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Rating Methodology

Structured Finance and Securitisation

Global Master Structured Finance Rating Criteria

Updated September 2018

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Global Trade Receivables Securitisation Rating Criteria, updated May 2017
Global Residential Mortgage Backed Securities Rating Criteria, updated May 2017
Global Consumer Asset Backed Securitisation Rating Criteria, updated September 2018

Introduction

Global Credit Ratings' ("GCR" or "the Rating Agency") Global Master Structured Finance Rating Criteria (the "Criteria") constitute the overarching methodology for analysing any Structured Finance transaction rated by GCR. Structured Finance transactions include all forms of asset backed securities, for example, transactions backed by residential or commercial mortgage loans, car loans, personal loans, consumer loans, equipment leases and structured credit, amongst others. These Criteria are complemented by asset class-specific criteria published or to be published by GCR. The asset class-specific criteria disclose any additional observations that may be relevant to the asset class, as well as any deviations from the Criteria.

This Criteria applies globally, although each individual jurisdiction and each specific transaction may give rise to additional observations and/or deviations, which will be disclosed in the transaction-specific reports.

The rating process is performed in several steps and includes, in addition to analysing the specificities of a given transaction, an assessment of the legal soundness of the structure and any possible tax-related impact on cash flows, an analysis of the cash inflows and outflows though the historical and expected performance of the underlying securitised assets, as well as the cash allocation mechanisms employed; a review of the operational risks (mostly related to the servicer and administrator), and any other counterparty risks.

This Criteria report is an update to the version published in February 2017. Going forward, all new transactions will be rated using this Criteria. While the update of the counterparty risk criteria section will not have an impact on any existing Structured Finance ratings, the new approach to the financial analysis is expected to cause an uplift of some of the Structured Finance ratings currently assigned by GCR. GCR will reassess currently-rated transactions within six months of the publication of the Criteria.

Structured Finance Ratings

Structured Finance ratings are accorded in line with the contents of the transaction documents, including the terms and conditions related to the rated securities. GCR is not a legal, tax or financial adviser and is not a party to the transaction documents. As a result, ratings are merely an opinion on the relative credit quality of the rated instruments and exclude any investment considerations. Ratings cannot be regarded as an audit and are not a recommendation to subscribe for, buy, sell or hold any securities and may be subject to revision, suspension or withdrawal at any time by the Rating Agency.

Ratings can be public or private. The rating process for both public and private ratings is the same; however, private ratings are not publicly disclosed.

Ratings address the relative ability of the issuer to meet its payment obligations with respect to the rated securities in a timely manner. Depending on the terms and conditions of the securities, a rating may address the timely payment or the ultimate payment of interest and principal by the legal final maturity of the rated debt. Ratings exclude any potential early repayment penalty amount to be paid to the holders of the rated securities. Also, risks associated with fraud and future changes in the legal or tax environment are excluded from the scope of the ratings. Please note that ratings can be qualified further depending on the specificities of the transaction.

Structured finance ratings bear the subscript "$_{(sf)}$" and national scale ratings bear the country-specific identifier "$_{(xx)}$" (e.g. "$_{(ZA)}$" for South Africa). In addition to national scale ratings, GCR generally assigns international scale ratings using its International Scale to National Scale Mapping Table, updated from time to time and available on GCR's website.

Legal Structure and Tax Considerations

In traditional securitisation schemes, the primary principle of securitisation is to isolate the credit risk associated with the asset pool sold to the Special Purpose Vehicle ("SPV") from the credit risk of the Seller. The bankruptcy-remote nature of the SPV, the characteristics of the asset sale and the structural features of the transaction are, amongst others, essential in achieving this objective.

GCR first assesses the structure of the SPV to determine whether the SPV has been set-up as a bankruptcy remote SPV. GCR looks at, amongst others, the following:

- **Legal and corporate independence of the SPV from the Seller.** GCR expects the SPV to be owned independently of the Seller. GCR reviews the shareholding structure of the SPV. An independent entity such as an owner trust generally holds all the shares. GCR also assesses whether the SPV is run independently from the Seller and looks at the governance and controls in place. GCR expects the majority of the directors of the SPV to be independent from the Seller - not only to ensure that the SPV is run independently from the seller, but also to limit the risk of voluntary bankruptcy.
- **Restriction of the SPV's business activities.** GCR expects the commitments of the SPV, and any other transactions the SPV may engage in, to be limited to those needed to perform its obligations under the transaction documents. Thereby, the universe of possible liabilities and secured creditors of the SPV is restricted and the risk of new creditors instigating legal action against the SPV is reduced.
- **Limited recourse, subordination and non-petition.** GCR also pays close attention to the limited recourse, subordination and non-petition language used in the transaction documents. Such provisions are an important feature in transaction documents as they restrict the rights and capacity of the secured creditors to take individual action against the SPV. Under limited recourse and subordination clauses, the secured creditors agree to limit their claims to the assets owned by the Issuer and according to the payment order dictated by the priority of payments. Once the assets have been extinguished, the secured creditors agree to abandon all claims against the SPV or the Security SPV. For serialised Asset Backed Securities programmes, GCR also considers the strength of the contractual segregation of each Series within the SPV.

