

# REAL ESTATE DOCUMENTATION & FEE TERMS RCNCapital.com





## **Real Estate Documentation & Fee Terms**

Getting started in the real estate investment space can be challenging and understanding how different terms may apply to an investor's project is crucial for a successful result. To help investors navigate their way around a potential deal, we have created a set of useful terms and definitions that are used over a variety of real estate investment areas.

*Real Estate Documentation & Fee Terms* will provide an overview of routinely brought up terminology during document collection and potential costs that an investor may incur through the loan process. This collection will prepare investors for the responsibilities and requirements of investing in real estate.

## **AUTOMATED CLEARING HOUSE (ACH)**

An electronic system used to transfer funds such as direct deposits. Lenders request their Borrower's ACH account information to process payments automatically each month. Payments are set up to electronically **withdraw the precise amount** on a specific day of the week.

#### **ADDENDUMS**

Addendums are changes to an existing contract and are used to add explanations, information or to clarify requirements. The addendum is attached to the original contract and is often requested for changing the name of the borrower, changing the purchase price, or other terms of the contract like inspection contingencies.

#### ARTICLES OF ORGANIZATION/ CERTIFICATE OF FORMATION

A document that shows the creation or formation of a business entity. The document will state the official name of the business entity, and what state the entity was registered/incorporated.

#### **ASSIGNMENT OF CONTRACT**

When one party of an existing contract (the "assignor") passes the contract's obligations and benefits to another party (the "assignee"). You may see a buyer on the contract listed as "XYZ, LLC or assigns", this allows them to transfer the contract to a new borrower without having to get the seller to provide a new contract. Popular among wholesale deals.



## **BACKGROUND REPORT**

A report that will show multiple types of records regarding the borrower's history. The information within the report is not always 100% accurate, so borrowers may be asked to clarify the report findings to the lender.

#### **Report may include:**

- Commercial records
- Criminal records
- Financial records

## **BYLAWS**

Legal document stating the **regulations created by an organization or community**. Bylaws outline the rules and guidelines that are used to regulate the organization's members.

#### CERTIFICATE OF GOOD STANDING / ENTITY STATUS

A document that is issued by a state agency where certain types of business entities must be registered. This confirms that an entity can legally do business in the state and that they are in good standing.

## **CONDO BUDGET**

Financial statement of the condo association, **showing income and expenses** for the year. Required document when making a loan on a condominium.

#### **CONDO QUESTIONNAIRE**

The condo questionnaire is **filled out by the condo association** and provides information about the future plans, existing make up, and solvency of the condo association.



#### **CORPORATION**

A corporation is a company, a group of people or an organization authorized to act as a single entity and recognized as such by law. This is a type of borrowing entity typical to commercial loan deals.

## Corporation documents that may be requested:

- Articles of Incorporation,
- EIN letter
- Bylaws
- Stock certificates
- A certificate good standing for the documentation of the entity



## **CREDIT REPORT**

A full history of the borrower's credit. A credit report **can only be pulled once authorization from the borrower is received**. Credit reports CANNOT be run without authorization. A full report, also known as a hard pull, will count as a credit inquiry against the individual which can reduce their credit score. A soft pull will not hurt the borrower's credit score, but it's not sufficient for most lenders to make a loan. Soft pulls are ideal for pricing out scenarios prior to receiving documentation. Any liens or judgments that show up will require proof that they are paid prior to closing and may require approval from the lender's management for a preapproval.

#### Areas of interest on a credit report:

- Tradelines with delinquent payments
- Credit cards/lines of credit with maxed out balances
- Collection accounts
- Outstanding liens/judgments against the borrower

## **ESTOPPEL**

A document signed by a tenant to confirm the lease amount stated by the landlord. This is used to confirm actual rents vs. what someone told you the rents are. This helps prevent fraud by ensuring that the tenant does not claim to have paid a different rent amount at a later date.

## **EXPERIENCE**

Investment experience can be counted by adding up the number of investment properties owned by a borrower. These can be flips, rentals, or new construction projects, as long as they had a stake in the deal individually or through an entity they own. Some lenders offer better terms to more experienced borrowers because more experienced borrowers are less risky, and therefore can get more aggressive financing options.





## HARD PULL

A hard pull is a full credit report that is required to move forward with a loan and will show up as an inquiry on the credit report. Multiple hard pulls in a 45-day period will be considered as one credit check to lessen the impact on a person's credit score while they are shopping for rates on a loan.

