repayment.

Community Action Agency (CAA)–A publicly and privately funded agency that provides social support and self-sufficiency services to lower-income residents in surrounding communities, such as subsidized day care, development and management of affordable housing and employment training.

Community-Based Organization–A nonprofit organization that works to serve the community in which it is based. Services provided are varied and may include health, housing, education, employment and training.

Community Development Block Grants (CDBG)–Flexible federal aid intended for use by cities and towns to promote neighborhood revitalization, economic development and improved community facilities and services. Specific uses of the funds are left to the discretion of local governments. Funds are administered by either state or city offices, depending on the size of the city or town. (See Entitlement Community.)

Community Development Corporation (CDC)–A business-oriented and entrepreneurial community-based organization owned and controlled by community residents engaged in affordable housing, social services, business and/or commercial development. Although CDCs vary in size and scope, the vast majority are nonprofit, tax exempt 501(c)(3) organizations. All CDCs have a board of directors generally comprised of local residents, public officials, funders, bankers, relevant professionals and/or community leaders.

Community Development Credit Union (CDCU)–A nonprofit credit union chartered to serve the members of a low-income community. The National Credit Union Administration regulates federally chartered CDCUs. State-chartered CDCUs are regulated by the state. A CDCU's services vary, depending on its level of capitalization. In general, CDCUs offer services not provided by mainstream financial institutions, such as small loans at below-market rates to individuals who might not otherwise qualify for bank loans. CDCUs rely heavily on banks, foundations and other investors for deposits to support their work.

Community Development Finance–Economic growth in which people in a community come together and make decisions to organize and pool their assets and resources for the purpose of addressing unmet needs and opportunities. This particular type of finance includes any activity that promotes the welfare and good of the community.

Community Development Financial Institution (CDFI)–Financial institutions that have community development as their primary mission and that develop a range of programs and methods to carry out that mission. They find ways to make loans that might be considered undoable by a conventional bank, and they link financing to other developmental activities. CDFIs take a variety of structures. Some are chartered as banks, some as credit unions and others are non-regulated nonprofit institutions that gather private capital from a range of investors for community development lending and investing.

Community Development Loan Fund (CDLF)–A private, nonprofit organization that channels private investment capital to community-based organizations and projects. It may operate independently or as part of a community-based organization. Lenders to the fund may have some control over the term and rate of interest on the loans. The term and rate are generally more flexible than they are with conventional financing. The lenders may also have some control over the use of their funds. CDLFs can also provide borrowers with technical assistance to reduce the chance of losses on higher risk loans. Because CDLFs are not chartered or licensed, they have flexibility in their organizational structure, although they may be subject to state laws and regulations. In most cases, they are incorporated as nonprofit 501(c)(3) organizations.

Community Land Trust (CLT)–A private nonprofit corporation that acquires and holds land in perpetuity to be developed for specific community uses, primarily affordable housing. CLTs control the terms of sale of all properties and improvements on the land to maintain long-term interests, while allowing leaseholders to retain general ownership rights of their properties. Local residents, including leaseholders on CLT-owned land, manage CLTs.

Community Reinvestment Act (CRA)–Enacted by Congress in 1977 to encourage banks and thrifts to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. Such efforts by banks and thrifts must still be consistent with safe and sound lending practices.

Comparable–Real property that can be used to establish the value of a specific property by comparison.

Condition–One of the five Cs of credit. Condition attempts to measure external events that may affect the level of risk on a loan. It is important to community development because there are many outside conditions and variables at work in the community that may effect the outcome of the project and the ability of a community development loan to be repaid.

Consolidated Plan (formerly known as the Comprehensive Housing Affordability Strategy, "CHAS")–A five-year planning document required of state and local governments as a condition for receiving federal funds for housing and community development programs from the Department of Housing and Urban Development. The plan must describe the community's housing and community development needs and conditions. The plan must also describe how low- and moderate-income populations will benefit. In addition, the plan must describe the resources, policies and programs that exist or will be created to meet these needs. The plan must be updated annually by the participating jurisdiction to remain eligible for funding.