GCR also focuses, in traditional securitisation schemes, on whether the purchase of the asset portfolio by the SPV constitutes a true sale. Under a traditional securitisation scheme (i.e. excluding synthetic and whole business securitisations), the SPV purchases a pool of assets through the issuance of debt instruments. In its analysis, GCR considers the factors that would mitigate the risk of the sale being re-characterised upon the insolvency of the Seller. Areas of focus are:

- **Clear identification of the assets sold.** GCR expects the asset portfolio sold to the SPV to be clearly identifiable. The identification generally consists of a sale schedule comprising a line-by-line list of the assets sold, together with unique identifiers of these assets. GCR also expects the asset management systems of the servicer to flag unequivocally the assets belonging to the SPV.

- **Transfer of ownership of the receivables from the Seller to the SPV.** The sale of the asset portfolio must achieve effective transfer of ownership to the SPV.
- **No encumbrance.** The asset portfolio must be free of any encumbrances (typically, any agreement or arrangement providing any form of security or preferential treatment to a third-party) at the time of the sale to the SPV.

A review of the SPV's constitutional documents, the transaction documents and a legal opinion is key in addressing the abovementioned points and, as such, in assessing the legal robustness of the transaction. Please note that the review of the transaction documents serves additional purposes, such as to:

- Determine whether the provisions of the transaction documents are in line with the Rating Agency's rating methodology. Rating outcomes may vary depending on whether the transaction documents reflect, amongst others, the various rating thresholds and remedial actions stipulated in this Criteria, as well as in GCR's other asset-specific rating criteria.
- Assess the strength of the various mitigants to the risks born by the SPV. GCR pays close attention to the structural features of the transaction that would contain existing risks or provide additional enhancements. This applies to, amongst other mechanisms, covenants and/or triggers in place.
- Allow GCR to model the financial structure accurately in its cash flow model. As explained later in this document, the cash flow model run by the Rating Agency is a reflection of the structural features of the transaction (such as the cash allocation provisions, etc.), which have a direct impact on the rating of the securities.

Legal Opinion

GCR expects to receive a legal opinion that addresses, amongst other factors, the key legal aspects of the transaction as mentioned earlier in this document, such as the bankruptcy remote nature of the SPV, the true sale, and the legal, valid and binding nature of the transaction documents in all relevant jurisdictions. Ancillary risks such as set-off risk are also expected to be opined on in the legal opinion document. Please refer to Appendix A for a detailed list of the points GCR generally expects to be addressed in the legal opinion. Please note that opinions provided by the arranger's legal counsel with respect to first-time issuers are generally reviewed by external counsel on behalf of GCR. This external review assists GCR in assessing whether the opinion delivered is reasonable, that all relevant risks have been addressed and whether the remoteness of such risks is in line with the targeted ratings.

Tax Opinion

GCR also reviews the impact of the relevant jurisdiction's tax environment on the cash flows generated in the structure. GCR will incorporate in its analysis any extra-ordinary tax to which the SPV may be subject and that might affect the payments under the rated securities. GCR expects to receive a tax opinion confirming that the ordinary course of the SPV's business is not impeded by the tax environment. The tax opinion is also typically reviewed by an external counsel on behalf of GCR.

The table below exhibits GCR's expectation in terms of the junctures at which new legal and tax opinions should be provided.

Table 1 – The provision of legal and tax opinions

New issuer or new series[(1)(2)]	Significant structural amendment	Tap issuance
At inception of the transaction.	Can be in the form of a bring-down letter stipulating that the provisions of the initial opinions are still valid and applicable.	If tap issuance occurs later than 12 months since opinions were last provided. Can be in the form of a bring-down letter stipulating that the provisions of the initial opinions are still valid and applicable.

[(1)] within a Serialised Asset Backed Securities programme
[(2)] for ABCP and CLN programmes, opinions may be provided at a different frequency
Source: GCR

However, GCR may request such opinions on an *ad hoc* basis, especially if a change in law or the tax environment has occurred since the last opinion was received by GCR.

Please note that in assessing legal risks and issues pertaining to a transaction, GCR is informed by its general understanding of the legal risks and issues in the relevant jurisdiction. Legal opinions are views expressed by a lawyer or law firm, typically relying on factual assumptions and limited by qualifications. The interpretation and application of the relevant law by courts or other authorities may differ from the opinions provided to GCR and on which it assigns ratings through the application of its rating criteria.

Financial Analysis (traditional securitisations only)

The financial analysis constitutes another cornerstone of the rating process. This Criteria provides a generic perspective on analysing traditional securitisation transactions in particular. Please refer to GCR's asset-specific criteria for more details on its rating approach.

The purpose of the financial analysis is to assess the ability of the SPV to service the rated debt in a targeted rating scenario. To be able to assign a rating to the notes, the cash flows generated under the transaction must be sufficient to pay the amounts due to the rated notes in a timely manner and in a stressed economic environment.

GCR performs its financial analysis in two steps, starting with a review of the historical performance of the assets to determine the key assumptions in its cash flow modelling, which constitutes the second phase.

Historical Data Analysis

To form a view on the expected performance of the assets under a rating scenario, GCR analyses the historical credit performance of the assets. GCR typically analyses the historical occurrence of defaults and recoveries, both on a cumulative basis, as well as prepayments, to form a base case, which corresponds to the expected occurrence of such prevailing credit factors over the life of the transaction, and is typically deemed a 'B(sf)' national scale rating scenario.

