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GLOSSARY OF TERMS, ACRONYMS AND RATIOS USED IN THE STRUCTURED FINANCE SECTOR

FEBRUARY 1, 2015

Introduction

This list of terms, acronyms and ratios are compiled from those that are commonly used in Global Credit Ratings' published reports and occasional research papers. The content of this glossary is not intended to be comprehensive and/or complete, remains a work in progress and will be updated periodically as needed.

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Terms, Acronyms and Formulas (A-Z Selector)

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A

Account Bank	A bank where the transaction account is held.
Administration (Insolvency)	A debtor unable to pay a judgement of debt or who cannot meet its financial obligations and does not have sufficient realisable assets that can be attached in satisfaction of judgement or obligations. The debtor can apply for an administration order interims of the Magistrates' Court Act 32 of 1944 (South Africa).
Administrator	See <i>Servicer</i> . Or, a transaction appointed agent responsible for the managing of a Conduit or a Special Purpose Vehicle. The responsibilities may include maintaining the bank accounts, making payments and monitoring the transaction performance.
Advance	A lending term, to transfer funds from the creditor to the debtor.
Advance Rate	The interest rate charged to a loan.
Adverse Selection	The process by which the risk profile of an asset pool is assumed to be influenced by selection
Ageing	The age of an asset or obligation.
Agent	An agreement where one party (agent) concludes a juristic act on behalf of the other (principal). The agent undertakes to perform a task or mandate on behalf of the principal.
Agreement	A negotiated and usually legally enforceable understanding between two or more legally competent parties.
Agreement (Security Agreement)	A negotiated and usually legally enforceable understanding between two or more legally competent parties that specifies the collateral held as security.
Amortisation	From a liability perspective, the paying off of debt in a series of instalments over a period of time. From an asset perspective, the spreading of capital expenses for intangible assets over a specific period of time (usually over the asset's useful life).
Amortisation Period	A period that may follow the Revolving Period of a transaction, during which the outstanding balance of the related securities may be partially repaid.
Applicable Pricing Supplement	A transaction document that describes the particulars of notes issued.
Arm's Length Transaction	A transaction in which the parties act independently and have no favourable relationship with each other, or are not subject to undue influence or duress from another.

Arranger	Usually an Investment bank that advises and constructs a transaction and acts as a conduit between the transaction parties: Client, Issuer, Credit Rating Agency, Investors, Legal Counsel and Servicers.
Arrears	General term for non-performing obligations, i.e. obligations that are overdue.
Arrears Bucket	A non-performance classification, classified according to the number of days in arrears, i.e. 30, 60, 90 days.
Arrears Reserve	An accounting provision made in a reserve fund for arrears.
Asset	An item with economic value that an entity owns or controls.
Asset Backed Securities (ABS)	Securitisation: debt securities issued that are backed or covered by a pool of assets or receivables (Auto loans and leases, consumer loans, commercial assets, credit cards, mortgage loans).
Asset-backed Commercial Paper (ABCP)	Securitisation: debt securities with a maturity of less than a year that are backed or covered by a pool of assets or receivables (Auto loan and leases, consumer loans, commercial assets, credit cards, mortgage loans).
Average Life	The average lifetime of an asset or obligation. Typically measured from origination to cancellation or termination date.

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B

Backup Servicer	A Servicer that would replace the existing Servicer in event of default or non-performance. An entity that is retained to stand ready to assume servicing responsibilities upon the termination of the initial servicer. A backup servicer is generally required to maintain a complete set of servicing records and systems for the related financial assets permitting it to assume servicing within a short period after termination of the servicer.
Bad Debt	<p>A bad debt is an amount owed by a debtor that is unlikely to be paid when due, for example, to a company going into liquidation. This typically refers to default rather than delinquency.</p> <p>There are various technical definitions of what constitutes a bad debt, depending on accounting conventions, regulatory treatment and the individual entity's own provisioning and write-off policies.</p>
Balloon Loan	A loan which does not fully amortise over the term of the loan agreement.

Bankruptcy	Court proceedings at which an individual or a company is declared unable to pay its creditors. The liability of a bankrupt company typically exceeds its assets.
Bankruptcy Remote	A feature, through real security and guarantees that reduces the enforceability of a creditor against a Special Purpose Vehicle. Typically a Security Special Purpose Vehicle should be bankruptcy remote.
Basis Points (BPS)	One-hundredth of a percent.
Bond	A long term debt instrument issued by either: a company, institution or the government to raise funds.
Bondholder	See <i>Noteholder</i> .
Book Building	An exercise by a transaction arranger (typically an investment bank) to assess the likely levels of demand for a new security and thereby determine the appropriate pricing point. It is designed to prevent an issue being over/undersubscribed.
Borrower	See <i>Debtor</i> .
Bullet Loan or Bullet Maturity or Bullet Repayment	The settlement of a security at maturity in a single principal repayment.
Business Rescue	A term under the Companies Act 71 of 2008 (South Africa) Chapter 6 to remedy an entity that is likely to become insolvent. Entities that are likely to become insolvent (where liabilities exceed assets) or unlikely to be able to pay their debts as they fall due and payable in the coming six months.