Construction Loan (also known as an interim loan)–A short-term loan to finance the cost of construction of plants or buildings. The disbursements from the loan are made in stages as construction progresses. The loan is repaid when construction is completed. The repayment money usually comes from the proceeds of a mortgage loan.

Consumer Credit Protection Act–A federal law enacted in 1968, subsequently amended and consisting of the following consumer credit protection laws: Truth in Lending Act, Fair Credit Reporting Act, Equal Credit Opportunity Act, Fair Debt Collection Practices Act, Electronic Funds Transfer Act, Fair Credit Billing Act and Consumer Leasing Act.

Contingency–A condition put on an offer to buy a home. For example, the prospective buyer makes an offer contingent on the sale of his or her present home.

Conventional Mortgage–A type of mortgage not insured by either the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs (VA) or any other agency of government.

Cooperative Housing–A form of housing in which residents form a corporation for the purpose of owning and managing the property collectively. Membership in the cooperative gives them the right to occupy a unit and take part in the management and operation of the building. Residents own shares in the corporation proportional to their share of the mortgage, rather than owning individual units. If a resident leaves, the new resident purchases the shares and, thus, assumes responsibility for part of the mortgage.

County Industrial Development Corporation–A private, for-profit corporation operating as a venture capital funding vehicle for new or expanding private enterprises. It provides funding by purchasing equity securities in a small business with the expectation of repayment in profits and dividends but subject to the hazards of ownership.

Credit Enhancements–Special arrangements and programs, usually from public sources, that affect the evaluation of a potential borrower's creditworthiness. Enhancements mitigate risks associated with the borrower or project. The enhancements include mortgage insurance, tax credits, rent supplements, interest rate subsidies, loan guarantees, structure, terms, conditions and pricing of credit products, underwriting flexibility, loan-to-value ratios, sweat equity, amortization to debt service, and tax abatement.

Cs of Credit–Credit criteria all beginning with the letter "c," used by lenders to evaluate an applicant's creditworthiness. The criteria vary, but generally they include character, capacity, capital, collateral and condition.

Cycle–A course or series of events or operations that recur regularly and usually lead back to the starting point. An understanding of unique characteristics as exhibited in the cycle of an economy, of a market or of a business is essential to the community development finance practitioner. Cycles reveal information about the nature of the project, the amount of financing needed, the appropriate sources of repayment, the timing and sequence of project steps, and the risks associated with project implementation and finance.

D

Debt Coverage Ratio–The ratio of net yearly income to total yearly debt service.

Debt Service–Loan principal and interest payments.

Deed–A legal instrument that identifies property ownership.

Delinquency–The failure to make a loan principal or interest payment on time.

Demographic Data–Information about the characteristics of human populations and households. The data include size, income, age, educational attainment, wealth, race/ethnicity, gender and household living arrangements.

Department of Housing and Urban Development (HUD)–A Cabinet-level U. S. government agency established to implement certain federal housing and community development programs.

Department of Veterans Affairs (VA)–An agency of the federal government that provides, among other services, guaranteed home loans for veterans. Generally, a veteran who has served (beyond basic training) more than 120 days' active duty in the armed forces is eligible for a home loan with no down payment, plus other benefits. The terms and rates of such loans are usually more favorable than those of conventional home loans.

E

Earnest Money–A deposit made by a purchaser of real estate to show good faith. The broker places it in an escrow/trust account until closing, when it becomes part of the down payment or closing costs.

Economics–The study of choice and decision-making in a world with limited resources.

Enterprise Zone–An economically depressed area that has been targeted for revitalization by a city or state through tax and other incentives given to companies that locate or expand their operations within the zone.

