Certificate in Asset Backed Securities (United Kingdom)

Credit Enhancement Techniques

Accrual is a concept used in credit enhancement techniques to calculate interest on a debt obligation, such as a bond or loan, over a specific period of time. Accrual is an important consideration in asset-backed securities, as it can impact the overall yield and cash flow of the security. Related terms include amortization, interest rate, and yield.

Asset-backed commercial paper is a type of short-term debt instrument that is collateralized by a pool of assets, such as receivables, loans, or other financial instruments. Asset-backed commercial paper is often used by companies to meet their short-term financing needs, and it is typically backed by a pool of high-quality assets. Related terms include commercial paper, asset-backed securities, and collateral.

Asset-backed securities are financial instruments that are collateralized by a pool of assets, such as mortgages, credit card receivables, or other financial instruments. Asset-backed securities are often used by companies to raise capital, and they can provide investors with a relatively low-risk investment opportunity. Related terms include mortgage-backed securities, collateralized loan obligations, and credit enhancement.

Assignment is a process used in credit enhancement techniques to transfer the rights and obligations of a debt instrument, such as a loan or bond, from one party to another. Assignment is often used in asset-backed securities to transfer the ownership of the underlying assets from the originator to the issuer. Related terms include novation, transfer, and conveyance.

Bankruptcy remoteness is a concept used in credit enhancement techniques to ensure that the assets backing a security are isolated from the credit risk of the originator or other related parties. Bankruptcy remoteness is often achieved through the use of special purpose entities, such as trusts or limited liability companies. Related terms include special purpose entity, bankruptcy, and credit risk.

Call option is a type of financial derivative that gives the holder the right, but not the obligation, to purchase a underlying asset at a specified price. Call options are often used in credit enhancement techniques to provide investors with a level of protection against potential losses. Related terms include put option, financial derivative, and hedging.

Cash flow is a concept used in credit enhancement techniques to describe the movement of money into or out of a business or project over a specific period of time. Cash flow is an important consideration in asset-backed securities, as it can impact the ability of the issuer to meet its debt obligations. Related terms include income statement, balance sheet, and financial statement.

Collateral is a type of asset that is used to secure a debt obligation, such as a loan or bond. Collateral can take many forms, including property, equipment, or other financial instruments. In asset-backed securities, the collateral is typically a pool of assets that is used to secure the securities. Related terms include security, pledge, and lien.

Collateralized loan obligations are a type of asset-backed security that is collateralized by a pool of loans, such as corporate loans or credit card receivables. Collateralized loan obligations are often used by companies to raise capital, and they can provide investors with a relatively high-yielding investment opportunity. Related terms include asset-backed securities, collateral, and loan.

Credit default swap is a type of financial derivative that provides protection against the risk of default by a borrower. Credit default swaps are often used in credit enhancement techniques to provide investors with a level of protection against potential losses. Related terms include financial derivative, hedging, and credit risk.

Credit enhancement is a technique used to reduce the credit risk of a debt obligation, such as a bond or loan. Credit enhancement can take many forms, including collateral, guarantees, or other forms of support. In asset-backed securities, credit enhancement is often used to reduce the credit risk of the securities and make them more attractive to investors. Related terms include credit risk, collateral, and guarantee.

Credit insurance is a type of insurance that provides protection against the risk of default by a borrower. Credit insurance is often used in credit enhancement techniques to provide investors with a level of protection against potential losses. Related terms include insurance, credit risk, and default.

Credit rating is a score that is used to evaluate the creditworthiness of a borrower or debt obligation. Credit ratings are often used in asset-backed securities to evaluate the credit risk of the securities and determine their eligibility for investment. Related terms include credit risk, credit score, and rating agency.

Credit risk is a type of risk that arises from the potential default by a borrower. Credit risk is an important consideration in asset-backed securities, as it can impact the ability of the issuer to meet its debt obligations. Related terms include default risk, credit score, and credit rating.

