GCR GLOBAL CREDIT RATING CO.
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Rating Methodology

Structured Finance

Global Collateralised Loan Obligation ('CLO') Rating Criteria

Updated November 2018

Related Methodology

These Criteria should be read in conjunction with GCR's *Global Structured Finance Rating Criteria*, updated and published in September 2018, available on www.globalratings.net.

Introduction

GCR's Collateralised Loan Obligation ("CLO") Rating Criteria (the '*Criteria*') applies to managed transactions comprising granular and diverse pools of assets, typically loan obligations, from small and medium sized enterprises ("SMEs"). The definition of SMEs can vary per jurisdiction but in line with the European Union definition, the definition of an SME may also include self-employed individuals, including artisans, sole traders and entrepreneurs, as well as small, medium sized enterprises and micro business. GCR will consider these types of entities as SMEs within its rating analysis.

The majority of CLO transactions are managed by a Collateral Manager, therefore an assessment of the Collateral Manager is crucial, as the Collateral Manager may buy and sell assets in / out of the transaction subject to documented covenants.

These Criteria provides an overview of how CLO transactions are analysed. The Criteria applies globally, although every individual country and specific transaction may give cause to additional observations or deviations, which will be disclosed in the transaction specific reports. These Criteria address the timely payment of interest but ultimate repayment of principal.

This Criteria is an update to the version published in September 2017. There are no significant amendments to the Criteria. The update of this Criteria will not have an impact on any existing transactions that have been rated under it. Going forward, all new transactions will be rated using this Criteria.

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Analytical Approach

There are many aspects that make up GCR's analysis of a CLO transaction. These will be discussed in further detail throughout the Criteria. A list of data requirements can be found in *Appendix A* of this report. The key steps of the analysis, however, are:

i) GCR will evaluate the quality and likely performance of the SME loan originator, servicer and Collateral Manager.
ii) GCR will analyse the loan obligations to be included in the pool, in respect of their current rating or credit assessment, performance, concentration and correlation.
iii) GCR will review performance data of the loan originator in respect of defaults and recoveries.
iv) GCR will calculate an annualised probability of default ("PD") of the pool as well as the stressed recovery rates at each rating level.
v) GCR will use the information in (iv) above to then calculate a lifetime pool default rate for each rating level. This will also be known as the Stressed Default Rate. This Stressed Default Rate is based upon the calculated PD as well as the assets concentration and correlation in respect of tenor, geography and industry.
vi) Within its analysis GCR will also run a cashflow model. Such model will take into consideration stressed recoveries, recovery timings, default timings and interest rates. This information will be used to calculate a 'Break-Even Default Rate'. This is the point at which the percentage of the portfolio collateral can be defaulted without the transaction experiencing a loss. GCR will compare the Break-Even Default Rate to the Stressed Default Rate in order to accord a rating in line with the transaction structure documented.
vii) GCR expects to receive full transaction documentation as well as legal and tax opinions for review.

Ratings of Assets

Typically, GCR would like to see a GCR rating of the underlying assets that would look to default probability, however, where a GCR rating is not available, GCR may also accept credit assessments or ratings from other Credit Rating Agencies ("CRAs") where available. GCR will only notch from these ratings if it considers it has a different view in respect of methodology applied to determine the ratings. Where a rating is on Negative Outlook, GCR may notch down one notch from the existing rating of other CRAs. Where no rating exists GCR may perform a mapping of a bank's internal rating scale or accord a shadow rating.

Recovery Analysis

GCR analyses loan by loan data for CLO transactions. Recoveries form a key part of this analysis. International rating agency studies indicate that the average recovery rate on defaulted corporate senior unsecured debt obligations is approximately 40%. Note must be taken that the data supporting these studies is mainly derived from observations from the United States market and other developed markets, where typically rated debt issuance takes place. For other jurisdictions, lower average recovery rates may be expected, particularly if such jurisdictions have less developed legal systems and/or where practical enforcement of creditor rights is deemed to be a challenge. In addition, a corporate that has ceded the vast majority of its assets as security for debt obligations, will typically have a lower average senior unsecured debt obligation recovery rate. Recovery rates will be estimated on a case-by-case basis by GCR's rating panel.