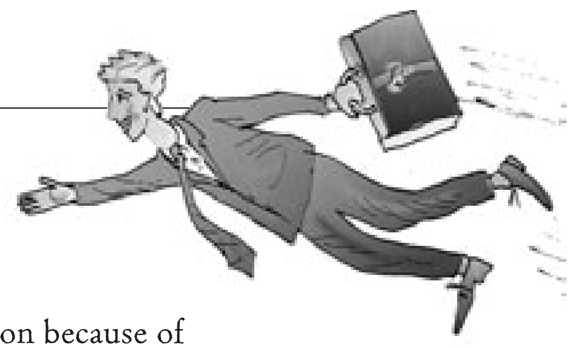
Entitlement Community–A metropolitan city or urban county with a population of at least 50,000 which, because of its size, is entitled to receive annual Community Development Block Grant funds directly from the federal government. Nonentitlement communities receive CDBG funds through a state agency, usually an office of community or economic development.

Equal Credit Opportunity Act–A federal law, enacted in 1974, aimed at discouraging discrimination by lenders on the basis of sex or marital status. It was amended in 1976 to prohibit discrimination on the basis of age, race, color, religion, national origin or receipt of public assistance. The scope of the act covers all commercial and consumer credit transactions.

Equity–The ownership interest in a project after liabilities are deducted.

Escrow–Funds to be paid by a second party to a third party for expenses on property held by the first party. For example, funds held by a bank, often collected with monthly mortgage payments, to meet tax bills and insurance premiums.

F



Fair Housing Act–Title VIII of the Civil Rights Act of 1968, which, among other requirements, prohibits lenders from discriminating in their housing-related lending activities against any person because of race, color, religion, national origin or sex. The act covers transactions regarding the sale or rental of housing, including for the purpose of purchasing, constructing, improving, repairing or maintaining a dwelling.

Fair Market Value– The price at which a willing seller will sell and a willing buyer will buy, in an arm's length transaction, when neither is under compulsion to sell or buy and both have reasonable knowledge of relevant facts.

Federal Agricultural Mortgage Corp. (Farmer Mac)–A federally chartered, privately owned corporation created in 1987 by the Agricultural Credit Act. Farmer

Mac is a secondary market for agricultural real estate and rural housing loans. It improves the availability of mortgage credit to farmers, ranchers and rural homeowners by purchasing qualified loans from lenders, thereby replenishing their source of funds to make new loans.

Federal Deposit Insurance Corp. (FDIC)–An agency of the U.S. Department of Treasury that insures accounts at most commercial banks and mutual savings banks. The FDIC also has primary federal supervisory authority over insured state banks that are not members of the Federal Reserve System.

Federal Home Loan Mortgage Corp. (Freddie Mac)–A congressionally chartered private agency that purchases home mortgage loans not insured by the FHA or guaranteed by the VA from originating financial institutions. It adds liquidity to the mortgage market by purchasing qualified loans from lenders, thereby replenishing their source of funds to make new loans. Freddie Mac also offers programs that offer greater flexibility in underwriting guidelines for lower-income homebuyers.

Federal Housing Administration (FHA)–An agency within the Department of Housing and Urban Development that administers loan programs, loan guarantee programs and loan insurance programs designed to make more housing available.

Federal National Mortgage Association (Fannie Mae)–A congressionally chartered private agency that specializes in buying mortgage loans, mostly from mortgage bankers. It adds liquidity to the mortgage market by purchasing qualified loans from lenders, thereby replenishing their source of funds to make new loans. Fannie Mae also offers programs that offer greater flexibility in underwriting guidelines for lower-income homebuyers.

Federal Reserve Bank–One of the twelve operating arms of the Federal Reserve System. The 12 banks are located throughout the nation; each serves a geographic area, commonly called a "Reserve district." Together with their 25 branches, the banks carry out various System functions and duties. Reserve banks promote community and economic development, as well as fair and equal access to credit. They also conduct research on the economy, supervise banks in their regions and provide financial services to banks and the U.S. government.

Federal Reserve System–The central bank of the United States, created by Congress in 1913 in response to the nation's recurring banking panics. The System consists of a seven-member Board of Governors in Washington, D.C., 12 regional Reserve banks and depository institutions that are subject to reserve requirements. All national banks are members, and state chartered banks may elect to become members. State member banks are supervised by the Federal Reserve System.

Financial Statements–A written record of the financial condition of an individual, business or organization. Normally, it will contain both a balance sheet and a profit and loss statement; it might also include written notes on substantive changes in financial condition from the time of the last report.

