

# **Bond Case Briefs**

*Municipal Finance Law Since 1971*

---

## **S&P Reassessing, Deferring Some Ratings Due to Errors in Sector Models.**

WASHINGTON - Standard & Poor's is reassessing some of its existing ratings and deferring some new ones in certain sectors because of errors in credit scoring models.

The sectors include higher education, social housing (which is the rating agency's name for public housing), and water and sewer.

S&P released notices on the sectors with the model errors between Sept. 29 through Oct. 28 and has assigned a few ratings "with developing implications," resolving one of them since then.

However, some issuers in the higher education sector who wanted to remain anonymous recently reported having trouble getting ratings.

Credit scoring models are tools used by analysts to apply rating criteria, said Adom Rosengarten, lead analytical manager for S&P's enterprise group.

"We've identified those three models that have errors," he said in a interview. "We're working to correct those errors ... and to assess the rating impacts, if any, that may be related to the correction of the models' errors."

"We're working with issuers as they come in and are discussing how we can rate deals on a transaction by transaction basis," he added.

The errors were discovered by analysts, according to Rosengarten. He declined to specify them beyond the disclosures made by S&P in the recent notices.

"On the water and sewer side, what it led to was a single CreditWatch that we've already resolved," he said. "On the social housing side, it led to two CreditWatch development ratings total."

In the higher education sector "we continue to assess if there will be any rating changes," he added.

The most recent S&P notices, on higher education, were released on Oct. 28 and Oct 21. The earlier one said that S&P had found errors in its credit scoring model for higher education.

"We do not know the likelihood at this time of rating changes following the correction of this error although it is possible that such changes will be required," S&P said. "We will continue working to correct the error and provide additional information as appropriate."

In the Oct. 28 notice, S&P said, "We have discovered additional errors in the higher education credit scoring model. We do not know the likelihood at this time of rating changes following the correction of the errors although it is possible that such changes will be required."

In an Oct. 18 notice, S&P said an error had been found in the social housing provider credit scoring model.

The credit rating agency later issued a notice on Oct. 27 that said it has placed its A-minus ratings on Fall River Housing Authority in Massachusetts and the authority's 2012 general obligation lease revenue bonds on CreditWatch "with developing implications."

S&P announced at the same time that it has issued an A-plus rating on Credit Watch "with developing implications" for the Wisconsin Housing Preservation Corp.

"The CreditWatch Developing status reflects our view that we could raise, affirm, or lower our ratings following correction of the model error," the rating agency said, adding, "At the same time, we will review the ... transactions based on the latest audited financials, which we anticipate completing within the next 90 days."

In a Sept. 30 notice, S&P said it found an error in its water/sewer credit rating model. "We do not know the likelihood at this time of rating changes following the correction of this error with the exception of Clackamas County Service District No. 1, Ore., whose ratings have been place on CreditWatch."

The day before, S&P placed its double-A rating on the Clackamas County issuer on CreditWatch "with positive implications."

"This action reflects the recent discovery of an error in the water/sewer credit scoring model as it relates to our assessment of the enterprise profile, specifically the economic fundamentals assessment," S&P said. It added, "We believe that there is at least a one-in-two likelihood the rating will be raised following the completion of our review."

After the rating agency corrected the credit scoring model, it issued a notice on Oct. 21 raising Clackamas County issuer's long-term and underlying rating for its sewer revenue and refunding bonds to double A-plus from double A and removed the rating from CreditWatch. It said the outlook is stable for the bonds.

The rating contained a lengthy rationale for the rating, detailing the enterprise risk profile and financial risk profile for the bonds.

## **The Bond Buyer**

By Lynn Hume

November 7, 2016