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C

Calculation Agent	An agent appointed by the Issuer to calculate the: <ol style="list-style-type: none"> 1. Coupon in accordance with the Applicable Pricing Supplement; 2. Other related fees and expenses and Priority of Payments; and 3. Transaction covenants.
Callable or Call Option	A provision that allows an Issuer the right, not the obligation, to repurchase a security before its maturity at an agreed price. The seller has the obligation to sell the security if the call option holder exercises the option.
Capital	The sum of money that is used to generate proceeds.
Capital Expenditure or CAPEX	Expenditure on long-term assets such as plant, equipment or land, which will form the productive assets of a company.

Capital Markets	The part of a financial system concerned with raising capital by dealing in shares, bonds, and other long-term debt securities.
Capital Goods and Equipment	Fixed assets such as plant and machinery which comprise the productive assets of a company.
Cash Collateral	Cash held in an account as a form of protection to repay outstanding balances.
Cash Flow	A financial term for monetary changes in operations, investing and financing activities.
Cedent	The party that transfers it's right in a cession.
Cession (non-outright Cession)	Transfer of a right by agreement, however the cedent retains ownership.
Cession (outright Cession)	Transfer of a right by agreement.
Cessionary	The party to whom a right is transferred in a cession.
Charge-off	Amounts written off as uncollectable.
Cherry-picking	A process of selectively choosing assets (to form a part of the underlying securities' collateral), typically of better quality.
Claim	A formal request or demand.
Clean-up call	A feature that enables the Issuer to purchase a portion, usually a small amount, of the outstanding debt instruments. Typically used when the transactions underlying collateral cash flows are inadequate to support the transaction or to reduce the administrative expenses of the transactions as the cost have been come uneconomic.
Clearing Agent	See <i>Settlement Agent</i> .
Co-arranger	Arrangers who share responsibility of a transaction.
Collateral	An asset pledged as security in event of default.
Collateralised Bond Obligation (CBO)	See <i>Collateralised Debt Obligation</i> .
Collateralised Debt Obligation (CDO)	Junior tranches (that have a higher degree of default risk) of a securitisation transactions that have been repackaged into separate debt securities (according to their degree of risk) that utilise credit-enhancement techniques to mitigate the risk. A CDO is created to distribute the prepayment risk amongst different classes of Notes.
Collateralised Loan Obligation (CLO)	See <i>Collateralised Debt Obligation</i> .

Collateralised Mortgage Obligation (CMO)	See <i>Collateralised Debt Obligation</i> .
Commercial Mortgage Backed Securities (CMBS)	Securitisation: debt securities issued by a securitisation vehicle. Backed (collateral) by mortgage loans secured by income producing commercial real estate. (Hotels, Office buildings, Apartments, Industrial, Shopping Centres, Hospitals).
Commercial Paper	A debt security of short term nature, less than a year.
Commingling	The mixing of various transaction parties' funds in an account.
Concentrations	A high degree of positive correlation between factors or excessive exposure to a single factor that share similar demographics or financial instrument or specific sector or specific industry or specific markets.
Conduit	A commercial lending entity that is established to purchase assets to securitise.
Convertible Bond	A type of hybrid security that grants the Noteholder the right to transfer the bond to shares.
Corporate Credit Rating	A credit rating accorded to a corporate entity.
Corporate Governance	Corporate governance broadly refers to the mechanisms, processes and relations by which corporations are controlled and directed, and is used to ensure the accountability of an entity to its stakeholders, as well as the transparency with which it operates.
Coupon	Interest payment on a security.
Coupon rate	The interest rate that is applied to a security. Also called nominal rate.
Covenant	A provision that is indicative of performance. Covenants are either positive or negative. Positive covenants are activities that the borrower commits to, typically in its normal course of business. Negative covenants are certain limits and restrictions on the borrowers' activities.
Covered Bond	Securitisation: Type of debt securities issued by a securitisation vehicle. On-balance-sheet, backed (collateral) of similar identified assets as the cover pool. (Mortgages, Credit Card Loans).
Credit	A contractual agreement in which a borrower receives something of value now, and agrees to repay the lender at some date in the future, generally with interest. The term also refers to the borrowing capacity of an individual or company
Credit Bureau	Provider of consumer credit information to credit providers.
Credit Default Swap	A form of insurance against non-performance of a third party's obligations.

Credit Derivative	Various instruments and techniques designed to separate and then transfer credit risk or the risk of an event of default of an entity transferring it to an entity other than the lender. Forms of Credit Derivative include: Credit-Linked Notes; credit swaps; total return swaps and credit spread options.
Credit Enhancement	Limited protection to a transaction against losses arising from the assets. The credit enhancement can be either internal or external. Internal credit enhancement may include: Subordination; over-collateralisation; excess spread; security package; arrears reserve; reserve fund and hedging. External credit enhancement may include: Guarantees; Letters of Credit and hedging.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Credit Rating Agency	An entity that provides credit rating services.
Credit-linked Note (CLN)	Structured Credit Security that combines a bond or loan with a credit derivative or links it to a rated counterparty. The normal coupon repayments remains unchanged unless a credit event associated with a pre-specific reference obligation occur. CLN is similar to a Securitisation, except there are no assets transferred to the securitisation Vehicle. Either a securitisation vehicle or Issuer can issue a CLN.
Creditor	A credit provider that is owed debt obligations by a debtor.
Creditor (Secured Creditor)	A creditor that has specific assets pledged as collateral that will receive the proceeds in the event of default.
Creditworthiness	An assessment of a debtor's ability to meet debt obligations.
Cross Collateralisation	The use of a single asset as collateral for more than one loan.
Curtailement	Partial or full prepayment of the outstanding loan amount.

