FINANCIAL LEVERAGE / FINANCING ALTERNATIVES

Financial Leverage: Allows an Investor to use less Equity to acquire an Investment, potentially achieve a higher Leveraged Return on Equity, and benefit from the Tax Deductibility of Mortgage Interest. Investors who desire a higher Leveraged Return on Equity might borrow at a higher LTV ratio, but as the LTV increases, Risk increases.

Positive and Negative Leverage: **Positive Leverage** is when the **Return** on **Equity** is higher with **Debt** than without, and **Negative Leverage** is when the **Return** on **Equity** is lower with **Debt** than without. With **Positive Leverage**, the higher the **LTV** ratio, the higher will be the **Leveraged Return** on **Equity**. With **Negative Leverage**, the higher the **LTV** ratio, the lower will be the **Leveraged Return** on **Equity**.

Loan Underwriting: The **Loan to Value Ratio (LTV)** and **Debt Service Coverage Ratio (DSCR)** are two of the key elements of a **Loan Underwriting**. Although the maximum **LTV** ratio and minimum **DSCR** levels vary with **Mortgage Market** conditions, **Lenders** are always more secure with a lower **LTV** ratio and a higher **DSCR**.

Prepayment Penalties, Yield Maintenance, Loan Lockouts: Mortgage Loan terms that make it costly or impossible for a Borrower to Payoff or Refinance a Loan before the contract Maturity Date.

Interest-Only Loan: Borrower pays only Interest on the Loan, with no Principal Amortization, and a Balloon Payment due at Maturity. Also called a "Bullet Loan".

Negative Amortizing Loan: When the **Payment Rate** on a **Loan** is less than the **Accrual Rate** (i.e. **Interest** amount then due), there will be **Negative Amortization** and the **Loan Balance** will increase. Might be used when **Interest Rates** are very high.

Participating Loan: The **Lender** receives additional **Interest**, based on a formula, typically related to **Gross Income**, **NOI**, or **Cash Flow**, that is called a **Participation** or "**Equity Kicker**" but the **Lender** does not have any **Ownership Interest** in the **Property**.

Convertible Mortgage: When the **Lender** has the right to **Convert** part or all of the **Loan Principal** to an **Ownership Interest** in the **Property** at a specified time.

Mezzanine Loan: A **Loan** that is often **Secured** by the **Owner's Equity** in a **Property**, rather than by a **Mortgage** on the **Property** itself. Usually requires an **Inter-Creditor Agreement** between the **Mezzanine Lender** and the **First Mortgage Lender**.

Preferred Equity: An **Investment** in the **Ownership Interest** of a **Property**, that is not a **Mortgage**, with a **Preferred Return** that takes **Priority** over other **Equity Investors**.

Sale-Leaseback: An alternate means of **Monetizing** a **Property** where the **Seller** retains **Use** of the **Property** for the duration of the **Lease Term**. With a **Repurchase Option** in the **Lease**, the **Seller** may reacquire **Ownership** of the **Property** in the future.