

## Explaining and breaking down the term “Structured Finance”



Structured finance involves high financial instruments that are offered to large [financial institutions](#) or companies when their complex financing needs do not match any conventional financial products. Since the mid-1980s, it has been considered a substantial space in the financial industry. Some well-known examples are collateralized debt obligation (CDO), syndicated loans and synthetic financial instruments.

### What is it all about?

Structured finance caters to unique or highly specified needs of big businesses and giant corporations involving a single completion or several discretionary transactions that require implementation of risky instruments.

Structured financial products are only granted to large borrowers needing a massive shot of capital or another source of income. It is not for all lenders and is non-transferable between other types of debts unlike straightforward loans.

On the other hand, structure finance has a negative reputation being a factor contributing to the disintegration of standards for financial assets. During the mid-2000s, it flamed fire to the inflationary credit bubble and credit crash; it was instrumental in the financial crisis of 2007-08.

To understand, get the explanation upon breaking down the term “[structured finance](#):”

1. Bonds or notes of collateral cash flow coming from underlying specific pool assets are asset-back securities.
2. Cash flows backed by principal and interest derived from a set of mortgage loans are mortgage-backed securities,
3. Deals from a residential single-family are samples of residential mortgage-backed securities,

4. Commercial real estate, like malls or office complexes, stands as commercial mortgage-backed securities.
5. Multiple classes involved with different types of seniority in differing levels are collateralized obligations from backed- mortgage securities.
6. Multi- types of mortgage with backed securities and other related mortgage assets are collateralized debt obligations (CDO). They are:
7. Debt obligations with collateral primarily supported by corporate bonds are CBO or Collateralized bond
8. Debt obligations with collateral primarily supported by leveraged bank loans are called collateralized obligations.

iii. Commercial obligations are collateral supported obligations of commercial real estate loans and bonds; and

1. Private securities equity and hedge fund assets are collateralized obligation funds
2. Credit derivative contracts transfer the risk of returning total falling credit asset to lower level of agreement without removing underlying asset.
3. Insurance connected losses are due to catastrophic events considered as insurance risk transfer instruments that are generally seen as uncorrelated to the traditional financial markets.
4. Investors of partial guaranteed structures can combine any specific parts of underlying investments.
5. Future flow transactions cover all coming transactions valued according to their bonds, cash flow as stock payment, dividend payments, forward rate agreements, loans or swaps.
6. Sales of loans often accomplished by banks, covered by all or partial cash stream of specified loan, after its removal from the bank's loan balance sheet is known as loan sell offs.
7. A line-up of credit where customers have to pay commitment fee before using needed funds is known as Revolving Credit Financing.

On the upside, structured finance is today the leading financial innovation; however, on the downside, it was one of the players in the financial disaster a few years back. You will get a better understanding of structured finance by explaining and breaking down the term.