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Debenture	See <i>Bond</i> .
Debenture (Secured Debenture)	See <i>Debt (Secured debt)</i> .
Debenture (Unsecured Debenture)	See <i>Debt (Unsecured debt)</i> .
Debt	An obligation to repay a sum of money.

Debt (Long-term debt)	Debt securities that are due in more than one year from issue date.
Debt (Secured debt)	Debt securities that are secured by real security or collateral.
Debt (Short-term debt)	Debt securities that are due within one year from issue date.
Debt (Unsecured debt)	Debt securities that have no collateral.
Debt Counsellor	Under the National Credit Act (South Africa), a party that renegotiates a debtors' repayments.
Debt Financing	Raising capital by selling debt instruments such as bonds or commercial paper.
Debt Review	A willing declaration by a consumer to a debt counsellor to remedy its over-indebtedness. A debt restructuring proposal is either accepted or rejected by the magistrates' court.
Debtor	The party indebted or the person making repayments for its borrowings.
Deed	A legal document that is signed and delivered, especially one regarding the ownership of property or legal rights.
Default	A default occurs when: <ol style="list-style-type: none"> 1. The Borrower is unable to repay its debt obligations in full; 2. A credit-loss event such as charge-off, specific provision or distressed restructuring involving the forgiveness or postponement of obligations; 3. The borrower is past due more than X days on any debt obligations as defined in the transaction documents; 4. The obligor has filed for bankruptcy or similar protection from creditors.
Defaulted Receivables	A receivable in arrears for more than X days, as defined by the transaction documents, that has not been written off, or is deemed uncollectable or the obligor is bankrupt.
Delegate or Delegation	A form of novation, a change in creditor or debtor, co-operation of all parties to the agreement, both the old and new creditor or debtor.
Delinquency	When a receivable is overdue and not paid on its payment due date.
Delinquent Receivables	A receivable that is one or more days past its payment due date and not classified as defaulted.
Derivative	A financial instrument that offers a return based on the return of another underlying asset.
Dilution	A reduction in the amount of trade receivables due to: credit notes; returned goods, faulty goods et cetera.

Discharge	Performance of obligations in a natural way according to a contractual relationship.
Domestic Medium Term Note Programme (DMTN)	A debt issuance programme that allows an Issuer the continued and flexible issuance of several types of securities in accordance with the programme terms and conditions.
Downgrade	The assignment of a lower credit rating to a corporate, sovereign or debt instrument by a credit rating agency. Opposite of upgrade.
Drawdown	When a company utilises facilities availed by a lender.
Duplum Rule	Common law rule: an obligation of a party to pay accrued interest which exceeds the capital sum may be unenforceable to the extent of the excess.
Dutch Auction	A debt securities auctioning process typically used to reduce the clearing spread. A bid consists of the monetary value and interest rate spread per issuance or tranche. The clearing spread is calculated as the highest interest rate spread of the cumulative monetary value per issuance or tranche.

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Early Amortisation Event	An event that causes a transaction to change from a revolving period to amortising, primarily to windup the transaction and to repay Noteholders.
Early Redemption	The repurchase of a bond by the issuer before it matures.
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	EBITDA is useful for comparing the income of companies with different asset structures. EBITDA is usually closely aligned to cash generated by operations.
Eligibility Criteria	Limitations imposed on the type and quality of assets that can be sold by the Originator / Servicer into the Securitisation vehicle which ensure the transaction will track the performance of historical data analysed as closely as possible.
Enforceable or Enforcement	To make sure people do what is required by a law or rule et cetera.
Environment	The surroundings or conditions in which an entity operates (Economic, Financial, Natural).
Escrow	To place in custody or trust until certain conditions have been fulfilled.

Excess Spread	The net weighted average interest rate receivable on a pool of assets being greater than the weighted average interest rate payable for the debt securities.
Executed Documents	Final signed transaction documents.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding.

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Fair Value	Accounting term, a rational and unbiased estimate of the potential market price of a good, service or asset.
First Loss Piece	The most junior tranche of subordinated debt of a transaction that will take the first loss in a amortising or default scenario.
Fixed Rate Notes	Debt securities that have a fixed interest rate over its.
Floating Rate Notes	Debt securities that have a periodic interest rate reset in relation to the reference rate, i.e. JIBAR.
Force Majeure	An event that is beyond the control of contracting parties, whereby they cannot be held responsible for the fulfillment of the contract.
Forbearance	A temporary suspension of repayments, granted by a creditor to a debtor.
Forecast	A calculation or estimate of future financial events.
Foreclosure	Legal proceedings initiated by a creditor to repossess the collateral for obligations that have defaulted.
Forward Contract	A forward contract, colloquially known as a forward, is an agreement to buy or sell a commodity, security or financial instrument at a specified future date at a predetermined price.
Forward Rate	The forward rate is the future yield on a bond. It is calculated using the yield curve.

G

Gearing	See <i>Leverage</i> .
Going Concern	An accounting convention that assumes a company will continue to exist and trade normally for the foreseeable future. In practice this is likely to mean at least for the next 12 months.
Gross Lettable Area (GLA)	Used in commercial property to indicate the amount of floor space rented or available for rental.
Guarantee	An undertaking for performance of another's obligations in event of default.
Guaranteed Investment Contract (GIC)	A contract that guarantees the principal and interest repayment over a period of time. Typically GIC are used in relation to a bank account.
Guarantor	A party that gives the guarantee.