Financing Fee–Fees including costs incurred in securing a loan, brokerage fees and appraisal fees, which are amortized over the life of a loan. The fees are based on a percentage of the loan amount, and one point is equivalent to 1 percent.

Foreclosure–The legal process used to enforce the payment of debt secured by a mortgage; the property is sold to satisfy the debt.

Forward Commitment–A lender's promise to lend money, usually at a specified rate within a given period.

G

Government National Mortgage Association (Ginnie Mae)–A government organization established to assist in housing finance with two main programs: to guarantee payments to investors in mortgage-backed securities and to absorb the write-down of low interest rate loans that are used to finance housing opportunities for lower-income households.

Grants–A gift usually given by a foundation, a government agency or others that may take the form of money, land or in-kind services. Grants require no repayment but have limitations placed by the grantor. Grants provide equity to a project. Debt is reduced, improving the project's feasibility and affordability.

H

HOME–The Home Investment Partnership Act was created under Title II of the National Affordable Housing Act of 1990 and is funded by HUD. HOME provides funding to states, metropolitan cities, urban counties and contiguous units of governments to provide affordable housing for low- and moderate-income populations. To receive HOME funds, a jurisdiction must submit a Consolidated Plan to HUD for approval.

HOME Investment Trust Fund–A line of credit established by HUD for each participating jurisdiction whose Consolidated Plan and program descriptions are approved. The fund provides financing for all affordable housing projects outlined in the participating jurisdiction's plan.

Home Mortgage Disclosure Act (HMDA)–A federal law enacted in 1975, then amended and extended permanently in 1988. The Home Mortgage Disclosure Act (HMDA) requires most depository institutions and certain for-profit, non-depository institutions to collect, report and disclose data about applications for, and originations and purchases of, home mortgage loans, home improvement loans and refinancings. Data reported include the type, purpose and amount of the loan; the race or national origin, sex, and income of the loan applicant; and the location of the property. The purposes of HMDA include helping to determine whether financial institutions are serving the housing needs of their communities and assisting in fair-lending enforcement.

Homeowner's Insurance–Insurance that protects the homeowner from "casualty" (losses or damage to the home or personal property) and from "liability" (damages to other people or property). Required by the lender and often included in the monthly mortgage payment.

Homesteading–A status provided to a homeowner's principal residence by some state statutes that protects the home against judgments up to specified amounts. This includes the home, the house and the adjoining land where the head of the family dwells. The exemption from seizure or forced sale is purely statutory.

Housing Partnership (HP)–A nonprofit organization that brings together the interests, resources and financial support of public agencies, local businesses, banks and community organizations to increase the supply of affordable housing in a particular city or state. Working with other local nonprofit organizations, HPs generally design and implement projects, secure financing and provide technical assistance.

Housing Trust Fund (HTF)–A fund established by state legislation or a city ordinance that uses public capital to finance the construction or renovation of affordable housing. The fund is designed to have an ongoing source of revenue, usually from tax- or program-generated revenue, or from development ordinance requirements. HTFs are typically administered by a public agency.

Human Capital–The health, strength, education, training and skills that people bring to their jobs, organizations and communities.

I

Inclusionary Zoning–A zoning ordinance that requires a developer to include affordable housing or its funding as part of the development. Typically, a developer makes a certain percentage of the units affordable in exchange for a density bonus.

Income Statement (Profit and Loss Statement)–A report of a company's revenue, expenses and resulting income or loss for a period of time.

Interest–Money paid for the use of money, usually expressed as a percentage of money borrowed.

Interest Subsidy–A grant to reduce the interest a borrower is required to pay on a loan. Such a subsidy may take one of three forms: a direct cash grant to a lending institution to write down the bank's interest rate on a business or housing loan; a government-sponsored, low-interest loan subordinated to a participating lender; or a lower-than-market-rate loan to a qualified borrower as a result of an advance from a public entity. Projects that qualify for such subsidies are deemed to provide some public benefit.