#### Hard pull vs. Soft pull:

Hard inquiries can impact a person's credit score, soft inquiries do not.

## **HUD-1/SETTLEMENT STATEMENT**

Standard form used to **itemize services and fees** charged to the borrower by the lender or broker in a real estate transaction. It will show a full breakdown of what the borrower will be paying at closing, or what they will receive after fees have been deducted if it's a cash out loan

## ITS SUCCESSORS AND OR ASSIGNS/AS THEIR INTEREST MAY APPEAR (ISAOA/ATIM)

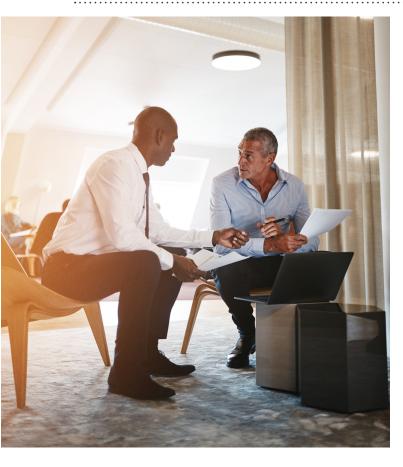
Language included in the mortgagee clause the will cover the lender as the mortgagee or it will cover an investor if the lender decides to sell the loan.

## JUDGEMENTS

A decision of a court regarding the rights and liabilities of parties in a legal action or proceeding. Judgements can be stopped by creating a repayment plan, disputing the debt or filing for bankruptcy. Judgments filed against a borrower may require them to pay off a debt prior to a lender making a loan with them or provide proof that the judgements are paid.







## LEASE

A rental contract between the landlord and the tenant. The contract should lay out the amount of rent to be paid, what utilities and services are covered by the landlord, and conditions that must be met to maintain the lease in good standing. Lenders request lease agreements for rented units during document collection

## LIQUIDITY

The availability of liquid assets to the borrower. We can count things like cash in bank accounts as liquid assets.

#### Liquidity Example:

Your car is a non-liquid asset, as it would require you to find a buyer to convert the value of the car into cash.

#### LIMITED LIABILITY CORPORATION (LLC)

A person who is not a naturalized citizen of Type of business entity that combines the pass-through taxation of a partnership or sole proprietorship with the limited liability of a corporation. This is a common borrowing entity on many commercial loans.

#### LLC documents that may be requested:

- Articles of organization
- EIN letter
- Operating agreement
- Certificate of good standing

## **LETTER OF INTEREST (LOI)**

A document outlining an agreement between two or more parties **before the agreement is finalized. Lenders may offer an LOI on the front end of the loan process** to let borrowers know that as long as the lender gets the items they need (good appraisal, title, and documentation), these will be the loan terms the borrower can expect.

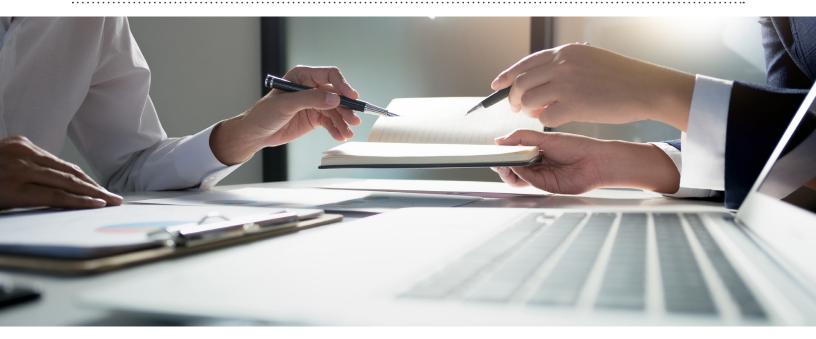
## LETTER OF EXPLANATION (LOX)

LOX is shorthand for letter of explanation. A LOX may be requested for credit/ background issues that may show up on a borrower's report.

#### **MODIFICATION**

A process where the terms of a mortgage are modified outside the original terms of the contract agreed to by the lender and borrower. Types of modifications can include lowering the interest rate, extending the loan term or increasing the loan amount if the borrower runs out of money to complete a project.





## **NON-DISCLOSURE AGREEMENT (LOX)**

A purchase transaction where the buyer and seller have an existing relationship. Some lenders may not finance this type of transaction.