H

Haircut	The percentage by which the market value of a security used as collateral for a loan is reduced. The size of the haircut reflects the expected ease of selling the security and the likely reduction necessary to the realised value relative to the fair value.
Hedge	A form of insurance against financial loss or other adverse circumstances.
Hedging	A financial risk management process or function to take a market position to protect against an eventuality. Taking an offsetting position in addition to an existing position. The correlation between the existing and offsetting position is negative.
Hybrid	See <i>Hybrid Security</i> .
Hybrid Security	A form of security that has characteristics of various types of transaction or product.

I

Impairment	An amount set aside for expected losses to be incurred by a creditor.
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Income	Money received, especially on a regular basis, for work or through investments.
Indemnity	A security or protection against a loss or other financial burden.
Insolvency or Insolvent	When an entity's liabilities exceed its assets.
Insolvency (Technical Insolvency)	Inability of an entity to satisfy liabilities as they become due.
Insolvency Remote	See <i>Bankruptcy Remote</i> .
Instalment	See <i>Repayment</i> .
Insurance	Provides protection against a possible eventuality.
Interest (Fixed Interest)	An interest rate that does not change as the repo or reference rate changes.
Interest (Floating Interest)	An interest rate that changes as the repo or reference rate changes.
Interest (Prime Interest)	The benchmark interest rate that banks charge their customers.
Interest (Repo Interest)	In South Africa the REPO rate refers to the rate at which the South African Reserve Bank lends money to banking institutions. The money is lent through a repurchase agreement.
Interest Rate Swap	A form of insurance against interest rate risk. The exchange of interest rates from floating to fixed or vice versa.
International Scale Rating (ISR)	<p>ISRs relate to either foreign currency or local currency commitments, assessing the capacity of an issuer to meet these commitments using a globally applicable (and therefore internationally comparable) scale.</p> <ul style="list-style-type: none"> • International foreign currency (International FC) ratings measure the ability of an organisation to service foreign currency obligations, taking into account transfer and convertibility risk. • International local currency (International LC) ratings measure the likelihood of repayment in the currency of the jurisdiction in which the issuer is domiciled.
Investment Grade	Credit ratings equal to or higher than "BBB-".
Irrevocable	Not able to be changed, reversed, recovered and final.
Issuer	See <i>Borrower</i> .

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J

JIBAR	Johannesburg Interbank Agreed Rate. A reference rate.
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JSE Johannesburg Stock Exchange Limited, a licenced exchange under the Securities Services Act of 2004 (South Africa).

Junior (Junior Tranche / Junior Debt) A security that has a lower repayment priority than senior securities.

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King III King Code of Governance Principles and the King Report on Governance (King III) is a corporate governance code determining standards of conduct for public, private and non-profit organisations.

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L

Lease Agreement or temporary use and enjoyment of a corporeal thing (movable or immovable property) the whole or part thereof for rent. The essential elements of a contract of lease are:

1. Undertaking of lessor to give the lessee the use and enjoyment of something;
2. Agreement between the lessor and lessee that the lessee's right to use and enjoyment is temporary; and
3. Lessee's undertaking to pay a sum or rent.

Lease (Financial Lease or Capital Lease) A lease, where the risk and reward is transferred from the lessee to the lessor.

Lease (Operating Lease) A lease where the risk and reward is not transferred.

Legal Opinion An opinion regarding the validity and enforceable of a transaction's legal documents.

Lender See *Creditor*.

Lessee The party that enjoys temporary use of a corporeal thing.

Lessor The owner or agent that acts on behalf of the owner of property that grants the temporary use of a corporeal thing.

Letter of Credit (LOC) A letter of credit is a guarantee by a bank on behalf of a corporate customer that payment will be made if that entity cannot meet its obligations.

Leverage With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.

Liability All financial claims, debts or potential losses incurred by an individual or

an organisation.

LIBOR

London Interbank Offered Rate. A reference rate.

Lien

A right of retention of someone else's property due to expensed money or labour on property acquires a lien until payment is made. A lien outranks all other forms of security claims. A lien arises by operation of law and not as agreement between parties. There are three types of liens:

1. Storage or salvation of property;
2. Improvement of property; and
3. Contractual debt.

Lien (Floating Lien Inventory)

A secured short-term loan against inventory, under which the lender's claim is on the borrower's inventory in general.

Limited recourse language

A debt where the creditor has limited claims on the obligation in event of default.

Liquidation

The process by which a company is wound-up and its assets distributed to creditors. Liquidation proceedings are initiated either compulsorily or voluntarily by the company.

Liquidator

A person appointed to wind up the affairs of a company or firm.

Liquidity

The ability to repay short-term obligations or short-term availability of liquid assets to a market or entity.

Liquidity Facility

A facility provided to a structured finance transaction that will pay the Noteholders interest in the event that the underlying assets cash flows are inadequate.

Loan

A sum of money borrowed by a debtor that is expected to be paid back with interest to the creditor. See *Mortgage Loan*.

Loan To Current Value Ratio

Principal balance divided by the most recent property market value.

Loan To Original Value Ratio

Principal balance divided by the original (as at origination) property market value.

Long Term Rating

A long term rating reflects an issuer's ability to meet its financial obligations over the following three to five year period, including interest payments and debt redemptions. This encompasses an evaluation of the organisation's current financial position, as well as how the position may change in the future with regard to meeting longer term financial obligations.

