

**GLOSSARY OF COMMERCIAL MORTGAGE-BACKED
SECURITIES LOAN TERMINOLOGY**

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| Advances | Payments made by the servicer for the benefit of the certificateholders with respect to delinquent loans. The servicer has a claim on subsequent collections and foreclosure proceeds as reimbursement for advances. |
| Amortization Term | The time period over which the principal amount of a loan would be fully repaid. A loan would be fully paid if scheduled payments were made to the amortization term. |
| "B" Pieces | A term applied to the classes or tranches of CMBS rated double-B and lower. Also called "B.I.G.," or below-investment grade. |
| Bankruptcy Remote Entity (BRE) | A legal entity devised to hold identifiable assets (e.g., mortgages) and/or individual borrowers in such a way as to insulate them from the effects of bankruptcy in a larger pool of assets. For example, a developer might segregate selected mortgages in a BRE that are destined for a CMBS; if other of the developer's mortgages were to default, the cash flow from the segregated assets would then not be interrupted or seized by a bankruptcy court, hence assuring a continuous cash flow to bondholders of a CMBS. Also see Special Purpose Entity . |
| Call Protection | Protection against early prepayment of mortgages. If mortgages prepay early, then the bonds collateralized by those mortgages would be called or paid down, thereby affecting the total yield on the original bonds. Also see Prepayment Penalty . |
| Capital Markets | Markets in which capital funds, both debt and equity, are traded. Included are private placement sources of debt and equity, as well as organized markets and exchanges. |
| Commercial Mortgage-Backed Securities (CMBS) | Securities collateralized by a pool of mortgages on commercial real estate in which all principal and interest from the mortgages flow to certificate holders in a defined sequence or manner. |

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| Conduit | The financial intermediary that functions as a link, or conduit, between the lenders originating loans and the ultimate investors. The conduit makes loans or purchases loans from third party correspondents under standard terms, underwriting and documents and then, when sufficient volume has been accumulated, pools the loans for sale to investors in the CMBS market. Also see Real Estate Mortgage Investment Conduit (REMIC) . |
| Credit Tenant Lease (CTL) | A lease signed by a lessee with an investment grade credit rating, which presumably increases the assurance of timely rental payments for the duration of the lease. |
| Defeasance | The act of making an investment whole. The supplementing of existing investment terms available, typically through a cash payment, to make the currently available market yield equivalent to that of a pre-existing investment that is being terminated. Most commonly used in bond finance. Synonymous with yield maintenance . A common prepayment option. |
| Debt Service Coverage Ratio (DSCR) | The rating between Net Operating Income (NOI) and debt service. One of the most important credit criteria of a loan. If debt service coverage ratio is less than 1.0, the property is not generating sufficient cash flow to cover the debt service payments. |
| Deferred Maintenance Account/Replacement Reserve Account | A reserve account established by a borrower to cover repairs or future property maintenance costs. |
| Exculpation | Release of personal liability. |
| First Loss Piece | The lowest class or tranche of a CMBS which will absorb credit losses from a pool of mortgages first before any other classes are affected. |
| Fusion Deal | The combination, within one CMBS of conduit loans, of small loans and large loans that otherwise would have been disaggregated into separate securities. |
| Independent Director | A non-affiliated individual of the board of directors of a (borrowing) entity. The vote of the independent director is required for certain actions by the entity, e.g., declaration of bankruptcy, thus insulating the entity from deleterious control by affiliated principals. This is often a key component of special purpose entity (SPE) and bankruptcy remote structures. |

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| Loan to Value Ratio (LTV) | The loan amount divided by the appraised value of the mortgaged property. An important determinant of borrower leverage and lender risk. An LTV approaching 100% is an indication of escalating default and loss risk. |
| Lockbox | A collection facility that permits a bank, escrow agent or other party to intercept a payee's mail, remove checks or other instruments and collect them. A lockbox restricts or removes the borrower's control over property income. |
| Lock-Box Provision | A provision wherein the trustee is given control over the gross revenues of the underlying properties in a CMBS. Property owners only have a claim to cash flows net of expenses. Expenses include debt service, taxes, insurance and other operating expenses. |
| Mezzanine Debt | Any debt which is paid after a first mortgage. May refer to a second or third mortgage which will be taken out (paid off or earned out) in the short term upon changes in property performance. The term "mezzanine" implies temporary indebtedness, but a long-term second mortgage is technically mezzanine debt. |
| Net Operating Income (NOI) | Property income less operating expenses. |
| Non-Consolidation Opinion | An attorney's statement which affirms that the assets of an entity would not be substantively consolidated with those of its affiliates by a bankruptcy court under Section 105 of the Bankruptcy Code. This is often a key component of special purpose entity (SPE) and/or bankruptcy remote structures . |
| Non-recourse | A form of financing in which the lender agrees to look solely to its collateral for debt repayment, and not to pursue the borrower personally. An exculpated debt. |