Investor–An organization, corporation, individual or other entity that acquires an ownership position in a project, thus assuming risk of loss in exchange for anticipated returns.

L

Land Bank–A public agency that provides below-market financing for the purchase or refinancing of undeveloped land slated for affordable housing or economic revitalization projects.

Lease-Up Period–The amount of time it takes for a building to reach a stable occupancy rate and income stream.

Lease with an Option to Purchase–A lease that gives the lessee (tenant) the right to purchase the property at an agreed upon price under certain conditions.

Letter of Credit–A document that approves the credit of an individual or corporation and enables it to borrow or get bank funds.

Leverage–The ability to use a small amount of funds to attract other funds, including loans, grants and equity investments.

Liabilities–Obligations of various natures; what one owes.

Lien–A claim against property for the payment of a debt, judgment, mortgage or taxes under which claim the property may be seized and sold to satisfy the debt.

Limited Appreciation–A restriction on the amount of appreciation that a property owner can realize at the point of sale.

Linked Deposit–The deposit of public funds by a city or state government in exchange for a commitment from the financial institution to provide low-interest loans to qualified borrowers. These deposits are not necessarily earmarked for particular uses, but are conditional in the sense that they will be withdrawn if the institution's record worsens.

Local Initiatives Support Corp. (LISC)–LISC assists neighborhood-based Community Development Corporations (CDCs) in the development of affordable housing, commercial and community facilities, and job-creating industrial projects by marshaling private and public resources, extending financial assistance in the form of loans, grants and loan guarantees, and by providing technical support.

Loan Consortium–A collaboration among financial institutions that pools capital used to finance affordable housing and economic development projects. The consortium can be structured as an independent nonprofit corporation or an informal lending agreement. The former has paid staff responsible for all aspects of the lending process. The latter relies on collaboration among participating institutions to select and service the loans. An institution's participation in each loan may be predetermined or done on a case-by-case basis.

Loan Guarantee–Repayment of loans may be guaranteed through private or public sector sources. Guarantees are used to reduce risk of loss to the lender by pledging a portion of the debt against default, improve a project's ability to secure private financing, or qualify loans for sale on the secondary market. Frequently offered by state and federal agencies, loan guarantees apply to both business and housing loans and target projects that offer a public benefit but may have a higher level of risk than what private conventional finance typically undertakes without the guarantee.

Loan Origination Fee–A fee charged by the lender for evaluating, preparing and submitting a proposed mortgage loan.

Loan-to-Value Ratio–The loan amount(s) as a percentage of the property's appraised value or sale price, whichever is less. Banks use loan-to-value ratios to determine maximum loan amounts.

Local Development Corporation (LDC)–An investment company, certified by the U.S. Small Business Administration, formed to help finance small businesses. An LDC can obtain special financing from the SBA that enables it to extend long-term fixed-asset financing to local small businesses.

Limited Equity Homeownership (LEH)–Multifamily residences owned and controlled by tenants in which resale values are restricted to maintain the long-term affordability of the units. LEH residences are often developed with public assistance in the form of relaxed zoning regulations or the discounted sale of publicly owned land to reduce development costs. An LEH can take the form of a cooperative or condominium.

M

Macroenvironmental Factor–(The prefix "macro" means large or great.) A major trend or force in society that influences market conditions. Macroenvironmental factors, such as the economy, the political situation and the current state of technology, are beyond the control of a community, company or organization but must be monitored and responded to. The factors play a critical role in making "go/no go" decisions about community development finance.

Manufactured Homes (Prefabricated Housing)–Factory-built housing that is assembled on site. It's less expensive than conventionally built housing.

Matched Funding–Financing based on the condition that the amount must be matched with funds from another source on a one-for-one basis or according to some other formula within a certain period.

Microenterprise Loan Fund–A revolving loan fund that provides small, short-term loans and technical assistance to small businesses. Loan amounts and terms are more flexible than conventional financing.