GCR prefers to obtain historical data over a full economic cycle and expects to review at least three years of data. It is important to emphasise that such data should relate to the whole portfolio historically originated by the originator, and not to the sold portfolio only. Please note that GCR may also use data collected from sources other than the originator to derive an appropriate base case should the data provided be inconclusive. In the absence of sufficient information, GCR may decline to rate a transaction.

The derived base case is then stressed to a degree that varies according to the relevant rating scenario, and is used thereafter as an input to the cash flow model. To apply adequate stress in the relevant jurisdiction and per the relevant rating scenario, GCR first considers the international sovereign rating and its corresponding stress assumption in a rating scenario of '$\text{AAA}_{\text{(xx)(sf)}}$' (on a local scale). The Rating Agency then applies an additional Sovereign Risk Factor which is not embedded in the international stress assumption. Please refer to GCR's report titled *Global Consumer Asset Backed Securitisation (ABS) Rating Criteria* for more detail.

Please note that the abovementioned analysis typically applies to a granular portfolio with limited concentrations. Some asset portfolios may comprise significant concentrations of, for example, obligors or geographic locations of underlying obligors or security. GCR will analyse the impact of such concentrations on a case-by-case basis, and may assume a linkage between the rating of the securities and the credit risk of the asset(s) that cause(s) the concentration. In such cases, additional credit enhancement may be required to achieve a targeted rating. In certain instances, GCR may not be able to assign a rating to such securities.

Cash Flow Modelling

The cash flow model constitutes the synthesis of the financial, legal and structural review of the transaction. It determines the ability of the SPV to make payments under a certain tranche of debt and in a given rating scenario by stressing cash inflows, which are mainly driven by the asset portfolio owned by the SPV, and by allocating the monies according to the structural specificities of the transaction and in light of the available credit enhancement.

The model first simulates the portfolio of assets according to its characteristics (yield, term, etc.) and applies, amongst others, the calculated stressed base case of cumulative defaults, cumulative recoveries and prepayments. As mentioned, the stresses on the base case increase with the targeted rating scenario. The cumulative defaults and recoveries are distributed over the life of the portfolio using default and recovery time vectors.

The method described above applies particularly to assets with fixed repayment profiles. For assets with no fixed repayment profiles, such as trade receivables and credit card receivables, dynamic methods are used to calculate appropriate credit enhancement.

GCR generally rates the notes in a pre-enforcement and amortisation period. Although the Rating Agency does not model the revolving period - when the asset portfolio is replenished to its initial level, typically using principal collections - it pays close attention to the portfolio covenants as well as the stop purchase and/or stop issuance triggers in place for the transaction. For perpetually revolving structures, the asset portfolio is modelled using the portfolio covenants in place. Stop purchase and/or stop issuance triggers constitute an important feature of revolving structures and are designed to protect the holders of the rated securities from a decline in the credit quality of the asset portfolio. For any transaction, triggers and covenants may be important elements of GCR's rating analysis.

Cash collections, together with other sources of inflows, are then distributed to the notes, while taking into consideration the structural features of the transaction (such as the priority of payments, any deferral mechanism, etc.), the capital structure (i.e. the different tranches of notes and their respective characteristics), any reserves available to the notes, any hedging instrument and the senior expenses incurred by the SPV. Irrespective of the rating scenario, GCR runs its model under a combination of different interest rate environments, varying default and vectors, and prepayment intensities to test the resilience of the cash flows.

It is important to emphasise that GCR does not structure transactions nor provide any structuring advice. Please refer to Appendix B for a list of the information generally requested by GCR to conduct its rating analysis.

Counterparty Risk

The Issuer is exposed to both operational and financial risks related to the counterparties to which it has outsourced certain functions and to third-party service providers. Operational risk relates to inadequate or failed internal procedures and systems, and has a strong human element. Financial risk relates to 1) the monies belonging to the SPV and transiting through other parties before being deposited into the former's bank account, or 2) payments to be made by a designated counterparty as added protection for the benefit of the security holders.

If a transaction relies to a large extent on a counterparty without the associated risks being mitigated, the rating of the debt securities is likely to be closely linked to that of the counterparty. To achieve a de-linkage between the rating of the notes and the rating of the transaction counterparties, GCR expects the latter to meet the counterparty criteria explained further in this document. The remedial periods prescribed under the counterparty criteria aim to minimise the risk of jump-to-default from the time of a downgrade of a counterparty to its replacement date. GCR will factor any of these criteria not being met into its rating, with a potential outcome being a rating cap.

The rating thresholds exhibited in this section apply to local ratings in the relevant jurisdiction. Some jurisdictions may present specificities that could cause a deviation from these criteria. In such instances, GCR would communicate the thresholds related to the specific jurisdiction separately.

Originator, Servicer and Back-up Servicer, Administrator Review

Originator and Servicer

The underwriting process used by the Originator and the ability of the Servicer to administer the asset portfolio on behalf of the SPV are of paramount importance to a securitisation. In many transactions, the Originator and Servicer are the same entity.

GCR assesses the origination process and the servicing capabilities and capacities of the Originator and the Servicer through an operational review. During the review, the Rating Agency meets with key personnel and management involved in the transaction to assess their experience, the robustness of the credit granting processes and policies in place, the collection procedures and the efficiency of any disaster recovery plan in place. Please refer to Appendix C for a non-exhaustive list of points to be addressed during the review.