Recovery timing is also a key factor in the analysis. This tends to vary per asset type and per jurisdiction. GCR will review timings in respect of current market practice, as well as within the transaction documentation, and will assess if the servicer / Collateral Manager is considered able to recover upon the underlying assets efficiently. It is common that there will be a lag in respect of timing of recoveries. This lag is typically estimated at around 15 months, dependent upon the underlying asset types. This will be assessed on a case by case basis.

Stressed Default Rates

GCR will analyse a combination of historical performance data and current portfolio information of the underlying assets. GCR will calculate a PD for the underlying assets based upon current ratings and historical performance. Typically, historical performance will cover a minimum 3-year period. GCR will analyse loan by loan data in respect of the par amount, defaults, prepayments, recoveries and scheduled repayments. If data is not available for specific assets, GCR may make conservative assumptions within its analysis. The analysis will assume a default rate for the portfolio of assets as a whole, based upon performance characteristics. It is therefore important that the underlying asset book is reflective of the 'true' originator's book and that loans have not been 'cherry picked' to enhance the portfolio and should be reflective of the underlying business and its performance.

The definition of default can vary per jurisdiction and even per asset type, however, a default is typically defined as when a borrower doesn't pay after an applicable grace period. The typical standard is that default is defined as 90 days past due, i.e. 90 days after payment was expected.

GCR's model will take account of the asset life and asset correlations when calculating the Stressed Default Rate. The model will calculate a distribution of scenarios based upon varying rating levels. The Stressed Default Rate will later be compared to the Break-Even Rate to determine the rating of the tranche of notes.

GCR will analyse the expected lifetime pool defaults and compare these against available credit enhancement at various stressed rating levels. Credit enhancement can appear in different forms such as over-collateralisation, subordination, excess spread and guarantees. Credit enhancement is a key factor in a structure, as it is the mechanism that provides protection from losses on the underlying pool. Credit enhancement for the transaction should be proposed by the arranger through the capital structure. GCR will then in most instances calculate an expected loss rate to determine the appropriateness of the credit enhancement proposed, as well as perform cashflow modelling to test the level of availability of cashflows and credit enhancement in a stressed rating scenario.

Asset Life

The life or tenor of an asset is considered in the analysis and is a key determinant in the establishment of a base case. Generally, if the pool is static, the asset life will be the Weighted Average Life ("WAL") of the pool after factoring in each asset's amortisation schedule. For revolving pools, this is not so straight forward. Typically, for a revolving pool, the revolving period will be added to the WAL.

Correlation and Concentration

Typically, for CLO transactions GCR expects to be presented with a granular, highly diversified pool of assets. GCR may apply positive or negative stresses within its model to account for correlation and concentration. These typically impact industry and geographic correlation. Where the portfolio is not particularly granular or diversified, GCR may apply negative stresses to account for this.

Cashflow Analysis

GCR will run a cashflow model to analyse the cashflows in the transaction and determine a Break-Even Rate. Weighted Average Spread and Weighted Average Coupon will form part of this analysis. Principal collections based upon amortisation schedules are also considered, and will also include default and recovery assumptions. The cashflow model will model according to transaction covenants. GCR will model the cashflows to accurately reflect the priority of payments defined within the transaction documentation. Payments may be pro rata or sequential and can vary dependent upon compliance or breach of certain trigger tests. The cashflow model will incorporate any over collateralisation or interest coverage tests that divert cashflows to more senior asset classes, as well as reflecting fees and senior costs and expenses of the transaction that may be paid out ahead of the noteholders. In some circumstances recoveries in excess of par are classified as interest proceeds, however, in the analysis, any recoveries in excess of par are considered as principal proceeds until 100% of par has been recovered.

GCR expects to see a cap on senior fees and expenses. Where these are uncapped they pose a potential risk to the transaction if paid out ahead of noteholders. Fee caps are addressed in the cashflow model. Where no such cap exists, the uncapped portion of fees are expected to be paid out after payment to the noteholders.