Microenvironmental Factor–(The prefix "micro" means small.) A key player or other factor in the immediate marketplace that affects the ability of a community, company or organization to do business. Microenvironmental factors are "controllable" to the extent that decisions can be made about them—for example, which suppliers of building materials will be selected, which intermediary will be used to help promote products and which strategy will work best to find and serve new customers. The factors play a critical role in making "go/no go" decisions about community development finance.

Mission Statement–A statement of purpose or the assignment the organization is to carry out.

Mixed-Income Development–Housing development projects that include more than one household income group in an effort to establish greater long-term stability to a neighborhood.

Mixed-Use Development–Development projects that include more than one type of real property development activity. Mixed-use projects may include any combination of housing, commercial, office, transportation or others.

Mortgage–A lien upon land or other property as security for the performance of some obligation, usually the repayment of a loan.

Mortgage Insurance–Insurance that protects the mortgage lender against loss incurred through mortgage default. The insurance, either public or private, is written by an independent mortgage insurance company. Mortgage insurance is used to reduce risk of loss for the lender, to reduce down-payment requirements or to qualify loans for sale to the secondary market.

Mortgage Underwriting–The process used to assess risk to the lender and determine conditions of a proposed mortgage.

Mutual Housing–Long-term affordable housing developed, owned and managed by a nonprofit association. Residents pay a one-time refundable membership fee and a monthly percentage of their income to the association. In turn, they are given a lifetime right of occupancy and a voice in the management of the property through resident councils and property management committees. Residents also have majority representation on the association's board of directors, whose other members include community and business leaders and public officials.

N

National Credit Union Administration (NCUA)–The federal government agency that supervises, charters and insures federal credit unions. NCUA also insures state-chartered credit unions that apply and qualify for insurance.

National Equity Fund Inc. (NEF)–NEF was established to create a national investment pool to aggregate and channel corporate equity investments into affordable housing developments. A board of directors elected by Local Initiatives Support Corp. governs NEF and makes its investment decisions.

Neighborhood Housing Services (NHS)–A national network of neighborhood-based service organizations that are locally operated and funded. A local NHS focuses on a specific community or communities to increase the supply of affordable housing and promote neighborhood stability by providing below-market construction and rehabilitation financing, technical assistance and support for resident activism. Board members include local residents, business leaders, public officials and community representatives. All NHS affiliates receive assistance from, and are monitored by, the Neighborhood Reinvestment Corp.

Neighborhood Housing Services of America (NHSA)–A private, nonprofit, tax-exempt corporation that acts as a secondary market to buy loans from the revolving loan funds of local chapters of Neighborhood Housing Services. These organizations make loans to residents who do not meet conventional lending standards, with interest rates and terms based on the borrower's ability to repay; thus, these loans cannot be sold on national conventional, secondary mortgage markets.

Neighborhood Reinvestment Corp. (NRC)–A congressionally chartered, federally funded, public nonprofit corporation established in 1978, whose mission is to assist in the revitalization of lower-income neighborhoods and in the provision of affordable housing in these neighborhoods. NRC works mainly through local Neighborhood Housing Services affiliates, providing training, operational grants and technical assistance.

Net Operating Income (NOI)–The income from property or business after operating expenses have been deducted but before income taxes and financing expenses (interest and principal payments) have been deducted.

Nonprofit Corporation–A corporation established under state law for purposes other than making profits that would be distributed to the owners, directors, members or officers. No part of the net earnings may benefit any person having a private or personal interest in the corporation.

O

Office of the Comptroller of the Currency (OCC)–The Comptroller of the Currency is an office of the U.S. Department of the Treasury responsible for chartering national banks and has primary supervisory authority over them. All national banks are required to be members of the Federal Reserve System and are insured by the Federal Deposit Insurance Corp.

Office of Thrift Supervision (OTS)–A bureau of the U.S. Department of Treasury established to charter federal thrift institutions and serve as the primary regulator of federal and state chartered thrifts.

Opportunity–A favorable match of goals and objectives between organizations that may allow a good chance for community advancement or progress.

Opportunity Cost–The next best alternative that must be given up or sacrificed when a choice is made. This is one of the most important concepts in economics.