For existing transactions, GCR expects an update review to be conducted on an annual basis to assess changes to policies and procedures, if any.

In addition to the operational review, an independent audit opinion on the underlying portfolio of assets sold to the SPV is required for each transaction, unless the obligations of the SPV are unconditionally, irrevocably and fully guaranteed by an adequately rated entity. The audit will look at a sample of the asset portfolio data received and will check that the underlying information reported on the data file corresponds to the information reflected on the original files of the obligor and/or the Originator's system. The size of the sample is determined as follows:

Table 2 – Size of the portfolio sample for the purpose of the audit opinion

Maximum targeted national scale Rating	Sample size
AAA(sf)	95% confidence interval /1% error margin with a minimum of 10% of the total pool
BBB+(sf)	95% confidence interval /5% error margin with a minimum of 5% of the total pool

Source: GCR

GCR expects an audit opinion to be provided at inception of the transaction. A new audit opinion would be required if a tap issuance occurs more than 12 months since the previous opinion was provided.

Back-up Servicer

GCR prefers each transaction that involves a primary Servicer to be supported by a back-up servicer at closing. However, this is not a systematic requirement. For "vanilla" asset classes, i.e. assets that do not require specific skills to be managed and where various substitute counterparties in the market are available to manage them, and where the servicer is adequately rated, GCR does not require the appointment of a back-up servicer from inception of the transaction. Such requirement is more likely to apply to servicers with a low or no rating and/or where the skills required to administer the assets are very specialised.

GCR performs an operational review on the back-up servicer similar to that of the servicer review. Adequate replacement mechanisms are needed that will substitute the servicer well before its insolvency to avoid any disruption in cash flows.

To achieve a rating of ‘$AAA_{(sf)}$’ in a given jurisdiction, GCR generally expects the servicer and back-up servicer to be rated at least ‘$BBB\text{-}_{(sf)}$’ (BBB minus) on a local scale basis in the given jurisdiction, or to have a minimum Servicer Quality (“SQ”) rating of ‘SQ2-’ (SQ2 minus). Rating-based triggers would be acceptable to prompt a replacement by the back-up servicer.

SQ ratings consider the operational and financial stability of a servicer, as well as its ability to respond to changing market conditions. Such assessment is based on a servicer’s organisational structure and management strength, its financial profile, information technology and reporting capabilities, as well as its strategic goals.

For unrated or low-rated servicers, asset performance-related triggers would be acceptable if they facilitate an early transition to the back-up servicer.

Please note that the absence of a back-up servicer when needed may lead to a cap on the rating of the debt securities.

Administrator

The main role of the Administrator is to administer the priority of payments, maintain the various accounts in the name of the SPV and to perform the various administrative duties to ensure the corporate existence of the SPV. GCR expects an experienced Administrator to be appointed. Should the contemplated administrator lack the expected track record, GCR will assess its ability to perform its role. The Administrator and Servicer are in many instances the same entity.

GCR expects efficient replacement triggers to allow a successor to become operational when needed.

Commingling Risk

In relation to the Originator/Servicer

In many securitisations, the underlying obligors are not notified of the transfer of the assets from the originator/servicer to the SPV at the time of sale. As a result, although the sale of assets has taken place, the underlying obligors carry on making payments on their loans to the Originator/Servicer, that, in turn, transfers the monies collected and belonging to the SPV to the latter’s bank account.

Commingling risk refers to the possibility that the monies belonging to the SPV that are in transit through the Originator/Servicer’s bank accounts are commingled with the latter’s assets in the event of its bankruptcy. To mitigate this risk, GCR expects such monies to be swept into the SPV’s bank account at a frequency that corresponds with the rating of the Originator/Servicer and with the maximum targeted rating of the securities.

Table 3 - Commingling risk related to the Originator/Servicer

Maximum targeted national scale rating of the securities	National scale rating threshold of counterparty	Collections sweep frequency to SPV’s account
AAA to AA-	A1+	Until next payment date
	≥ A1	At least once a month
	≥ A2	At least once a week
	≥ A3 and ≥ BBB-	At least each working day
	< BBB-	Borrower notification to pay directly into the SPV’s bank account
A+ to BBB+	≥ A1	Until next payment date
	≥ A1-	At least once a month
	≥ A2	At least every 15 days
	≥ A3 and ≥ BBB-	At least each 2 working days
	< BBB-	Borrower notification to pay directly into the SPV’s bank account
BBB and below	≥ A2	Until next payment date
	≥ A3	At least once a month
	< A3	Borrower notification to pay directly into the SPV’s bank account

Source: GCR

For transactions where the obligor pays directly into a bank account opened in the name of a bankruptcy remote SPV (typically a collections SPV), the above criteria do not apply and there is no minimum expectation concerning the rating of the Originator/Servicer.

For unrated entities or where the sweep period is longer than the abovementioned frequencies, GCR will assess the commingling quantum, which corresponds to the maximum estimated asset collections during the commingling horizon. The commingling horizon is the number of days between each cash sweep (taking into account any contractual payment grace period, plus the assumed debtors’ notification period). Such commingling quantum may result in additional credit enhancement expected to sustain the targeted ratings.

