Bond Case Briefs

Municipal Finance Law Since 1971

How S&P Intends to Implement its Revised Rating Methodology and Assumptions for Affordable Multifamily Housing Bonds and Apply them to Ratings.

On June 19, 2014, Standard & Poor's Ratings Services published its revised criteria, "Rating Methodology and Assumptions for Affordable Multifamily Housing Bonds". Included in the scope of the criteria are affordable multifamily housing bonds supported by unenhanced affordable housing projects (AHP), federally subsidized housing projects (e.g., Section 8), privatized military housing projects, and multifamily loan pools rated in the U.S. These criteria exclude and do not apply to bonds secured by FHA-insured mortgage loans; Ginnie Mae, Fannie Mae, or Freddie Mac mortgage-backed securities; or other federal credit enhancement programs.

The new criteria became effective upon publication. The criteria apply to all new and existing in-scope transactions. We plan to complete our review of all existing ratings within six months. We will accept requests for expedited review of ratings during this process. Though highly unlikely, we could lengthen this schedule if a material credit event occurs, particularly if the impact could take some time to assess. However, we would clearly communicate any change in our plans.

The criteria update is part of Standard & Poor's commitment to the market to enhance the transparency, rigor, and specificity of its criteria across sectors and asset classes. Our objective is to provide market constituents with greater insight into how we rate affordable multifamily housing bond transactions and to enhance the global comparability of our ratings through a clear, coherent, and globally consistent criteria framework.

We began communicating the process of updating our criteria when we published an advance notice of proposed criteria change in March 2013. We then published our proposed revised ratings framework, "Request for Comment: Rating Methodology and Assumptions for Affordable Multifamily Housing Bonds" on April 1, 2013. During the subsequent two-month comment period, we interacted with market participants within the U.S., released a CreditMatters TV segment, and conducted a teleconference in order to outline the framework and respond to questions on the proposed criteria change. We used these outlets to increase participants' awareness and understanding of the proposed changes and to solicit, evaluate, and incorporate feedback where appropriate. In conjunction with the release of the new criteria, we responded to market participants with an article outlining the feedback we received and what changes were incorporated into the final criteria in the publication "RFC Process Summary: Rating Methodology And Assumptions For Affordable Multifamily Housing Bonds", published June 19, 2014.

We are now providing information about the likely ratings impact of the criteria changes, a more detailed explanation of the implementation process, and comments on how we intend to apply the revised criteria to our current ratings.

How We Expect The New Criteria To Affect Ratings

The criteria affect approximately 350 rated issues, comprising about 150 discrete projects and

programs. Based on our preliminary analysis, the expected impact on outstanding issue ratings is as follows:

- No impact on approximately 80% of the issue ratings, while 10% may be upgraded and 10% may be downgraded.
- The expected rating change for the affected issue ratings is one notch in most cases and two notches in some cases.

How We Will Implement The New Criteria

We intend to review all of the in-scope transactions within six months of the effective date of the new criteria. Our implementation schedule is as follows:

June 19, 2014
Standard & Poor's Released the Rating Methodology and Assumptions for Affordable Multifamily Housing Bonds

Week of June 23—June 27, 2014
We applied these criteria to all new issues in scope of these criteria regardless of the original request date of the rating.
Any rating reviews, whether scheduled or event-driven, were assessed under the new criteria.

Week Of June 30-July 3, 2014
Ratings that may be impacted based on our quantitative testing will be placed on CreditWatch with positive or negative implications, as applicable, or under criteria observation based on the revised methodology.
Ratings that are scheduled for their regular reviews will also be placed on CreditWatch with developing implications, pending the receipt of additional information needed to complete the reviews under the new criteria.

Week Of July 7-July 11, 2014
We plan to send out questionnaires to issuers/obligors requesting the information we need to review all existing in-scope transactions under the new criteria.
We will upload the criteria and related articles, as well as explanatory materials, including CreditMatters TV videos, onto our dedicated public website www.sandp.com/hess to allow for easy access and maximum transparency.
We will conduct a WebEx seminar to outline the criteria framework and answer questions from issuers and obligors.
We cannot disclose the timing of any reviews for particular credits beyond the guidance provided in this notice.

Week Of Aug. 6-Aug. 11, 2014
We plan to send out a second request for information 30 days after the initial request if no response is received, or if the information we receive is insufficient to complete our review under the new criteria.

Week Of Sept. 5-Sept. 10, 2014
We intend to maintain the ratings on all debt rated under the previous criteria. However, for issuers and obligors who have not responded with complete information for in-scope transactions within 30 days after our second request for information, those issues will be placed on CreditWatch with negative implications in accordance with our credit rating suspension/withdrawal policy.

July 7-Oct. 10, 2014
Once we complete our reviews of ratings that have been placed on CreditWatch as described above, we will then review the remaining in-scope ratings.
We will accept requests for expedited review of ratings during the implementation period.

How We Will Communicate Our Rating Actions
We will publish rating reports on all transactions reviewed under the revised criteria.

Format Of Our Rating Reports
Each rating report will include our assessment of the following components:

- Drivers of housing demand;
- Strength of local housing market;
- Level of on-going government support;
- Strategy and management;
- Construction risk (if applicable);
- Loss coverage;
- Financial strength;
- Asset quality;
- Military housing asset quality (if applicable);
- Operating performance; and
- Financial policies and practices.

Upon release, ratings and rating reports will be available on RatingsDirect. Ratings and criteria are available on www.standardandpoors.com.

Related Criteria And Research

Rating Methodology And Assumptions For Affordable Multifamily Housing Bonds, June 19, 2014
RFC Process Summary: Rating Methodology And Assumptions For Affordable Multifamily Housing Bonds, June 19, 2014
Rating Methodology And Assumptions Ffor U.S. and Canadian CMBS, Sept. 5, 2012
CMBS Global Property Evaluation Methodology, Sept. 5, 2012
Application Of CMBS Global Property Evaluation Methodology In U.S. And Canadian Transactions, Sept. 5, 2012

Primary Credit Analysts:

Mikiyon W Alexander, New York (1) 212-438-2083;
mikiyon.alexander@standardandpoors.com

Karen M Fitzgerald, CFA, New York (1) 212-438-4858;
karen.fitzgerald@standardandpoors.com

Valerie D White, New York (1) 212-438-2078;
valerie.white@standardandpoors.com

01-Jul-2014

Copyright © 2026 Bond Case Briefs | bondcasebriefs.com