Loss

A tangible or intangible, financial or non-financial loss of economic value.

Loss Curve

A type of diagram where the curve falls at the outset and eventually rises to a point higher than the starting point to show losses incurred

over the historic life of a transaction.

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M

Market Value Decline (MVD)	A decline in the market value of residential properties.
Management Agent	The manager of a transaction that overviews and takes action together with other transaction parties according to the clients and or investors wishes.
Mark to Market	The act of recording the value of a security based on its current market price.
Maturity (Expected Maturity)	The expected maturity date of the Notes. In an ABS transaction, the maturity date is based on the underlying collateral's expected maturity, including prepayments.
Maturity (Legal final maturity)	The legal maturity date of the Notes which is greater than the Expected Maturity date. In an ABS, the maturity date is based on the underlying collateral's legal binding documents. Also called Final Maturity.
Medium Term Notes	Debt securities with a tenor ranging from 3 months to 15 years.
Monte Carlo	A broad class of computational algorithms that rely on repeated random sampling to obtain numerical results.
Mortgage Loan	<p>A debt instrument where immovable property is the collateral for the loan. A mortgage gives the lender a right to take possession of the property if the borrower fails to repay the loan.</p> <p>Registration is a prerequisite for the existence of any mortgage loan. A mortgage can be registered over either a corporeal or incorporeal property, even if it does not belong to the mortgagee. Also called a Mortgage bond.</p>
Mortgage Pool	A group of mortgages held as collateral for a mortgage-backed security. The securities issued represented shares in the pool. The mortgages in a particular pool may have similar maturities and yields, and are on a similar class of property.
Mortgagee	A creditor under a mortgage agreement.
Mortgagor	A debtor under a mortgage agreement.
Multiplier	A stress applied to a variable that may impact the performance of a transaction.

N

National Credit Act	The National Credit Act 34 of 2005 (South Africa).
National Scale Rating (NSR)	The national scale provides a relative measure of creditworthiness for rated entities only within the country concerned. Under this rating scale, a 'AAA' long term national scale rating will typically be assigned to the lowest relative risk within that country, which in most cases will be the sovereign state.
Negative Pledge	A pledge made by a creditor that it will not incur any debt or event that may negatively impact the transaction or entity or material subsidiary.
Non-investment Grade	Credit ratings equal to or lower than "BB+".
Non-performing	When a Borrower is overdue, typically 90 + days in arrears or as defined in the transaction documents.
Non-recourse	A mortgage or deed of trust securing a note without recourse allows the creditor to look only to the collateral for repayment in the event of default, and not personally to the borrower.
Notarial Bond	A manner in which a creditor can obtain preference over movable goods of a debtor. A notarial bond has to be registered over the movable property. A notarial bond is not a real security unless: the movable priority has been delivered to the bondholder, unless a special notarial bond has been registered over the movable property after the commencement of the Movable Property Act 57 of 1993 (South Africa) and described in such a manner that it is readily recognisable, then only is it deemed to have been pledged to the bondholder although not delivered.
Notching	A movement in ratings.
Noteholder	Investor of capital market securities.
Notes (A-Notes)	The most senior tranche of notes.
Notes (B-Notes)	The second highest tranche of notes. Subordinated to the Class A-Notes.
Notional Amount	The nominal or face value of an instrument. Also called notional principal.
Novation	An agreement between a creditor and debtor, where the old agreement is extinguished and a new obligation is created in its place.

O

Obligation	The title given to the legal relationship that exists between parties to an agreement when they acquire personal rights against each other for entitlement to perform.
Obligor	See <i>Debtor</i> .
Offset	A right (Right of Offset) to set liabilities against assets in any dispute over claims.
Option	Either a call or a put option. A call option gives the holder the right to buy assets at an agreed price on or before a particular date. A put option gives the holder the right to sell assets at an agreed price on or before a particular date.
Origination	A process of creating assets.
Originator	An entity that created assets and hold on balance sheet for securitisation purposes.
Over-collateralisation	Principal balance of loans exceeds the principal balance of the debt securities issued by the securitisation vehicle. Or, the value of the assets is in excess of the debt securities issued by the securitisation vehicle. Or, more assets are given for the debt securities issued by the securitisation vehicle. A form of credit enhancement.
Owner Trust	Owner of a securitisation vehicle that acts in the best interest of the Noteholders.

P

Pari Passu	Side by side; at the same rate or on an equal footing. Securities issued with a <i>pari passu</i> clause have rights and privileges that are equivalent to those of existing securities of the same class.
Pass-through	The receipts or repayments from the underlying security are passed to the holder of the security.
Paying Agent	An appointed transaction party that is responsible for the payment of Noteholders scheduled interest and principal, as well as other transactional obligations.
Payment Date	The date on which the payment of a coupon is made.

