Glossary

Assignment A mode of transferring assets which involves the actual transfer of the title to the receivables. In relation to a mortgage, it would mean the transfer of a mortgage by the mortgagee (lender) to the mortgagor (borrower and occupier).

Bankruptcy remoteness A technique used for isolating assets or loans from the bankruptcy risk of the company selling them (originator). The originator finances its loans by transferring them to a special purpose vehicle (SPV) which issues securities backed by the loans. The transfer of the loans to the SPV is designed to be a "true sale", which removes the loans from the originator's balance sheet. This places the loans outside the originator's bankruptcy estate in case it goes into bankruptcy. In addition, the SPV is established in such a way that it is independent from the originator.

Capital adequacy Regulations that require authorised deposit-taking institutions (ADIs), for example banks to maintain minimum amount of capital relative to the assets of the bank. Generally these requirements are set in accordance with the framework promoted by the Bank for International Settlements (BIS).

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Collateral Assets are serving as security for a loan. The underlying security, mortgage, or asset are for the purposes of securitisation. In the case of a mortgage loan secured by collateral, if the borrower fails to make required payments, the lender has the right to seize and sell the collateral to recover the defaulted amount.

Conduit In securitisations, this means an entity (a trust or a company) formed to hold assets transferred by the originator on behalf of the investors. It issues securities backed by assets purchased by the SPV from the originator.

Credit enhancement Techniques used in a securitisation structure to improve the credit quality of a security or a bond so that it can obtain high rating, for example by providing a cash collateral or third party guarantee etc. Most securitisations use credit enhancements to allow their securities to obtain a triple-A ("AAA") ratings.

Credit risk The risk that an issuer of debt securities or a borrower may default on its obligations.

Delinquency A condition of having failed to make one or more scheduled payment on a debt obligation. A borrower may be considered delinquent on its debt as soon as the due date of payment has passed.

Equitable assignment An assignment of receivables that does not complete the legal requirements for an assignment, for example a formal stamped instrument or a notice to borrowers etc. The common law recognises equitable assignment as creating an equity between the assignor and the assignee, though it cannot have any standing in relation to either the borrower or any third parties.

Interest rate risk The risk that a security's value will change due to a change in interest rates. For example, a bond price drops as interest rates rise. For a depository institution, also called a funding risk, the risk that spreads income will suffer because of a change in interest rates.

Interest rate swap A contract between two parties to swap a fixed rate of interest for a floating rate of interest, or different bases for a floating rate of interest.

Liquidity risk The risk that arises from the difficulty of selling an asset in a timely manner. It can be thought of as the difference between the "true value" of the asset and the likely price, less commissions.

Loan-to-valuation ratio (LTV) The principal amount of a loan outstanding as a percentage of the valuation of the property forming the collateral for the loan.

Mortgage A creation of security interest, normally over real property, in order to secure a loan or debt obligation.

Mortgage pool A group of mortgages with similar class, interest rate, and maturity characteristics.

Mortgage-backed securities (MBS) This is a broad term which encompasses securities backed by a pool of mortgage loans. MBS are further classified into residential mortgage-backed securities and commercial mortgage-backed securities. Commercial mortgage-backed securities represent securities backed by mortgage loans for commercial properties such as multi-family dwelling, shops, restaurants, and showrooms.

Mortgagee The lender of a loan secured by a property.

Mortgagor The borrower of a loan secured by property.

Off balance sheet A debt or asset, which does not show up on the balance sheet of the entity that originated the asset or debt. In a securitisation transaction, if the transaction qualifies for a true sale, the assets transferred by the originator are off the balance sheet of the originator, and so is the amount received on account of such transfer.

Originator An institution which originates loans. In a securitisation transaction, the originator sells the loans to a trust or SPV, but typically retains the role as a servicer.

Over-collateralisation The provision of security for a loan or debt issue which is in the amount owing so as to offer protection to the lender or investor in the event of a fall in the collateral value.

Pass through It refers to a securitisation structure where the SPV makes payments on the securities to the investors, on the same periods, and subject to the same fluctuations, as are there in the underlying assets. That is to say, amount collected every month is passed through to investors, after deducting fees and expenses.

Pay through A form of debt security where the payments to the investors are paid through the SPV who does not strictly pay the investors only when the receivables are collected by it, but keeps paying on the stipulated dates irrespective of the collection dates.

Prepayment Payment of principal on a loan before its due date.

Prepayment risk The risk that borrowers prepay their mortgage loans. Mortgage loan prepayments tend to increase when interest rates fall and home-owners have the opportunity to refinance their loans at lower interest rates. In turn, prepayments return a substantial portion of invested principal to the MBS investors. Investors who receive a return principal may be forced to reinvest at lower yields. Hence, prepayment is viewed as a risk in securitisation.

Securitisation In a securitisation transaction, a company raises money by issuing securities that are backed by specific assets. In most cases, the underlying assets are loans such as mortgage loans, accounts receivables, or auto loans. The cash flow from the underlying assets usually is the source of funds for the issuer to make payments on the securities.

Servicer An entity that collects payments on securitised assets and that administers securitisation transaction. Administrative duties including processing payment to investors and transmitting periodic reports to investors and rating agencies. Often an originator of securitised assets acts as the servicer.

Special purpose vehicle (SPV) An entity established with the sole (special) purpose of purchasing assets and issuing securities backed by these assets to finance the purchase. Frequently, the SPV serves as a trust or a corporation. In relation to securitisation, it means the entity which would hold the legal rights over the assets transferred by the originator.

True sale In a securitisation transaction, the originator of assets transfers the assets to the SPV in a transaction designed to be a true sale. An example of a transaction that is not a true sale is a pledge of collateral to secure a debt. In securitisations, achieving a true sale is an important aspect of bankruptcy remoteness.

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