Pool Composition

Pools are expected to be granular and diversified. Where they are more concentrated, additional stresses may be applied within the analysis. GCR will typically analyse a worst-case pool. CLO pools can be revolving or static. Pool composition is reviewed at the initial rating, as well as on a continuous basis. Factors that may impact the analysis are the geographic concentration, industry concentration, weighted average life, weighted average spread, asset type and security type amongst others. GCR will expect to review eligibility criteria for the underlying assets. Also, the tenor of an asset is not expected to be longer than the tenor of the note it is financing.

GCR also expects to see performance triggers on the pool in relation to delinquency, loss and concentration. Again, these triggers will be reviewed at the initial rating as well as on an ongoing basis.

Events of Default

Upon an event of default, there may be an acceleration of the notes, liquidation of the assets or noteholders may elect to take no action and let the book run off. Typically, the breach of an over-collateralisation test will trigger an event of default. If an over-collateralisation test triggers an event of default this can potentially be detrimental to the non-senior class of noteholders. However, given the way an over-collateralisation test trigger is usually constructed, this should have a negligible impact on non-senior ranking noteholders. Acceleration will ensure all cashflows generated are paid to noteholders in sequence of priority ranking until all cashflows are exhausted. Similarly, upon liquidation, the assets are sold and cashflows are applied to noteholders in rank of seniority. Typically, there will be a vote of majority noteholders to determine the action to be taken in respect of liquidation or acceleration and GCR would expect this to be included in the transaction documentation.

Collateral Manager Review

GCR will carry out an on-site review of the Collateral

Manager to ensure they can manage the transaction on an ongoing basis. The Collateral Manager plays a crucial role in the transaction and as such GCR will review the Collateral Manager's historic performance of managing such transactions, organisation, staffing, processes and procedures, credit strategy, and credit decision process in line with transactions features. This will form part of GCR's qualitative analysis. GCR will also look for replacement language within the documentation should the appointment of the Collateral Manager be terminated for any reason to ensure a replacement can be identified and transitioned seamlessly.

GCR may also elect to carry out an on-site review of the Originator / Servicer where a significant portion of the underlying portfolio composition comes from a small number of entities. The on-site review will take a similar form to that of the Collateral Manager and will focus on processes and procedures, origination, credit granting, and servicing in respect of collections amongst others. Existing Servicer Quality ratings, if applicable, will be factored into the analysis.

Legal Analysis
GCR expects to receive full transaction legal documentation as well as legal opinions, as discussed in its Global Structured Finance Rating Criteria, updated in September 2018.

GCR typically uses external counsel to review legal opinions.

A separate tax opinion addresses all relevant taxes that could impact the transaction. Without limitation, this includes a description of the potential impact on the transaction of deferred tax liabilities, withholding tax, value added tax, stamp duty, transfer tax and corporate income tax. GCR seeks to understand how the transaction documents incorporate adequate provision for taxes in a cash reserve, where relevant.

There are many risks that can have an impact on the analysis of CLO pools and GCR expects these to be sufficiently mitigated. GCR expects counterparties to the transaction to meet its counterparty criteria set out in its Global Structured Finance Rating Criteria available at www.globalratings.net. The following discusses some of these risks amongst others.

Commingling
GCR expects, amongst others, the legal opinion to identify any commingling risk to which the transaction may be exposed and to describe any mitigants. If the risk is not appropriately mitigated, additional credit enhancement may be necessary to accommodate certain rating scenarios, or deductions may be made within the portfolio analysis. This is assessed on a case-by-case basis.

Commingling risk can occur when a servicer defaults and money that has been paid to such defaulted entity cannot be transferred to the transaction timeously; this therefore creates a liquidity issue within the transaction. In the worst case scenario, there is the potential risk that asset collections commingle with funds in the insolvency estate of the originator and are lost to the transaction.

Set-Off
Set-off is another risk prevalent in CLO transactions. GCR expects set-off to be mitigated; this is typically done by the implementation of a funded reserve account, although GCR will consider other mitigants in its analysis. Where set-off is not mitigated; GCR will expect to receive information in respect of deposit balances held at the same deposit taking institutions, as well as mark to market values of any loans that form part of the transaction composition. The set-off amount can then be calculated and applied in the analysis.