Payment to Income Ratio (Current PTI)	Current repayment, current debt repayment, current instalment divided by the current total gross income.
Payment to Income Ratio (PTI)	Repayment, debt repayment, instalment divided by the total gross income.
Payment to Original Income (Original PTI)	Original repayment, original debt repayment, original instalment divided by the original total gross income.
Performing	An obligation that performs according to its contractual obligations.
Period (Amortising period)	See <i>Period (Post-enforcement period)</i> .
Period (Post-enforcement period)	Following a transaction pre-enforcement period caused by a remedied covenant / performance trigger / event of default breach. Typically the Special Purpose Vehicle would take over the operations from the Issuer, with the intention to wind-up the transaction, for the best interest of the Noteholders.
Period (Pre-enforcement period)	A period whilst all transaction covenants are adhered and no enforcement takes place. A going concern basis.
Period (Revolving period)	See <i>Period (Pre-enforcement Period)</i> .
Pledge	Constituted by an agreement between the pledgor, who undertakes to deliver the article, and the pledgee, and subsequent delivery of the property in question as security for debt. A pledge is only applicable to movable property.
Portfolio Criteria	See <i>Eligibility Criteria</i> .
Portfolio Manager	A person responsible for the management of an investment portfolio.
Prejudiced	Having or showing a dislike or distrust that is derived from prejudice - bigoted.
Prepayment	Early or excess repayment of an obligation. See <i>Curtailment</i> .
Prepayment Rate	The rate of prepayment in relation to the pool of obligations. Also called prepayment speed.
Pricing	A process of determining the price of a debt security.
Prima Facie	Based on the first impression; accepted as correct until proved otherwise.
Primary Market	The part of the capital markets that deals with the issuance of new securities.
Principal	The total amount borrowed or lent, e.g. the face value of a bond, excluding interest.

Principal Repayments	Scheduled payments and prepayments.
Priority of Payments	In securitisation, the order in which the cash flows are allocated to the transaction parties.
Private or Direct Placement	An issuance of securities without market participation, however, with a select few investors. Placed on a private basis and not in the open market.
Private Placement Memorandum	The restriction of placing securities in the market where the pricing and conditions of the debt securities are not governed by market participation.
Proceeds	Funds from issuance of debt securities or sale of assets.
Property	Movable or immovable asset.
Protection Buyer	The Protection Buyer makes regular payment to the Protection Seller in exchange for compensation of a security default event. In such an event, the Protection Seller takes possession of the security and compensates the Protection Buyer.
Protection Seller	The Protection Seller insures the Protection Seller of a security default event, in exchange for regular payment. In such an event, the Protection Buyer receives compensation from the Protection Seller in exchange for the security.
Provision or Provision for Bad Debt	See <i>Impairment</i> .
Public-Private Partnership (PPPs)	A project of private business venture funded and operated through a partnership between government and private sector companies.

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R

Ranking	A priority applied to obligations in order of seniority.
Rated Securities	Debt securities that have been accorded a credit rating.
Rating Linkage	The credit rating link that exists in between a holding company and its subsidiary or between two or more transactions parties where the reliance is based upon perceived performance or support from such party. There is dependence on one party to provide support to the transaction.

Rating Outlook	A Rating outlook indicates the potential direction of a rated entity's rating over the medium term, typically one to two years. An outlook may be defined as: "Stable" (nothing to suggest that the rating will change), "Positive" (the rating symbol may be raised), "Negative" (the rating symbol may be lowered) or "Evolving" (the rating symbol may be raised or lowered).
Rating Watch	Indicates that a rating is under review for possible change in the short term and the movement may be either positive or negative.
Real Estate	Property that consists of land and / or buildings.
Real Security	Obtained by a creditor when either as a consequence of agreement with a debtor or operation of law, the creditor acquires the right to be reimbursed from the proceeds of movable or immovable property of the debtor in the event of the debtor default. Real security includes: <ol style="list-style-type: none"> 1. Pledge; 2. Notarial bonds; 3. Mortgage bonds; 4. Liens or Hypothecs; and 5. Cession to secure debt.
Receivables	General term for economic benefit derived from an asset.
Recourse	A source of help in a difficult situation.
Recovery	The action or process of regaining possession or control of something lost. To recoup losses.
Redemption	The repurchase of a bond at maturity by the issuer.
Reference Rate	A rate that is the basis of the calculation such as JIBAR.
Refinance	The issue of new debt to replace maturing debt. New debt may be provided by existing or new lenders, with a new set of terms in place.
REITs	Real Estate Investment Trusts are JSE listed companies that own operate and manage a real estate portfolio consisting of income producing property (office parks, industrial parks or retail centers).
Release	An agreement between the creditor and debtor, in terms of which the creditor release the debtor from its obligations.
Rent	Payment from a lessee to the lessor for the temporary use of an asset.
Repack	Rearrangement of securities with the intent to be more attractive for investment. See <i>Collateralised Debt Obligation</i> .