In relation to the Account Bank

The monies received by the SPV from the collateral are typically held in an account opened in the name of the SPV at an Account Bank. In this instance as well, the SPV is exposed to the credit risk of the bank and could see its cash commingled with the bank's assets upon the latter's bankruptcy. The table below shows the remedial actions related to an account bank should its rating fall below a certain threshold.

Table 4 – Account bank rating thresholds and remedial actions

Maximum targeted national scale rating of the securities	National scale rating threshold of counterparty	Remedial action upon downgrade below rating threshold	Maximum timing of remedial action
AAA to AA-	A1	1. Replacement with a suitably-rated bank. 2. Obligations unconditionally and irrevocably guaranteed by a suitably-rated counterparty.	30 calendar days
A+ to BBB+	A1-	Same as above	30 calendar days
BBB and below	A3	Same as above	15 calendar days

Source: GCR

Please note that these criteria also apply to the account bank related to the collections SPV, if any.

Hedge Counterparty

Where transactions rely on a hedge agreement, GCR expects the remedial actions stipulated in the table below to be in place to mitigate the risk of non-payment by the counterparty.

Table 5 – Hedge counterparty rating thresholds and remedial actions

Maximum targeted national scale rating of the securities	National scale rating threshold of counterparty	Remedial action upon downgrade below rating threshold	Maximum timing of remedial action
AAA to AA-	A1	1. Replacement with a suitably-rated bank. 2. Obligations unconditionally and irrevocably guaranteed by a suitably rated counterparty. 3. Collateral support posted.	30 calendar days
A+ to BBB+	A1-	Same as above	30 calendar days
BBB and below	A3	Same as above	15 calendar days

Source: GCR

GCR expects automatic termination events in favour of the hedge counterparty to be limited. GCR also expects a collateral agreement to be in place at closing of the transaction. Finally, GCR expects the potential termination net settlement payments to be paid by the SPV to the hedge counterparty to be subordinated to any payments under any rated debt security if the termination is caused by a default of the hedge counterparty.

Liquidity Facility Provider

Liquidity facilities are used to mitigate the repayment risk caused by a mismatch between maturity of the SPV's assets and that of the debt issued, or to alleviate the risk of interruption of payments caused by operational issues.

Liquidity facilities are typically involved in:

1) securitisations where medium and long-term debt is issued, where the main role of the facility is to allow the SPV to resume payments in the event of a disruption of cash flows caused by events of an operational nature, such as the transition to a back-up servicer or a market disruption; or
2) when short-term debt is issued against longer maturing assets, where liquidity facility then mitigates the liquidity risk caused by such maturity mismatches.

Please note that in most instances, the liquidity facility does not cover the credit (e.g. default) risk on the assets.

<u>Liquidity Facilities in Transactions with No Significant Liquidity Mismatch (listed as 1) above)</u>

GCR does not normally expect a liquidity facility to be in place in structures where there is no significant liquidity mismatch between the assets and securities issued. This is typically the case for pass-through transactions where medium and long-term debt is issued. The structural features of the transaction (e.g. a combined waterfall allowing all collections on the asset portfolio to service the interest on the notes first), the back-up servicing arrangement allowing the standby servicer to step in early enough to avoid any disruption in the payment of the debt, as well as the robustness of the financial market players in the relevant jurisdiction are considered by GCR as providing adequate comfort in the absence of a liquidity facility arrangement. Should GCR be of the opinion that any of these mitigants are insufficient, the Rating Agency would expect a liquidity facility agreement to be in place with an adequately rated counterparty. The quantum of the facility would be sized according to the specificities of the transaction.

Table 6 – Liquidity facility rating thresholds and remedial actions

Maximum targeted national scale rating of /the securities	National scale rating threshold of counterparty	Remedial action upon downgrade below rating threshold	Maximum timing of remedial action
AAA to AA-	A1	1. Replacement with a suitably-rated counterparty. 2. Obligations unconditionally and irrevocably guaranteed by a suitably rated counterparty. 3. Full drawdown of the facility into the SPV's bank account.	30 calendar days
A+ to BBB+	A1-	Same as above	30 calendar days
BBB and below	A3	Same as above	15 calendar days

Source: GCR

<u>Liquidity Facilities in Transactions with Significant Liquidity Mismatch (listed as 2) above)</u>
The presence of a liquidity facility in structures where there is a significant mismatch between the assets purchased by the SPV and the debt issued is critical in assigning a rating. This is typically the case for conduits that issue short-term debt backed by assets with longer maturities, or securitisations issuing short-term debt in addition to medium to long-term securities.

Given the significant reliance on the liquidity facility provider for the purpose of the rating, a linkage between the rating of the facility provider and the rating of the short-term notes is likely to exist. This means that should the rating of the liquidity facility provider vary, the rating of the notes may vary as well.

The following table shows the different rating thresholds and remedial actions necessary to maintain the rating on the notes in the event of a downgrade of the liquidity facility provider.