P

Permanent Financing–A mortgage loan covering development costs, interim loans, construction loans, financing expenses, marketing, administrative, legal and other costs. This loan differs from the construction loan in that this financing goes into place after the project is constructed and open for occupancy. It is a long-term obligation.

Points–Additional fees paid to a lender. Points are generally stated as a percent of the total amount borrowed and are, in essence, prepaid interest. The lender may charge the borrower several points in order to provide the loan. Each point equals 1 percent of the loan amount.

Principal–The currently unpaid balance of a loan, excluding interest.

Private Mortgage Insurance–Insurance against default on conventional loans provided by private insurance companies.

Pro Forma Financial Statements–Projected financial statements for a given period in the future in which certain amounts are hypothetical or estimated.

Property Tax Abatement–Reduction or exemption from property tax granted by local government for a specified time period.

Property Taxes–A government levy based on the market value of privately owned property. Sometimes referred to as ad valorem tax or real estate tax.

Purchase Option–The right to buy a property at a specified price within a specified time frame.

R

Real Property–Land and all things permanently attached to the land, such as buildings and infrastructure.

Rent Supplement–Payments to owners of private housing by a government agency. The payments support operating expenses and debt coverage to ensure affordability of rents for lower-income tenants. The owner receives the difference between a share of the tenant's monthly income (usually 30 percent) and an amount established by the agency to be a fair market rent. Supplements can either be project-based or tenant-based. Project-based supplements stay in effect as long as qualified tenants occupy designated units; tenant-based supplements are given to qualified individuals, are portable and apply to a unit as long as that individual resides there.

Reserves–Funds held to pay future liabilities.

Revolving Loan Fund (RLF)–A pool of funds structured so that loan payments are used to make more loans. RLFs are often funded by public investments and then leveraged by private investments to make affordable housing or economic development loans. Terms and rates are typically more favorable than conventional financing.

Right of First Refusal–A right that allows a property to be purchased before it goes up for sale to the general public.

Risk–The degree of possibility that a loss will be sustained in a loan, investment or other transaction.

Rural Development at USDA–An agency of the U.S. Department of Agriculture that makes loans, grants and loan guarantees in rural areas for housing, farming, utilities, business, industry, community facilities, and community development and empowerment. The programs primarily serve communities with populations of less than 25,000. The agency was established in 1946 and was formerly known as the Farmers Home Administration (FmHA).

S

Secondary Market–Markets into which originating lenders sell their loans to investors who are seeking longer-term investments.

Section 501(c)(3) Exempt Organization–Internal Revenue Code for nonprofit organizations entitled to receive tax-exempt status and tax-deductible donations. Organizations include: religious, educational, charitable, scientific and literary. No part of the net earnings may benefit any person having a private or personal interest in the organization.

Section 501(c)(4)–Internal Revenue Code for nonprofit organizations entitled to receive tax-exempt status and tax-deductible donations. Organizations include civic leagues, social welfare organizations and local associations of employees. These organizations promote community welfare through charitable, educational or recreational activities. No part of the net earnings may benefit any person having a private or personal interest in the organization.

Section 501(c)(7)–Internal Revenue Code for nonprofit organizations entitled to receive tax-exempt status and tax-deductible donations. Organizations include clubs organized for pleasure, recreation and other nonprofit purposes. No part of the net earnings may benefit any person having a private or personal interest in the organization.

Section 8–A program of the Department of Housing and Urban Development (HUD) that provides rental assistance to very low- and low-income families. The program pays the difference between the unit's market rent and the amount the tenant is able to pay.

Single Room Occupancy Housing (SRO)–A residence in which tenants have private rooms but share common areas, such as kitchen, dining room, living room and bathroom. Sometimes called congregate housing.

Small Business Administration (SBA)–An independent federal agency that guarantees loans to small businesses and assists them with certain management and financial issues.

Small Business Development Center (SBDC)–Provides management and technical assistance to small-business owners. SBDCs are part of an SBA-established program. They are generally located in academic institutions and are structured as a joint venture among the institutions, state and local governments, and the SBA.