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| <p>Qualified Mortgage</p> | <p>A mortgage that can appropriately be included in a CMBS. Includes any obligation (including any participation or certificate of beneficial ownership interest) which is principally secured by an interest in real property and which is either</p> <p>(a) transferred to the REMIC on the startup day, or</p> <p>(b) purchased by the REMIC within the three-month period beginning as of the startup day, pursuant to a fixed price contract in effect on the startup day.</p> <p>Additional obligations qualifying as secured by real property for the purposes of being termed a qualified mortgage include:</p> <p>(a) obligations secured by stock held by tenants/ stockholders in a cooperative housing corporation;</p> <p>(b) debt securities backed by mortgages on timeshare ownership interests in a condominium development; and</p> <p>(c) REMIC regular interests (not residual interests) transferred to the REMIC on the startup day in exchange for any interest in the REMIC.</p> |
| <p>Rating Agency</p> | <p>The agency that examines the securities and their underlying collateral and rates the securities based on its benchmarks. Ratings range from triple-A, the highest rating, to triple-C, the lowest rating. They are a major influence on CMBS structure and pricing. The four rating agencies of CMBS are Fitch Ratings, Moody's Investors Service, Standard & Poor's and Dominion Bond Rating Service.</p> |
| <p>Real Estate Mortgage Investment Conduit (REMIC)</p> | <p>Real Estate Mortgage Investment Conduit under Section 860D of the Internal Revenue Code. A security collateralized by a pool of mortgages. Interest and principal payments are accumulated and then paid to the investors. Typically these securities consist of several tranches with different payment and maturity schedules for each.</p> |
| <p>Reps and Warranties</p> | <p>In a REMIC, the representations (or "reps") and warranties made by a mortgage lender about the quality of the loans. (Many reps and warranties survive the securitization process, and are still enforceable once the mortgage has been included in a security.) In a mortgage or deed of trust, the representations and warranties made by the mortgagor/borrower.</p> |

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| Secondary Mortgage Market | Collectively, all institutional and governmental purchases of mortgage positions held by mortgage bankers and institutional lenders. |
| Securities | In the CMBS market, securities are the generic term applied to Certificates of Ownership of the funds or assets of a trust fund. These undivided interests are issued by the trustee in amounts of \$100,000 until less than \$100,000 remains, then in amounts of \$1,000. The certificates are usually issued in lettered classes starting with Class A, the highest-rated class. Each class is risk-rated by one or more of the major rating agencies . If the higher risk first-loss class is included in the security and sold rather than being held by the seller, the class is rated as "NR" (not rated). The "not rated" risk-rating is used for securities not qualifying for the minimum risk rate. |
| Securitization | The pooling of loans and repackaging of them as securities. |
| Senior Pieces | Security classes, or tranches , that are rated as investment grade, therefore appropriate for regulated institutional investors (i.e., triple-A, double-A, single-A, and triple-B). Also called A pieces . |
| Senior/Subordinate Structure | A common structure used in CMBS involving a prioritization of cash flows. In a simple two class senior/subordinate structure (also known as an A/B structure), (a) Class A will receive all cash flow up to the required scheduled interest and principal payment; (b) The subordinate class, Class B, provides credit enhancement to Class A; and (c) Class B will absorb 100% of losses experienced on the collateral until cumulative losses exceed Class B's amount; thereafter, Class A will absorb all losses. Also known as a sequential pay structure. |
| Servicer | Institution acting for the benefit of the certificate-holders in the administration of mortgage loans in a CMBS. Functions include reporting to the trustee, collecting payments from borrowers, advancing funds for delinquent loans, negotiating workouts or restructures (as permitted by the pooling and servicing agreement) and taking defaulted properties through the foreclosure process. |

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| Special Purpose Entity (SPE) | A bankruptcy-remote entity established by the borrower(s) at the loan level and the issuer at the securities level whose sole asset is the property or properties being financed. The SPC protects the lender and, ultimately, the certificate holders of a security, from having the underlying property involved in bankruptcy proceedings against the borrower on the property (in the event of a bankruptcy or insolvency of the borrower or issuer, an automatic stay would apply and delay payments to investors). Rating agencies generally request counsel to provide "true sale" opinions on the sale from the transferor to the issuer and "non-consolidation opinions" confirming that the entity is indeed bankruptcy remote. Also called a special purpose corporation (SPC) or special purpose vehicle (SPV). |
| Special Servicer | A servicer that assumes servicing responsibility when a loan goes into default, and conducts the "work-out" or foreclosure process. Certain first-loss investors require being the special servicer. |
| Subordination | The act of yielding priority of one estate or lien in real property to an estate or a lien held by another. |
| TIN | Taxpayer Identification Number. |
| Tranche | A term applied to describe the rated classes of CMBS securities, e.g., the triple-A tranche. Each class or tranche is typically paid a coupon stipulated at the time of issue and principal based on a predetermined payment sequence. Typically, lower-rated tranches have higher coupons and longer lives, since they receive interest payments (the coupon) but no principal payments until the higher-rated tranches have been retired or paid off. |
| Triple Net Lease | Lease under which the lessee pays property taxes, insurance and maintenance costs. |
| UCC | Uniform Commercial Code. |
| Usury | The charging of interest at a rate greater than that permitted by law. |
| Variable Rate Mortgage (VRM) | A mortgage loan in which the interest rate is tied to a specified index and will vary over the term of the loan. An increase in rate is payable either by higher monthly payments, by extending the term of the loan or by balloon payments. |

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| Warranty | A statement by a borrower concerning some fact or set of circumstances which the borrower warrants is true. |
| Yield Maintenance | A prepayment premium that allows investors to attain the same yield as if the borrower had made all scheduled mortgage payments until maturity. Yield maintenance premiums are designed to make investors indifferent to prepayments and to make refinancing unattractive and uneconomical to borrowers. Also see Defeasance . |