Table 7 – Liquidity facility provider rating thresholds and remedial actions

Targeted national scale rating of the securities	National scale rating threshold of counterparty	Remedial action upon downgrade below rating threshold	Maximum timing of remedial action
A1+	A1+	1. Replacement with a suitably-rated counterparty. 2. Obligations unconditionally and irrevocably guaranteed by a suitably-rated counterparty. 3. Full drawdown of the facility into the SPV's bank account.	30 calendar days
A1	A1	Same as above	30 calendar days
A1-	A1-	Same as above	30 calendar days
A2	A2	Same as above	15 calendar days

Source: GCR

Permitted Investments

The SPV may elect to reinvest the monies in its bank account to increase return. However, both the tenor and the credit quality of these investments (the "Permitted Investments") can have an impact on the rating of the securitisation debt if it is deemed inadequate.

GCR expects the Permitted Investments to mature at least two days prior to the next payment date as set out in the transaction documentation and to pay interest and principal in full at maturity.

The table below shows the rating compatibility of the Permitted Investments and the rated debt.

Table 8 – Permitted Investment rating thresholds

Maximum targeted national scale rating of the securities	Minimum national scale rating of investment	Remedial action upon downgrade of investment	Maximum timing of remedial action
AAA to AA-	A1+ or AA-	Replacement with suitably-rated investment.	30 calendar days
	A1 or A+*	Replacement with suitably-rated investment.	30 calendar days
A+ to BBB+	A1 or BBB+	Same as above	30 calendar days
BBB and below	A3 or BBB-	Same as above	15 calendar days

** If investment is maturing no later than 30 calendar days*
Source: GCR

Certain transactions involve Guaranteed Investment Contracts ("GIC") whereby the GIC provider guarantees the SPV a certain return on its cash. The table below shows the rating threshold related to the GIC provider and the remedial actions expected to be taken in the event of a its downgrade in order to maintain the ratings of the securities.

Table 9 – GIC provider rating thresholds and remedial actions

Maximum targeted national scale rating of the securities	National scale rating threshold of counterparty	Remedial action upon downgrade below rating threshold	Maximum timing of remedial action
AAA to AA-	A1	1. Replacement with a suitably-rated counterparty and at least same return is guaranteed under the new GIC. 2. If the return under the new GIC contract is lower than the previous one in place, the previous GIC provider must post collateral*. 3. Obligations unconditionally and irrevocably guaranteed by a suitably rated counterparty.	30 calendar days
A+ to BBB+	A1-	Same as above	30 calendar days
BBB and below	A3	Same as above	15 calendar days

** The collateral must be posted into the SPV's bank account and correspond to an amount sufficient to cover the difference between the return under the previous GIC agreement and the new one.*

Source: GCR

Guarantee Providers

In addition to the asset portfolio, a transaction may involve a third-party guarantee for the benefit of the rated debt issued by the SPV. Guarantees can be partial or full. A partial guarantee would only offer to repay a portion of the principal owed under the rated securities, while a full guarantee would provide for all payments under the securities in certain events, including the failure of the SPV to make payments to the security holders.

To take into account the benefit of the guarantee in its rating, GCR expects the guarantee to be legally valid, binding and provided on an irrevocable and unconditional basis. Payments under full guarantees are expected to be made timeously to ensure no disruption of payments with respect to the rated debt. Alternatively, the guarantee must allow for a full drawdown to repay the debt immediately (subject to the terms and conditions of the rated debt).

GCR closely examines the events that trigger the payments under the guarantee and the timing for calling the guarantee. Should these result in a disruption of payments on the debt, GCR is likely to disregard or attenuate the benefits of the guarantee in its rating analysis.

Should the reliance on the guarantee provider for the purpose of the rating be significant, a linkage between the rating of the guarantee provider and the rating of securities is likely to exist. This means that should the rating of the guarantee provider vary, the rating of the notes may vary as well.

Table 10 – Guarantee provider rating thresholds and remedial actions

Targeted national scale rating of the securities	National scale rating threshold of counterparty	Remedial action upon downgrade below rating threshold	Maximum timing of remedial action
AAA to BBB	Same as the maximum targeted rating of the securities	1. Replacement with a suitably-rated counterparty. 2. Full drawdown of the facility into the SPV's bank account.	30 calendar days
BBB- and below	Same as the maximum targeted rating of the securities	Same as above	15 calendar days

Source: GCR

Rating Process

A transaction is generally analysed by a primary analyst and a secondary analyst. The role of the primary analyst is to drive the rating process and he/she is assisted by the secondary analyst. The primary analyst is the main point of contact with the arranger and other parties involved in the initial rating process.

The rating analyst presents an analysis of the proposed transaction to a rating committee. The rating committee consists of a quorum of a minimum of 5 members. The quorum consists predominantly of members actively involved in the Structured Finance sector, including the Sector Head, as well as an independent member. A representative of the team that rates the underlying corporate entity (Servicer/ Originator) also generally attends the rating committee.

The presentation covers an analysis of the asset pool, the legal structure (review of the transaction documents and the legal and tax opinions), the financial structure, the Originator/Servicer underwriting and servicing capabilities, the pool audit opinion and the historical performance analysis in order to formulate the key assumptions of the cash flow model and the expected cash flows under different rating scenarios. The committee discusses the analysis presented and provides feedback to the transaction analyst. Multiple preliminary committees may be held before a final committee is convened and a rating is accorded. A rating is accorded by majority decision of the rating committee.

The rating is communicated via a letter and, for public ratings, a detailed report and press release. An indicative rating may at first be accorded, with a final rating accorded following, for instance, satisfactory completion and receipt of final / executed copies of transaction documentation.