Social Entrepreneur–Individuals and organizations that engage in a variety of innovative approaches to address critical social issues. Such entrepreneurs tap into the best ideas of both the for-profit and nonprofit arenas in order to advance a social agenda. This movement has grown out of a number of fields, including business, social welfare, community development, community service and international development.

Soft-Second Mortgage–A second mortgage that offers reduced interest rates and flexible repayment terms to minimize the debt of the borrower and to reduce the primary lender's risk. Soft seconds are typically provided through government programs to both housing and business development projects. Housing programs primarily target lower-income households. Business programs usually attach job creation criteria that may also benefit lower-income persons or neighborhoods.

Specialized Small Business Investment Corporation (also known as a 301(d) SBIC)–A venture capital firm licensed and regulated by the U.S. Small Business Administration that provides debt and equity financing to small businesses that are at least 50 percent owned and operated by socially or economically disadvantaged persons. The SBA guarantees the debt portion of SBIC investments, allowing these venture capital firms to leverage private capital.

Strategic Planning–The activity of defining what you want to accomplish in your business or organization and then identifying the path that will allow you to reach your goal in the most efficient and sensible manner. One result is a plan of action that guides how a goal, such as developing affordable housing, will be accomplished.

Subordinated Debt–If more than one lender has a lien on a property, the subordinated debt is paid after the debt of lien holders in superior positions.

Subsidy–Financial assistance granted to an individual or organization.

Supply and Demand–Supply is the amount of a raw material, product or a service. Demand is the amount that consumers want or are willing and able to purchase. The Law of Supply and Demand applies to pricing and says that if demand exceeds supply, prices will rise, and if supply exceeds demand, then prices will fall.

Sustainable Development–One that doesn't fall apart if external conditions change. Long-term planning ensures the necessary leadership, financing and other resources needed to maintain the project without compromising the needs of future generations.

Sweat Equity–The equity added to a property through the owner's own labor. The method helps reduce the cost of a home for low- and moderate-income buyers.

Syndicated Cooperative (also known as a leasehold cooperative)–A cooperative that is owned in part by outside investors. It is becoming a more popular method of development in high-cost housing areas. Investors are able to take advantage of federal tax credits while reducing costs for the cooperative members. In return, residents share control over the property and may have to buy out the investor's shares after a certain period of time. A leasehold cooperative also refers to a cooperative that does not actually own the property but instead signs a long-term lease with the owner, usually an investor partnership.

Syndication–A method of selling property whereby a sponsor (or syndicator) sells interest to investors. May take the form of a partnership, limited partnership, tenancy in common, corporation or subchapter S corporation.

T

Tax Abatement–The temporary suspension of property tax payments on improvements to private redevelopments. The tax may be abated up to 100 percent on improvements for a specified time and is offered as a redevelopment tool in areas designated as blighted, distressed or as an enterprise zone.

Tax Credit–Credit against the amount of certain taxes owed by the donor or investor. The amount of the credit usually ranges between 20 and 50 percent. In some cases, owners and developers of community development projects and businesses may sell or transfer the credits in return for up-front equity investments. May be either a federal tax credit or state tax credit.

Term–The interval allowed a debtor to meet his obligation.

Terms–Conditions and arrangements specified in a contract.

Title–The documented evidence that the owner of land is in lawful possession thereof; evidence of ownership.

Transitional Housing–Temporary housing for families or individuals who have not yet found permanent housing but require more stability than an emergency shelter. Generally, residents stay for several months.

U

Underwrite–To agree to lend money after a lender has assessed the risk of the proposed loan.

Unmet Needs–Needs that fit within a strategy or business plan to specifically meet consumer demand or generate supply for community development activity. They are currently underdeveloped and insufficiently satisfied but may be addressed with community development finance.

Unsecured–With no security, collateral or pledge held by the creditor.

V

Venture Capital–Money raised for higher-risk investments, usually in new or expanding private enterprises, with the expectation of repayment in profits and dividends but subject to the hazards of ownership. It is often called risk capital or equity capital.

W

Working Capital–Funds that are readily available for a business to use. Calculated by subtracting current liabilities from current assets.