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## **S&P: Report Explains Ratings Approach On Distressed Local Government Credits.**

CHARLOTTESVILLE (Standard & Poor's) Sept. 24, 2015—Although rating trends in the U.S. local government sector are positive overall, there have been several recent situations where borrowers wound up in fiscal stress. From Standard & Poor's Ratings Services' perspective, municipal bankruptcies and previous distress scenarios are opportunities to help inform our current analysis of distressed issuers with respect to the incentives to pay certain obligations, according to a report published today.

"Our view is that the small number of bankruptcies and credits in distress we have seen do not enable us to predict conclusively which obligations will or will not be impaired in bankruptcy," said credit analyst Lisa Schroer. "There are, however, several factors we believe can inform our view and ratings regarding the likelihood of payment on specific obligations for distressed credits. Our local government ratings do not reflect our assessment of expected recovery post-bankruptcy. Our ratings instead reflect our assessment of whether the issuer will pay the bonds in full and on time."

In particular, in distressed situations, Standard & Poor's draws on several analytical factors, including the legal structure of the borrower's debt; the "comparables" (i.e., similar situations that we have seen); and the revenue pledge.

"As we evaluate these distressed credits, examples inform our analysis when assessing the incentives to pay for distressed issuers. Legal structure, political incentives, additional pledge revenues, and comparable situations all factor into our analysis," said Ms. Schroer. "When looking at our distressed issuers, our analysis incorporates historic actions while taking into account the unique credit profile of each issuer."

The report is titled, "Incentive to Pay: How Recent Bankruptcies Inform Analysis Of Distressed Local Government Credits," published today."

Under Standard & Poor's policies, only a Rating Committee can determine a Credit Rating Action (including a Credit Rating change, affirmation or withdrawal, Rating Outlook change, or CreditWatch action). This commentary and its subject matter have not been the subject of Rating Committee action and should not be interpreted as a change to, or affirmation of, a Credit Rating or Rating Outlook.

The report is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com) and at [www.spcapitaliq.com](http://www.spcapitaliq.com). If you are not a RatingsDirect subscriber, you may purchase a copy of the report by calling (1) 212-438-7280 or sending an e-mail to [research\\_request@standardandpoors.com](mailto:research_request@standardandpoors.com).

Ratings information can also be found on Standard & Poor's public Web site by using the Ratings search box located in the left column at [www.standardandpoors.com](http://www.standardandpoors.com). Members of the media may request a copy of this report by contacting the media representative provided.

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