Debt service is a concept used in credit enhancement techniques to describe the payments made by a borrower to service its debt obligations, such as interest and principal. Debt service is an important consideration in asset-backed securities, as it can impact the ability of the issuer to meet its debt obligations. Related terms include interest, principal, and amortization.

Default is a type of event that occurs when a borrower fails to meet its debt obligations, such as interest or principal payments. Default is an important consideration in asset-backed securities, as it can impact the ability of the issuer to meet its debt obligations. Related terms include credit risk, default risk, and loss.

Diversification is a technique used in credit enhancement techniques to reduce the risk of a portfolio by spreading investments across a range of different assets or industries. Diversification is often used in asset-backed securities to reduce the credit risk of the securities and make them more attractive to investors. Related terms include portfolio, risk management, and asset allocation.

Due diligence is a process used in credit enhancement techniques to evaluate the creditworthiness of a borrower or debt obligation. Due diligence is often used in asset-backed securities to evaluate the credit risk of the securities and determine their eligibility for investment. Related terms include credit risk, credit score, and rating agency.

Enhancement is a technique used in credit enhancement techniques to improve the creditworthiness of a debt obligation, such as a bond or loan. Enhancement can take many forms, including collateral, guarantees, or other forms of support. In asset-backed securities, enhancement is often used to reduce the credit risk of the securities and make them more attractive to investors. Related terms include credit risk, collateral, and guarantee.

Guarantee is a type of credit enhancement that provides protection against the risk of default by a borrower. Guarantees are often used in credit enhancement techniques to provide investors with a level of protection against potential losses. Related terms include credit risk, default risk, and credit insurance.

Interest rate is a concept used in credit enhancement techniques to describe the cost of borrowing, expressed as a percentage of the principal amount. Interest rates are an important consideration in asset-backed securities, as they can impact the yield and cash flow of the securities. Related terms include yield, cash flow, and amortization.

Liquidity is a concept used in credit enhancement techniques to describe the ability to buy or sell a security quickly and at a fair price. Liquidity is an important consideration in asset-backed securities, as it can impact the ability of investors to sell their securities quickly and at a fair price. Related terms include marketability, trading volume, and bid-ask spread.

Loss given default is a concept used in credit enhancement techniques to estimate the potential loss that could occur in the event of default by a borrower. Loss given default is an important consideration in asset-backed securities, as it can impact the credit risk of the securities. Related terms include default risk, credit risk, and expected loss.

Maturity is a concept used in credit enhancement techniques to describe the length of time until a debt obligation, such as a bond or loan, is repaid. Maturity is an important consideration in asset-backed securities, as it can impact the yield and cash flow of the securities. Related terms include yield, cash flow, and amortization.

Mortgage-backed securities are a type of asset-backed security that is collateralized by a pool of mortgages. Mortgage-backed securities are often used by companies to raise capital, and they can provide investors with a relatively low-risk investment opportunity. Related terms include asset-backed securities, collateral, and mortgage.

Over-collateralization is a technique used in credit enhancement techniques to provide additional protection against the risk of default by a borrower. Over-collateralization involves providing more collateral than is required to secure a debt obligation, such as a bond or loan. Related terms include collateral, credit risk, and default risk.

Pool is a concept used in credit enhancement techniques to describe a group of assets, such as loans or mortgages, that are used to collateralize a security. Pools are often used in asset-backed securities to provide a level of diversification and reduce the credit risk of the securities. Related terms include asset-backed securities, collateral, and diversification.

Prepayment is a type of event that occurs when a borrower repays a debt obligation, such as a loan or mortgage, before it is due. Prepayment is an important consideration in asset-backed securities, as it can impact the yield and cash flow of the securities. Related terms include yield, cash flow, and amortization.

Rating agency is a type of company that provides credit ratings for debt obligations, such as bonds or loans. Rating agencies are often used in asset-backed securities to evaluate the credit risk of the securities and determine their eligibility for investment. Related terms include credit rating, credit risk, and credit score.