## NOTE

The note is a legal document that is part of the closing package. It lays out the **specific financial terms** that are agreed to by the lender and the borrower, such as rate, maturity date, payment dates, loan amount etc.

## **OPERATING AGREEMENT**

Document **required for an LLC** that outlines the business' financial and functional decisions including rules, regulations, and provisions. It will also outline who the owners of the entity are, which lenders need to know to figure out who needs to be a guarantor. Any member who owns 20% or more of the LLC may be included as a guarantor on the loan.

## **ORIGINATION POINTS**

Each point represents 1% of the total loan amount. This is the fee a lender charges at closing as part of the cost of making the loan.

#### Can origination points be negotiated?

One way that investors may try to save money is by asking lenders to have fees lowered or waived. Can origination points be negotiated as well? That depends.

Smaller loans are unlikely to get approved for discounted points because the lender will be concerned about the return they will receive. It is not worth their time, effort, and the manpower they invest in approving a loan.

However, larger loans are a different story. Bigger loan amounts will have bigger payouts, so a lender might accept taking less points on a loan where they will still receive a substantial amount for their contribution.





#### **PERSONAL FINANCIAL STATEMENT (PFS)**

A signed statement of assets and liabilities of an investor. Lenders may not require a PFS to close the loan but may request one if a borrower has a PFS available.

#### **PURCHASE CONTRACT**

Written document of the contract needed for all purchase loans. The contract should display the name of the buyer and seller, the contract price, down payment money already collected, closing date, and any specific conditions for the contract.

#### **QUIT CLAIM DEED**

A legal instrument that is used to **transfer interest in a property**. The entity transferring the property is the grantor, and the entity receiving the ownership interest is the grantee. This is a quick way for borrowers to transfer properties in their personal names to a business entity for commercial lending purposes.

#### **RELEASE FEE**

A release fee may be applicable when a borrower has multiple properties under one loan. The release fee is the amount that needs to be paid for each individual property to be released from the mortgage should the borrower decide to pay the properties off one at a time. This ensures that the lender is reducing the risk of the loan.

#### RESERVES

Refers to money the borrower needs to show in their bank account to make sure they can make the first few monthly payments on a loan. Typically, this will be **down payment**, **closing costs, and may include debt service** for a specific number of months

#### SCHEDULE OF REAL ESTATE OWNED (SREO)

A summary list of the properties owned by an investor.



## **TERMINATION FEE**

A fee paid upon the payoff of the loan if that payoff is received more than a specified amount of time after the loan was made. This **helps control costs for the lender** when projects go longer than expected. It also prevents the need for a borrower to do a modification.

## **TITLE AGENT**

Person who works for a title company to ensure that when a loan closes on a property the title is cleared of all encumbrances that may impact the first lien position. Most loans will require a Lender's title policy which protects the lender in the event that their first position lien was not properly protected.

## TITLE COMMITMENT

A title company's promise to issue a title insurance policy for the property after closing. This will contain the same terms, conditions, and exclusions that will be in the actual title policy. The legal department works with the title agent to get this cleared before closing.

## TITLE SEARCH

The process of examining public records to show who owns the subject property, as well as any previous claims of ownership, any relevant interests, and regulations. Required for all loans, this will be **performed by a title company/attorney.** 







## **TRADELINES**

A **record of activity** for any type of credit extended to a borrower and reported to a credit reporting agency. A trade line is established on a borrower's credit report when a borrower is approved for credit. The trade line records all of the activity associated with an account. Comprehensive trade lines are used by credit reporting agencies to calculate a borrower's credit score. Different credit reporting agencies give differing weights to the activities of trade lines when establishing a credit score for borrowers.

## TRUST

An arrangement whereby a person (a trustee) holds property as its nominal owner for the good of one or more beneficiaries. Lenders may ask the trustees of the trust be guarantors on the loan.

## **YIELD SPREAD (YSP)\***

The money or rebate paid to a mortgage broker for giving a borrower a higher interest rate on a loan in exchange for lower up-front costs, generally paid in origination fees, broker fees or discount points.

\*not offered by RCN Capital



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## **About RCN Capital**

RCN Capital is a direct private lender that provides funding for non-owner occupied residential properties. Our loan programs are used for purchase, purchase & rehab, refinance, or cash-out of investment properties.

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