The rating committee can accord either a national or an international scale rating, or both. If a national scale rating is accorded, the rating is followed by a suffix indicating the relevant country involved.

A long-term rating is accompanied by an outlook that can be stable, positive, negative or evolving. The outlook provides an indication of the potential direction of the rating over the medium term, typically one to two years. A rating can also be put on Rating Watch when appropriate. A Rating Watch indicates that a rating is under review for possible change in the short-term. A long-term rating is accorded where securities have a legal maturity exceeding twelve (12) months at transaction closing. A short-term rating is accorded for shorter legal maturities, for which no rating outlook is accorded.

In the event that the accorded rating is a monitored rating (as opposed to a point-in-time rating), GCR will perform regular surveillance on the transaction's performance. In order to do so, GCR expects to receive periodic reporting packs from the asset servicer and SPV administrator, which should include all relevant information on the performance of the securitised asset pool, the securities outstanding and compliance with transaction documentation. The current performance of a transaction is compared with the expectation at closing. If a transaction performs better than the expectation, GCR's rating committee might consider upgrading a specific security, whilst a downgrade might be considered when the situation is reversed. Amongst other factors, a change in the rating of transaction counterparties may also trigger a review of a transaction. As a minimum, GCR will perform a performance review of all Structured Finance transactions on an annual basis or more frequently as events warrant. Surveillance information for publically rated Structured Finance transactions is available on GCR's website. As part of its initial analysis GCR will perform a sensitivity analysis, where appropriate, to determine the effect of changes in key factors and the likely impact they may potentially have on the rating of the notes. The sensitivity analysis is published, where appropriate, within the transaction's rating report.

Credit Assessments

Upon request of the arranger, GCR can perform a credit assessment on a contemplated transaction. A credit assessment is based on a limited scope of information received by the Rating Agency and aims to provide an indication of what the final rating could be upon finalisation of the structure. The credit assessment is typically delivered following a review of the indicative structure and the analysis of asset pool and historical performance data.

It is important to note that a credit assessment is not a rating and relies only on a limited amount of information. Should the full set of information provided for the purpose of the final rating differ from or conflict with the information reviewed during the credit assessment process, the rating outcome may vary substantially from the credit assessment initially delivered. Credit assessments are a once-off assessment and are not reviewed/monitored.

Disclaimer

Note that GCR is not a legal, tax or financial adviser and will only provide a credit opinion of the rated securities. By way of 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 transaction documents nor does it provide legal, tax or structuring advice.

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APPENDIX A: POINTS GENERALLY ADDRESSED BY THE LEGAL AND TAX OPINIONS

GCR's legal assumptions are factored into the credit analysis and are expected to be supported by a satisfactory legal opinion which may be reviewed by external counsel. Depending on the nature of the specific transaction, the securitised assets and the jurisdictions involved, different assumptions may apply. Some of the provisions below may not apply, depending on the asset class or transaction type.

Transaction parties

- The SPV is a bankruptcy remote entity. If the SPV is not a new entity, the opinion includes a description of potential risks, if any.
- All transaction parties have been duly incorporated / established, exist and are in good standing.
- All transaction parties have the power, capacity and authority to enter into and perform their obligations under the transaction documents to which they are a party.
- Any transaction documents to which the transaction parties are a party constitute legal, valid, binding and enforceable obligations against the relevant party.
- All transaction parties have obtained all necessary valid licenses, consents, authorisations etc.
- The opinion will cover any local legal, regulatory and / or tax requirements or consequences that may affect any transaction party, in particular the SPV. It should also cover compliance with all applicable Acts of Law. The entry into and the creation of the transaction documents does not contravene any relevant law.

Transfer of assets and security

- The transfer of the assets from the originator to the SPV is a legal, valid, binding and enforceable sale. The sale withstands the insolvency of the seller and is enforceable against third parties and any insolvency official of the seller. In the event that legal title to the assets is not transferred at closing of the transaction, the opinion describes the mechanism of how and when transfer of legal title happens and whether or not this creates any risks. The transfer of the assets is not re-characterised as a loan.
- The underlying receivables agreements constitute legal, valid, binding obligations of the related obligor.
- A cession of collection accounts is legal, valid, binding and enforceable. The cession should withstand the insolvency of the party ceding the accounts and is enforceable against third parties and any insolvency official of the seller.
- Security granted to the SPV by whatever party is perfected, legal, valid, binding, and enforceable against third parties and any insolvency official.
- Cession, enforcement and validity of insurance policies, if applicable.

Non-petition, limited recourse, subordination provisions

Non-petition, limited recourse, subordination / priority of payments provisions are legal, valid, binding and enforceable obligations against all relevant parties (including hedge counterparties) and any insolvency official.

Commingling risk

If there is commingling risk in the transaction, the opinion describes this risk and the mitigants, if any.

Set-off risk

If there is set-off risk in the transaction, the opinion describes this risk and the mitigants, if any.

Reasoned analysis

To the extent insolvency or enforcement issues could have an impact on the transaction; the opinion includes a reasoned analysis on these risks.

Tax opinion

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 is interested to understand how the transaction documents incorporate adequate provision for taxes in a cash reserve, where relevant.

