Ashurst

Debt on Debt – Jargon Buster

Advance Rate – used in loan-on-loan documentation to refer to the percentage of the amount of the underlying Loan that will be available to be borrowed by the underlying lender

Back-Leverage – in the widest sense, this includes ways of reducing some of the loan originator's exposure, releasing or recycling capital; and enhancing returns on the loans that are retained, though leverage

Buyer – used in Repo – broadly think of "Lender"

Debt on debt – involves borrowing to finance or refinance the activity of originating or buying loans

Diversification requirements – where the underlying loans comprise a portfolio, the back leverage may include diversification requirements in relation to the underlying loans – either around location, underlying property type, loan size or sponsor. This assists with diversification of risk, regulatory treatment and pricing

Expected loss – broadly, the amount by which a sale of the collateral is expected to fall short of the amount owing

Haircut – see "Repo" and think of haircut as a percentage being the inverse of "loan to value". For example, securities valued at £100 are sold for a purchase price of £98, so applying a 2% discount or haircut – acts as a cushion against any fall in the value – a bit like a sizing LTV covenant

Initial Margin – used in a repo – where the Buyer is over-collateralised (e.g. receives £103 of securities for a purchase price of £100)

Leverage – the use of debt to boost returns

Loan Asset – the loans that are used as collateral for the back leverage

Loan on Loan – a loan or series of loans borrowed to finance the purchase or origination or a loan to a third party (Borrower) secured against Property or portfolio of loans

Manufactured Coupon or Manufactured Payment– used in Repo – the passing on by the Buyer (lender) to the Seller (Borrower) of the underlying economics of the Loan Asset

Margin Call – a requirement to post variation margin or pay down a loan by the margin deficit

Margin Deficit – broadly measures the change in the value of the underlying asset, calculated by comparing loan amount (taking into account prepayment fees etc.) to expected exposure on sale

MTM – mark to market – adjusting the value of an asset to reflect its value as determined by current market conditions (what would you get if the asset was sold?)

Price Differential – used in Repo, think "margin"

Re-pack – where the Loan Assets are repackaged into securities of some type. The securities then form the collateral (in the broadest sense) for the back leverage

Repo (option 1) – a collateralised financing arrangement, but without a security interest. Instead the collateral asset(s) is/are sold outright by a repo seller – think "borrower" in a loan context – to a repo buyer (think "lender").

Repo (option 2) – used to refer to back leverage that includes fund recourse (unlimited or limited) and/or mark to market/variation margin, whatever format is used

Securitisation – a transaction or scheme where the credit risk associated with an exposure or a pool of exposures (for example CRE Loan Assets) is tranched, and all of the following characteristics are met: Payments in the transaction or scheme are dependent upon the performance of the exposure or of the pool of exposures; the subordination of tranches determines the distribution of losses during the ongoing life of the transaction or scheme; and the transaction or scheme does not create specialised lending exposures (e.g. project finance)

Securitisation Regulation – applies to all securitisation products and includes due diligence, risk retention and transparency rules together with a clear set of criteria to identify simple, transparent and standardised (STS) securitisations

Seller – used in Repo – broadly thinks of "Borrower"

Sub-participation - the grantor (think "lender of record") sells the economic risk and reward of all or a portion of its commitments under a loan facility to a sub-participant, typically a bank, insurer, pension fund, asset manager or private credit fund. The participant has no direct rights. It is a back-to-back reference transaction

Table Funding – when the back leverage is provided at the same time as the origination/utilisation

The payment of the purchase price represents the advance of funding (effectively, the "loan"), and the difference between the purchase price and the initial asset value will be the "haircut"

Total Return Swap – a derivative instrument that can be used for funding purposes. The total return receiver (think "borrower" in a funding context) gets the economics of the underlying asset during the life of the trade, and the total return payor (think "lender" in a funding context) gets the financing cost. When it comes to the end of the trade, there will typically be a sale of the asset. Hopefully, the sale proceeds will exceed the incurred debt and funding costs, and the excess will be paid across to the Borrower. If that isn't the case, then the Borrower will be liable to pay the shortfall

Underlying Borrower – Borrower of the underlying Loan that is the Loan Asset used as collateral in back-leverage. Usually, the owner of the Property or shares in the Propco

Underlying Lender – The lender of the underlying Loan, that is the Loan Asset used (directly or indirectly) as collateral in back-leverage, and sometimes also the Borrower of the back leverage (where no re-pack is used)

Variation Margin – collateral that is exchanged periodically – often as frequently as daily – between the parties in response to movements in the market value of the collateral assets. Most often, VM will be cash or other high-quality liquid assets

Ruth Harris, Partner, Ashurst
+44 20 7859 1499
ruth.harris@ashurst.com

James Coiley, Partner, Ashurst
+44 20 7859 3079
james.coiley@ashurst.com