
S&P Credit FAQ: How S&P Global Ratings' Revised Criteria Look At U.S. Public Finance Rental Housing Bonds

Frequently Asked Questions

Why is S&P Global Ratings publishing new criteria at a time when the COVID-19 pandemic is creating substantial uncertainty across all sectors?

We are monitoring the impact of COVID-19 on rental housing bonds and believe that the new criteria provides a better framework to capture any resulting developments in our ratings. In particular, relative to our previous criteria we believe that the revised criteria better captures emerging instability and the volatility in cash flows that rental properties may experience as a result of COVID-19 and future exogenous events.

How will S&P Global Ratings apply the revised criteria to reflect developments related to the COVID-19 pandemic in its ratings on rental housing bonds?

In comparison to the previous criteria, the revised criteria include a tighter calibration of debt service coverage ratio bands used to arrive at the initial coverage assessment, and the ability to adjust the initial coverage assessment to account for an expectation of deteriorating financial performance or volatility risks for a particular development or type of property. We believe that these changes will allow us to better differentiate our ratings on the basis of credits' relative sensitivity to emerging volatility risks, and to do so in a manner more timely than under our previous criteria.

Why did S&P Global Ratings remove privatized student housing transactions from the scope of the final criteria?

We have removed from the scope of the proposed criteria privatized student housing transactions, which are currently analyzed under separate criteria. We did not expect significant rating impact from the criteria revision for these credits. However, the COVID-19 crisis has had a significant and immediate impact for these credits. On March 25, we revised our outlook to negative on all U.S. higher education privatized (off balance sheet) student housing projects in the wake of the COVID-19 pandemic and the uncertainties surrounding the ultimate economic fallout. This affected 63 ratings (see "U.S. Higher Education Privatized Student Housing Projects Outlook Revised To Negative On Potential COVID-19 Impact," published March 25, 2020).

What types of issues are still in scope?

Ratings on bonds backed by rental income from residential properties that serve a public purpose:

- Affordable housing (including mobile home parks);
- Age-restricted independent or assisted-living rental housing;
- Privatized military housing; and
- Pools of loans secured by affordable multifamily housing.

What are the primary new features of the criteria?

- We are increasing the importance of debt service coverage in our overall assessment of credit quality by weighting the coverage and liquidity factor at 50% of the anchor.
- We are also introducing new adjustments to account for cash flow volatility and liquidity risks that better capture forward-looking financial performance.
- We are revising the debt service coverage bands, requiring a higher level of coverage at the lower end of the range.
- Our assessment of management includes a broader, more flexible and qualitative evaluation of management’s operational effectiveness with less reliance on portfolio size and years of experience.
- For stand-alone transactions we have shifted the focus of our analysis of financial strength to borrower default risk through the coverage and liquidity factor assessment from liquidation value assessed through S&P Global Ratings-calculated loan-to-value derived through application of our Commercial Mortgage Backed Securities (CMBS) criteria.
- We will adjust downward to equalize ratings on all but the most junior tranche in transactions that include structural features that diminish or eliminate the benefits priority of payment to senior bondholders, such as a springing lien provision.

Which sectors are expected to be affected by this new criteria?

We have published a list of 110 ratings that will be put under criteria observation for review (see “Certain U.S. Rental Housing Bonds Ratings Placed Under Criteria Observation Following Criteria Revision”) within the next six months. The list primarily includes unenhanced affordable housing transactions, and age-restricted housing. We recently revised the outlook to negative for 16 affordable senior housing ratings, resulting in all ratings in the subsector having a negative outlook or on CreditWatch (two ratings) due to concerns regarding the COVID-19 pandemic and its near term effect on occupancy and increasing expenses. More about the outlook change can be found here.

This report does not constitute a rating action.