Caisse de dépôt et placement du Québec

APPENDIX I

MEZZANINE LOAN

What is a mezzanine loan?

When acquiring a property, a mezzanine loan is financing that makes up the difference between the capital invested by the buyer and the amount of the mortgage loan obtained with one or more financial institutions.

The mortgage loan generally represents up to 75% of the total property value. If the buyer has 10% of the value invested in the form of capital, he will seek to obtain a mezzanine loan that will make up the difference of 15%.

However, this portion of the financing will require a higher interest rate than the mortgage rate.

Capital invested	10%
Mezzanine loan	15%
First mortgage	75%

Why is the Caisse withdrawing from the mezzanine loan market?

Since mezzanine loans can return a higher interest rate, they also carry a greater risk than conventional mortgage loans.

In the case of a default in payment resulting in the sale of a property, the institutions that had granted the conventional mortgage loan will be reimbursed first. As for the institutions that extended the mezzanine loan, they will receive compensation only if the amount of the sale is higher than the balance of the mortgage loan.

The Caisse is therefore withdrawing from the mezzanine loan market given the increased risk in the current real estate market, namely in the United States. The significant drop in value of commercial real estate considerably reduces the ability to recover the amounts extended under a mezzanine loan in case of default in payment.

What is a subordinated loan?

A subordinated loan is any lower ranking loan for which reimbursement depends on the reimbursement of senior loans, such as first mortgage loans. The subordinate creditor therefore assumes a greater risk of not being reimbursed than the other creditors, which justifies an interest rate that is higher than that for senior loans.

Mezzanine loans and second mortgage loans are subordinated loans.