Interest Rate Stress
A transaction may be sensitive to interest rate movements in the event that either the assets or the liabilities earn interest on a floating rate basis. Also, the transaction account balances may earn interest on a floating rate basis. GCR therefore runs a sensitivity analysis where certain movements of the relevant floating rate index are assumed. This movement is determined by analysing the historical behaviour of the relevant index and the expectation during the life of the transaction. GCR will disclose in each transaction specific report the relevant assumptions.

A swap may hedge (partly) the interest rate risk in a transaction. In this case, GCR adds the swap mechanics to the cashflow model. GCR prefers transaction specific swap notional to follow the performing asset balance in the transaction.

Hedging
Hedging, particularly of interest rates, is important in CLO analysis. GCR will expect appropriate hedges to be in place. Where such hedges are not in place, GCR will look to other proposed mitigants to ensure there is no interest rate risk exposure in the transaction.

Replenishment
A common feature of CLO transactions is replenishment, i.e. where the Collateral Manager has the ability to buy new assets into the portfolio post-closing. Typically, these assets are purchased with the proceeds of amortised assets. The replenishment periods typically range from 2 to 5 years. Often, there will be a performance trigger in place which will shorten the replenishment period if the trigger is breached. This acts as a safeguard on the proceeds of amortised assets so that well performing assets are not

replaced by assets of lower quality, thus deteriorating the overall quality of the pool from that assessed at transaction closing.

Liquidity
Liquidity is assessed within the cashflow analysis. Liquidity issues may arise based upon the frequency of payment of liabilities versus asset collections. Liquidity risk may occur even on well performing portfolios. GCR expects liquidity risk to be mitigated, which can be achieved by reserve accounts, deferral triggers or other mitigants.

Performance Monitoring
Ongoing monitoring of performance of transactions and the underlying assets is key to the rating process and maintaining current ratings. GCR expects sufficient performance information to be provided on a monthly / quarterly basis. GCR also expects to be notified of any changes to the transaction such as amendments to concentration limits, interest rates etc. that may impact the current rating and its analysis.

At each reporting period, GCR will review the performance information provided to ensure it is reflective of the information the analysis was based on at the outset. In addition, surveillance rating panels are held annually at a minimum or as events warrant. Negative or improved performance of the underlying portfolio may trigger a potential rating action. For public transactions, GCR will publish a performance report on an annual basis at a minimum or as events warrant.

Disclaimer
Note that GCR is not a legal, tax or financial adviser and will only provide a credit opinion of the rated securities. For example, a rating does not cover a potential change in the applicable laws nor can it be regarded as an audit. Moreover, GCR is not a party to the compilation or structuring of the transaction documents, nor does it provide legal, tax or structuring advice.

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Appendix A: Data Requirements

To assess a CLO portfolio, GCR expects to receive loan level data including the following information as a minimum:

- Originator’s internal scoring / external ratings accorded;
- Default data on a monthly / quarterly basis (this should include no. of loans, as well as par amount of originated loans per period, number of loans that default per cohort);
- Collection and prepayment data on a monthly / quarterly basis;
- Recovery data;
- Delinquency data split per delinquency bucket for each origination cohort;
- Concentration data including industry, geographic region;
- Interest rates applied;
- Amortisation schedule for assets;
- Weighted average life of assets;
- Proposed triggers and covenants;
- Capital structure;
- Origination date;
- Legal maturity date;
- An overview of the scheduled interest and principal to be received each month on the cut-off portfolio;
- Other relevant data.

In the event that the historical data does not cover a full economic cycle, GCR may also use other sources to complement the originator’s information.