Repayment	Payment made to honour obligations in regards to a credit agreement in the following credited order: <ol style="list-style-type: none"> 1. Satisfy the due or unpaid interest charges; 2. Satisfy the due or unpaid fees or charges; and 3. To reduce the amount of the principal debt.
Repayment (Interest Only Repayment)	Repayment of a loan for only the interest and fees portion. Uncommon in the South African market.
Replacement Servicer	See <i>Backup Servicer</i> .
Repurchase Agreement	One party sells assets or securities to another and agrees to repurchase them later at a set price on a specified date.
Representation and Warranties	The transaction documents clauses in which the transaction parties confirm to abide with certain conditions.
Reserve Fund	A funded account available for use by a Special Purpose Vehicle for one or more specified purposes. A reserve fund is often used as a form of credit enhancement. Typically accumulated over time, through excess cash flows.
Reserves	A portion of funds allocated for an eventuality.
Residential Mortgage Backed Securities (RMBS)	Type of debt securities issued by a securitisation vehicle that has residential mortgages as the collateral.
Risk (Basis Risk)	The risk of imperfect hedging using futures.
Risk (Commingling)	The risk that the funds payable to a counterparty may not be honoured due to temporary possession of funds by a Servicer or Administrator.
Risk (Credit Risk)	The probability or likelihood that a borrower or issuer will not meet its debt obligations. Credit Risk can further be separated between current credit risk (immediate) and potential credit risk (deferred).
Risk (Default Risk)	See <i>Risk (Credit Risk)</i> .
Risk (Diversifiable Risk)	See <i>Risk (Unsystematic)</i> .
Risk (Interest rate risk)	The risk of a changing interest rate environment that has an impact on the transaction's obligations performance.
Risk (Liquidity Risk)	The risk that a company may not be able to meet its financial obligations or other operational cash requirements due to an inability to timeously realise cash from its assets. Regarding securities, the risk that a financial instrument cannot be traded at its market price due to the size, structure or efficiency of the market.
Risk (Market Risk)	Volatility in the value of a security/asset due to movements in share prices, interest rates, currencies, commodities or wider economic factors.

Risk (Non-diversifiable Risk)	See <i>Risk (Systematic)</i> .
Risk (Prepayment Risk)	The uncertainty relating to the amount, timing, probability and exposure of prepayments on the mortgagor.
Risk (Refinance Risk)	The risk that the underlying securities cash-flow cannot support the notes post issuance date. This may be caused by the underlying obligor that prepaid or refinanced the underlying obligation.
Risk (Systematic Risk)	Risk attributed to market factors that cannot be eliminated through diversification.
Risk (Systemic Risk)	Risk of failures within the financial system that relate to settlement, payment or a default of a financial institution.
Risk (Total Risk)	Both systematic and unsystematic risks.
Risk (Unsystematic Risk)	Risk attributed to random causes that can be eliminated through diversification.
Risk Management	Process of identifying and monitoring business risks in a manner that offers a risk/return relationship that is acceptable to an entity's operating philosophy.
Risk Weighting	A weighting allocated to certain assets or obligations that have higher amount of risk attached to it than another.

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S

Scheduled Interest	The interest payment due on a scheduled date.
Scheduled Principal	The principal payment due on a scheduled date.
Seasoning	The age of an asset, the time period passed since origination.
Secondary Market	The part of the capital markets that deals with the previously issued financial instruments which are traded from other investors rather than the Issuer.
Securitatesm debiti	Cession to secure debt where the cession of a personal right is affected as security for a debt.
Secured Debt	Debt backed with or secured by collateral to reduce lending risk and thus the interest rate charged.
Securities	Various instruments used in the capital market to raise funds.

Securitisation	Is a process of repackaging portfolios of cash-flow producing financial instruments into securities for sale to third parties.
Securitisation (On-balance sheet Securitisation)	On-balance sheet securitisation. Issue of debt securities, backed by the income streams generated by a pool of ring-fenced assets, which remain on the balance sheet of the original asset holder.
Securitisation (Synthetic Securitisation)	Synthetic securitisation. Transfer credit risk of an underlying pool of assets without transfer of the assets from the asset holders' balance sheet.
Securitisation (True-Sale Securitisation)	True-sale securitisation. Debt securities issued by a securitisation vehicle to which the underlying pool of assets has been transferred from the original asset holders' balance sheet.
Securitisation Vehicle	See <i>Special Purpose Vehicle</i> .
Security	An asset deposited or pledged as a guarantee of the fulfilment of an undertaking or the repayment of a loan, to be forfeited in case of default.
Security Package	Security offered to Noteholders for debt securities issued that should increase the recoveries in an event of default.
Senior	A security that has a higher repayment priority than junior securities.
Senior Secured Debt	Secured Debt that is paid first in the event of default.
Senior Unsecured Debt	Securities that have priority ahead of all other unsecured or subordinated debt for the payment in the event of default.
Servicer	A transaction appointed agent that performs the servicing of mortgage loans, loan or obligations.
Servicing	The calculation of interest and repayments, collection of repayments, advancing of loans, foreclose procedures, maintaining records and seeing that the proceeds of each loan are passed on to the respective party.
Set-off	Extinguishing of debts owed reciprocally by parties. Therefore automatically terminates the obligations of operation of law. (Four requirements have to be met for set-off: <ol style="list-style-type: none"> 1. Debts must be similar in nature; 2. Debts must be liquidated; 3. Debts must be claimable; and 4. Debts must be between the same parties.
Settlement	Full repayment of an obligation.
Settlement Agent	The person that acts on behalf of the debtor for repayment or settlement of obligations.

Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
Shares (Common Shares)	A source of long-term equity funding that has voting rights and entitles the bearer as an owner of the entity.
Shares (Cumulative Preference Shares)	A preference share whose dividend accumulates in the event of non-payment until payment is possible.
Shares (Preference Shares)	A source of long-term equity funding that has no voting rights and higher pay-out priority than common shares.
Shares (Redeemable Preference Shares)	A preference share that gives priority in payment of interest in shares and capital and the shares can be bought by the Issuer.
Short Term Rating	A short term rating is an opinion of an issuer's ability to meet all financial obligations over the upcoming 12 month period, including interest payments and debt redemptions.
Sinking Fund	A condition of debentures that an issuer will periodically set aside cash or securities to redeem all or part of debentures.
Special Purpose Company (SPC) or Special Purpose Entity (SPE)	See <i>Special Purpose Vehicle</i> .
Special Purpose Vehicle (Guarantee SPV)	A Special Purpose Vehicle that has been created to guarantee the performance of the obligations of the Issuer that sold its assets to the Guarantee SPV.
Special Purpose Vehicle (Security SPV)	A Special Purpose Vehicle that has been created to realise and hold the security of the performance of the obligations of the Issuer that sold its assets to the Security SPV.
Special Purpose Vehicle (SPV)	An entity that is created to fulfil specific objectives. Normally insolvency remote and created to isolate financial risk.
Sponsor (Debt Sponsor)	Usually as Investment bank that brings a transaction to the capital markets, similar to an Arranger.
Spread	The interest rate that is paid in addition to the reference rate for debt securities.
Stabilisation Agent	An agent that will take up any unsuccessfully placed debt securities in the capital market.
Standard Deviation	An indication of risk amongst the dispersion of values. Higher value indicates greater risk.
Static Pool	A pool of assets that remains the same over the duration of the transaction, therefore no assets may be added or removed from the pool.

Step-up Coupon	A provision triggered by an event, which would cause an increase in the interest rate of a debt security. Calculated as the coupon times a percentage above one hundred percent.
Stock Code	A unique code allocated to a publicly listed security.
Stock Exchange News Service (SENS)	The Stock Exchange News Service for the JSE.
Stop Purchase Event	An event caused by deteriorating performance of a transaction or environmental changes that would stop the purchasing of new assets into the transaction.
Stress Testing	A risk management technique of taking transaction and market variables and stressing according to various scenarios of market conditions to determine the possible outcomes.
Structural Enhancement	This may be provided as credit enhancement or as various other methods to enhance the security of a transaction such as performance triggers, short revolving periods et cetera.
Structured Finance	A method of raising funds in the capital markets. A Structured Finance transaction is established to accomplish certain funding objectives whilst reducing risk.
Subordinated Debt	Debt that in the event of default is repaid only after senior obligations have been repaid. It is higher risk than senior debt.
Subordinated Loan	A loan typically given by the Issuer to the securitisation vehicle that is more junior than a junior tranche.
Subordination	The prioritising of the payment of interest and principal payments to tranches (senior, junior etc. Senior tranches are paid before junior tranches.
Surveillance	Process of monitoring a transaction according to triggers, covenants and key performance indicators.
Swap	An agreement between two parties for the exchange of a series of future cash flows. The exchange of one security for another.
Swap Provider	Normally an investment bank, which provides a swap.
Syndicated Loan	Loans provided from several creditors to a single debtor.
Synthetic Instrument	An asset's credit risk (incorporeal) is transferred to a securitisation vehicle.

T

Taxation	A source of government revenue levied on income and accruals.
Tenor	The term or duration of a debt security.
Timely Payment	The principal debt, interest, fees and expenses being repaid promptly in accordance with the contractual obligation.
Trade Receivables	A legally enforceable claim for payment to a business by its customer or clients for goods supplied and or services rendered in execution of the customer's order.
Tranche	In a structured finance, a slice or portion of debt securities offered that is structured or grouped to resemble the same degree of risk associated with the underlying asset or with a similar degree of risk. A junior tranche has a higher degree of default risk than a senior tranche.
Transaction	A transaction that enables an Issuer to issue debt securities in the capital markets. See <i>Domestic Medium Term Note Programme</i> .
Transaction Manager	See <i>Management Agent</i> .
Trigger Event	An event caused by transactional performance or environmental changes that would impact a transaction.
True Sale	An asset's right, title and obligations are transferred to a securitisation vehicle by means of pledge, mortgage or cession.
Trust Deed	A deed of conveyance creating and setting out the conditions of a trust.
Trustee or Trust	A third party that acts in the best interest of another party, according to the trust deed, usually the investors. See <i>Owner Trust</i> .

U

Ultimate Payment	A measure of the principal debt, interest, fees and expenses being repaid over a period of time determined by recoveries.
Unconditional	Not subject to any conditions.
Under Review	Failure to carry out a full review of a rated entity within the designated timeframe, either through lack of information or delays in finalisation, i.e. review is ongoing.

Underwriter See *Stabilisation Agent*.

Unsecured Claim See *Debt (Unsecured debt)*.

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V

Vacancy In commercial property, usually expressed as a percentage of unoccupied floor space in relation to the GLA.

Valuation (Market or Market Comparison or Desktop or Index) An assessment of the property value, with the value being compared to similar properties in the area.

Valuation (Physical Valuation) A physical assessment of the property value.

Valuation (Rental Yield Valuation) An assessment of the property value based on the rental income.

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W

Waiver See *Release*.

Waterfall See *Priority of Payments*.

Weighted The weight that a single obligation has in relation to the aggregated pool of obligations. For example, a single mortgage principal balance divided by the aggregated mortgage pool principal balance.

Weighted Average An average resulting from the multiplication of each component by a factor reflecting its importance or, relative size to a pool of assets or liabilities.

Weighted Average Cost of Funds or Weighted Average Cost of Capital (WACC) The Weighted Average times the rate charged to the cost of each capital source.

Working Capital Working capital usually refers to the resources that a company uses to finance day-to-day operations. Changes in working capital are assessed to explain movements in debt and cash balances.

Y

Yield

Percentage return on an investment or security, usually calculated at an annual rate.

Z

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