Receivables are a type of asset that represents the amount of money that is owed to a company by its customers. Receivables are often used in asset-backed securities to provide a level of collateral and reduce the credit risk of the securities. Related terms include asset-backed securities, collateral, and credit risk.

Refinancing is a process used in credit enhancement techniques to replace an existing debt obligation, such as a loan or bond, with a new one. Refinancing is often used in asset-backed securities to take advantage of lower interest rates or to extend the maturity of the securities. Related terms include interest rate, maturity, and amortization.

Reserve account is a type of account that is used to set aside funds to cover potential losses or shortfalls in an asset-backed security. Reserve accounts are often used in credit enhancement techniques to provide an additional level of protection against the risk of default by a borrower. Related terms include credit risk, default risk, and loss given default.

Risk management is a process used in credit enhancement techniques to identify, assess, and mitigate potential risks, such as credit risk or market risk. Risk management is an important consideration in asset-backed securities, as it can impact the ability of the issuer to meet its debt obligations. Related terms include credit risk, market risk, and hedging.

Security is a type of financial instrument that represents an ownership interest in a company or a debt obligation, such as a bond or loan. Securities are often used in asset-backed securities to provide a level of collateral and reduce the credit risk of the securities. Related terms include asset-backed securities, collateral, and credit risk.

Servicer is a type of company that is responsible for collecting payments and performing other administrative tasks related to a debt obligation, such as a loan or mortgage. Servicers are often used in asset-backed securities to provide a level of support and reduce the credit risk of the securities. Related terms include asset-backed securities, collateral, and credit risk.

Special purpose entity is a type of company that is established to hold and manage assets, such as mortgages or loans, for the benefit of investors. Special purpose entities are often used in asset-backed securities to provide a level of bankruptcy remoteness and reduce the credit risk of the securities. Related terms include asset-backed securities, collateral, and credit risk.

Subordination is a technique used in credit enhancement techniques to prioritize the claims of different creditors in the event of default by a borrower. Subordination is often used in asset-backed securities to provide a level of protection for senior creditors and reduce the credit risk of the securities. Related terms include credit risk, default risk, and loss given default.

Swap is a type of financial derivative that involves the exchange of one asset or liability for another. Swaps are often used in credit enhancement techniques to provide a level of protection against potential losses or to take advantage of lower interest rates. Related terms include financial derivative, hedging, and credit risk.

Synthetic securitization is a type of securitization that involves the use of credit derivatives, such as credit default swaps, to transfer credit risk from one party to another. Synthetic securitization is often used in asset-backed securities to provide a level of credit enhancement and reduce the credit risk of the securities. Related terms include credit derivative, credit risk, and securitization.

Tranche is a type of security that represents a slice or portion of a larger pool of assets, such as mortgages or loans. Tranches are often used in asset-backed securities to provide a level of diversification and reduce the credit risk of the securities. Related terms include asset-backed securities, collateral, and credit risk.

Underwriting is a process used in credit enhancement techniques to evaluate the creditworthiness of a borrower or debt obligation. Underwriting is often used in asset-backed securities to evaluate the credit risk of the securities and determine their eligibility for investment. Related terms include credit risk, credit score, and rating agency.

Warehouse is a type of facility that is used to hold and manage assets, such as mortgages or loans, prior to their securitization. Warehouses are often used in asset-backed securities to provide a level of support and reduce the credit risk of the securities. Related terms include asset-backed securities, collateral, and credit risk.

Wrap is a type of credit enhancement that involves the use of a third-party guarantee or insurance policy to provide protection against the risk of default by a borrower. Wraps are often used in asset-backed securities to provide a level of credit enhancement and reduce the credit risk of the securities. Related terms include credit enhancement, credit risk, and guarantee.

Yield is a concept used in credit enhancement techniques to describe the return on investment of a security, such as a bond or loan. Yield is an important consideration in asset-backed securities, as it can impact the attractiveness of the securities to investors. Related terms include interest rate, cash flow, and amortization.