APPENDIX B – INFORMATION GENERALLY REQUESTED BY GCR TO CONDUCT A RATING ANALYSIS

Legal information

- Constitutional documents of the SPV
- Full set of transaction documents
- Applicable pricing supplements related to the rated securities to be issued
- Legal opinion
- Tax opinion

Asset portfolio and performance information (securitisations only)

- Asset pool cut (line-by-line information)
- Cumulative default historical data
- Cumulative recoveries historical data
- Dynamic arrears
- Dynamic prepayments

Other information

- Expected costs to be incurred by the SPV at inception of the transaction and on an on-going basis
- Expected capital structure
- Targeted ratings for each tranche of securities to be issued
- Operational review presentation (if available)
- Pool audit opinion (where assets are sold to the SPV)
- Any additional information if relevant

APPENDIX C – ORIGINATOR/ SERVICER REVIEW ATTENTION POINTS

An overview of the business

- History of the business
- Organisational structure
- Recent material developments and growth strategy
- Competition
- Market share statistics
- Financial performance and funding profile (especially - contribution of securitisation in the funding mix)
- Prospects for the future
- A description of the main features of the assets to be securitised
- Biographies of senior management

An overview of the underwriting/ credit and collection policies

- Overview of the underwriting department and origination channels
- Overview of the credit department
- Experience of credit personnel
- Procedures for granting new credit
- Ageing policy
- Rehabilitation programs
- Collection procedures, including expectations for the future
- Write-off policies
- Fraud prevention

An historical overview of the performance of the relevant asset book (securitisations only)

- Dynamic arrears rates
- Dynamic prepayment rates
- Dynamic portfolio yield
- Static cumulative default rates by vintage
- Static cumulative recovery rates by vintage
- Portfolio composition by relevant characteristics, ideally for each vintage
- Other relevant performance information
- If possible, a comparison with the performance of competitors

IT Systems and disaster recovery plans

- Presentation of the IT infrastructure used for underwriting, collections, asset management etc.
- Data back-up procedures
- Disaster recovery plan
- Succession plan with appointed back-up servicer, if any

An overview of the proposed transaction and how it will be managed

- Overview of the contemplated Structured Finance transaction, targeted capital structure and ratings
- Rationale for the contemplated transaction
- Depending on the specific transaction, other information may be requested
- In addition to the above a review of the back-up servicer may be deemed necessary
- Findings of audit report if provided prior to the meeting

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

Account Bank	A bank where the transaction account is held.
Administration	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	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.
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.
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.
Asset	An item with economic value that an entity owns or controls.
Asset Backed Securities	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).
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.
Bullet Maturity	The settlement of a security at maturity in a single principal repayment.
Capital	The sum of money that is used to generate proceeds.
Cash Flow	A financial term for monetary changes in operations, investing and financing activities.
Collateral	An asset pledged as security in event of default.
Collateralised Debt 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.
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.
Commercial Mortgage Backed Securities	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.
Corporate Credit Rating	A credit rating accorded to a corporate entity.
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 Default Swap	A form of insurance against non-performance of a third party's obligations.
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).
Debt	An obligation to repay a sum of money.
Debtor	The party indebted or the person making repayments for its borrowings.
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.
Downgrade	The assignment of a lower credit rating to a corporate, sovereign of debt instrument by a credit rating agency. Opposite of upgrade.
Enforceable	To make sure people do what is required by a law or rule et cetera.
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.
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.

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.
Guarantor	A party that gives the guarantee.
Hedge	A form of insurance against financial loss or other adverse circumstances.
Income	Money received, especially on a regular basis, for work or through investments.
Insolvency	When an entity's liabilities exceed its assets.
Insolvent	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.
Junior	A security that has a lower repayment priority than senior securities.
Junior Tranche	A security that has a lower repayment priority than senior securities.
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.
Legal Opinion	An opinion regarding the validity and enforceable of a transaction's legal documents.
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. 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.
Monte Carlo	A broad class of computational algorithms that rely on repeated random sampling to obtain numerical results.
Mortgage Loan	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.
National Scale Rating	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.
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	The party indebted or the person making repayments for its borrowings.
Origination	A process of creating assets.
Originator	An entity that created assets and hold on balance sheet for securitisation purposes.
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.
Prepayment	Early or excess repayment of an obligation. Partial or full prepayment of the outstanding loan amount.
Prepayment Rate	The rate of prepayment in relation to the pool of obligations. Also called prepayment speed.
Principal	The total amount borrowed or lent, e.g. the face value of a bond, excluding interest.
Private	An issuance of securities without market participation, however, with a select few investors. Placed on a private basis and not in the open market.
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.
Rated Securities	Debt securities that have been accorded a credit rating.
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.
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.
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.
Release	An agreement between the creditor and debtor, in terms of which the creditor release the debtor from its obligations.
Repack	Rearrangement of securities with the intent to be more attractive for investment. 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.
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.
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.
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.
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.
Settlement	Full repayment of an obligation.
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.
Special Purpose Vehicle	An entity that is created to fulfill specific objectives. Normally insolvency remote and created to isolate financial risk.
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.
Synthetic Securitisation	Synthetic securitisation. Transfer credit risk of an underlying pool of assets without transfer of the assets from the asset holders' balance sheet.
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. 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.
True Sale	An asset's right, title and obligations are transferred to a securitisation vehicle by means of pledge, mortgage or cession.
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.
Yield	Percentage return on an investment or security, usually calculated at an annual rate.