Appendix B: Global Average Cumulative Issuer-Weighted Default Rates by Alphanumeric Rating

Global Average Cumulative Issuer-Weighted Default Rates by Alphanumeric Rating, 1981-2016 (%)

		Time horizon (years)														
Rating*	**Equivalent Rating***	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**
Aaa	AAA	0.00%	0.03%	0.13%	0.24%	0.35%	0.46%	0.52%	0.60%	0.66%	0.72%	0.75%	0.78%	0.81%	0.88%	0.94%
Aa1	AA+	0.00%	0.05%	0.05%	0.11%	0.16%	0.22%	0.28%	0.33%	0.40%	0.46%	0.52%	0.59%	0.65%	0.72%	0.79%
Aa2	AA	0.02%	0.03%	0.09%	0.22%	0.37%	0.49%	0.62%	0.73%	0.83%	0.93%	1.01%	1.08%	1.19%	1.26%	1.33%
Aa3	AA-	0.03%	0.09%	0.18%	0.26%	0.35%	0.47%	0.54%	0.60%	0.66%	0.72%	0.78%	0.85%	0.88%	0.93%	0.98%
A1	A+	0.05%	0.10%	0.21%	0.35%	0.47%	0.57%	0.69%	0.82%	0.97%	1.12%	1.27%	1.43%	1.61%	1.83%	2.02%
A2	A	0.06%	0.16%	0.25%	0.37%	0.51%	0.71%	0.90%	1.08%	1.29%	1.53%	1.73%	1.89%	2.03%	2.13%	2.32%
A3	A-	0.07%	0.18%	0.29%	0.42%	0.60%	0.78%	1.04%	1.23%	1.38%	1.51%	1.63%	1.79%	1.94%	2.08%	2.19%
Baa1	BBB+	0.12%	0.32%	0.56%	0.82%	1.08%	1.39%	1.63%	1.88%	2.16%	2.44%	2.72%	2.92%	3.18%	3.51%	3.88%
Baa2	BBB	0.17%	0.44%	0.69%	1.08%	1.47%	1.87%	2.23%	2.60%	2.99%	3.39%	3.80%	4.17%	4.46%	4.57%	4.79%
Baa3	BBB-	0.26%	0.81%	1.48%	2.24%	3.01%	3.70%	4.32%	4.90%	5.39%	5.84%	6.34%	6.76%	7.15%	7.71%	8.13%
Ba1	BB+	0.36%	1.17%	2.12%	3.09%	4.08%	5.02%	5.82%	6.41%	7.10%	7.79%	8.23%	8.75%	9.25%	9.66%	10.27%
Ba2	BB	0.58%	1.79%	3.57%	5.22%	6.87%	8.19%	9.39%	10.38%	11.31%	12.12%	12.94%	13.65%	14.05%	14.36%	14.77%
Ba3	BB-	1.05%	3.28%	5.60%	7.96%	10.01%	12.02%	13.68%	15.28%	16.55%	17.66%	18.50%	19.18%	19.94%	20.67%	21.27%
B1	B+	2.15%	5.89%	9.51%	12.59%	14.98%	16.83%	18.54%	20.02%	21.41%	22.66%	23.68%	24.41%	25.11%	25.76%	26.41%
B2	B	3.89%	8.85%	13.03%	16.18%	18.57%	20.77%	22.28%	23.34%	24.27%	25.25%	26.04%	26.75%	27.37%	27.93%	28.55%
B3	B-	7.49%	14.64%	19.91%	23.59%	26.42%	28.53%	30.21%	31.25%	31.95%	32.48%	33.19%	33.73%	33.96%	34.24%	34.55%
Caa2/ Ca_C	CCC/C	26.78%	35.88%	40.96%	44.06%	46.42%	47.38%	48.56%	49.52%	50.38%	51.03%	51.55%	52.10%	52.81%	53.37%	53.37%
Investment Grade		0.10%	0.27%	0.46%	0.71%	0.96%	1.21%	1.45%	1.67%	1.89%	2.11%	2.33%	2.51%	2.69%	2.86%	3.05%
Speculative Grade		3.83%	7.48%	10.63%	13.20%	15.29%	17.01%	18.45%	19.65%	20.71%	21.67%	22.47%	23.13%	23.73%	24.27%	24.80%
All rated		1.52%	2.99%	4.27%	5.35%	6.25%	7.02%	7.67%	8.22%	8.72%	9.18%	9.58%	9.91%	10.22%	10.50%	10.78%

Source: Market available data.
* International ratings.

Appendix C: Corporate Correlation

Code	Industry
1	Banks
2	Mining
3	General Retail
4	Travel & Leisure
5	General Finance
6	Educational
7	Life Insurance
8	Municipalities
9	Business Industrial
10	Healthcare Equipment & Services
11	Gas & Water
12	Household Goods
13	Recreational Services
14	Real Estate
15	Support Services
16	Industrial Engineering
17	Food Producers
18	Equity Investment Instruments
19	Industrial Transportation
20	Fixed Line Telecom
21	Sovereigns
22	Software & Computer Services
23	Chemicals
24	Mobile Telecom
25	General Industrials
26	Forestry and Paper

GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S STRUCTURED FINANCE GLOSSARY

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.
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).
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.
Asset	An item with economic value that an entity owns or controls.
Average Life	The average lifetime of an asset or obligation. Typically measured from origination to cancellation or termination date.
Borrower	The party indebted or the person making repayments for its borrowings.
Capital	The sum of money that is used to generate proceeds.
Collateral	An asset pledged as security in event of default.
Collateralised Loan Obligation	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.
Commingling	The mixing of various transaction parties' funds in an account.
Coupon	Interest payment on a security.
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.
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 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 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).
Creditor	A credit provider that is owed debt obligations by a debtor.
Debt	An obligation to repay a sum of money.
Default	A default occurs when: 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.
Delinquency	When a receivable is overdue and not paid on its payment due date.
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.
Enforcement	To make sure people do what is required by a law or rule et cetera.
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.
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.
Guarantee	An undertaking for performance of another's obligations in event of default.
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.
Income	Money received, especially on a regular basis, for work or through investments.
Index	An assessment of the property value, with the value being compared to similar properties in the area.
Insolvency	When an entity's liabilities exceed its assets.
Insurance	Provides protection against a possible eventuality.
International Scale Rating LC	International local currency (International LC) ratings measure the likelihood of repayment in the currency of the jurisdiction in which the issuer is domiciled. Therefore, the rating does not take into account the possibility that it will not be able to convert local currency into foreign currency or make transfers between sovereign jurisdictions.
Investment Grade	Credit ratings equal to or higher than 'BBB-'.

Issuer	The party indebted or the person making repayments for its borrowings.
Legal Opinion	An opinion regarding the validity and enforceable of a transaction's legal documents.
Liability	All financial claims, debts or potential losses incurred by an individual or an organisation.
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.
Liquidity	The ability to repay short-term obligations or short-term availability of liquid assets to a market or entity.
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.
Loan	A sum of money borrowed by a debtor that is expected to be paid back with interest to the creditor. 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. 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.
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.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
Noteholder	Investor of capital market securities.
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.
Origination	A process of creating assets.
Originator	An entity that created assets and hold on balance sheet for securitisation purposes.
Performing	An obligation that performs according to its contractual obligations.
Prepayment	Early or excess repayment of an obligation. Partial or full prepayment of the outstanding loan amount.
Principal	The total amount borrowed or lent, e.g. the face value of a bond, excluding interest.
Proceeds	Funds from issuance of debt securities or sale of assets.
Provision	An amount set aside for expected losses to be incurred by a creditor.
Ranking	A priority applied to obligations in order of seniority.
Rated Securities	Debt securities that have been accorded a credit rating.
Real Estate	Property that consists of land and / or buildings.
Recovery	The action or process of regaining possession or control of something lost. To recoup losses.
Repayment	Payment made to honour obligations in regards to a credit agreement in the following credited order: 3.) Satisfy the due or unpaid interest charges; 4.) Satisfy the due or unpaid fees or charges; and 5.) To reduce the amount of the principal debt.
Scheduled Interest	The interest payment due on a scheduled date.
Securities	Various instruments used in the capital market to raise funds.
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.
Senior	A security that has a higher repayment priority than junior securities.
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.
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.
Spread	The interest rate that is paid in addition to the reference rate for debt securities.
Structured Finance	A method of raising funds in the capital markets. A Structured Finance transaction is established to accomplish certain funding objectives whist reducing risk.
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. Normally an investment bank, which provides a swap.
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.
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. 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.
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.

For a detailed glossary of terms, please click here