Bond Case Briefs

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California Statewide Financing Authority -- Moody's upgrades Tobacco Asset-Backed Bonds issued by California Statewide Financing Authority

Rating Action: Moody's upgrades Tobacco Asset-Backed Bonds issued by California Statewide Financing Authority – Approximately $61 million securities affected

New York, February 11, 2021 — Moody's Investors Service has upgraded the ratings of four tranches in the tobacco settlement revenue securitization issued by California Statewide Financing Authority.The complete rating actions are as follows:Issuer: California Statewide Financing Authority (Pooled Tobacco Securitization Program) , Series 2002Ser. 2002A Term Bonds 1, Upgraded to A3 (sf); previously on Aug 1, 2018 Upgraded to Baa1 (sf)Ser. 2002A Term Bonds 2, Upgraded to Ba1 (sf); previously on Jul 26, 2016 Upgraded to Ba2 (sf)Ser. 2002B Term Bonds 1, Upgraded to A3 (sf); previously on Aug 1, 2018 Upgraded to Baa1 (sf)Ser. 2002B Term Bonds 2, Upgraded to Ba1 (sf); previously on Jul 26, 2016 Upgraded to Ba2 (sf)RATINGS RATIONALEThe upgrade actions are primarily driven by further deleveraging and the availability of cash reserves. In addition to the factors discussed above, the rating actions are generally driven by future projections of cigarette shipment volume declines, which is estimated to be 3-5% in the next five years.There is a risk of continued shifts in attitudes towards smoking, as well as further regulation. Tobacco settlement ABS are exposed to social risks that reduce cigarette consumption, lowering the revenue available to repay tobacco bonds. Factors that could accelerate such declines are further changes in demographics and shifts in social attitudes towards smoking. Such trends could also result in further regulation that restricts tobacco use. Furthermore, the marketing of new products that are currently less regulated could expose tobacco companies, who are the obligors in the transactions, to litigation risk. However, because regulation takes several years to come into effect, we view this as a moderate risk at this stage.Exposure to these identified social risks is broadly manageable, or could be material to the credit quality the bonds in the medium to long term (five or more years). However, it may be less certain that the identified risks will develop in a way that is material to bond ratings. These identified risks have been taken into account in the analysis of the ABS.The coronavirus outbreak, the government measures put in place to contain it, and the weak global economic outlook continue to disrupt economies and credit markets across sectors and regions. Our analysis has considered the effect on the performance of corporate assets from the current weak U.S. economic activity and a gradual recovery for the coming months. Although an economic recovery is underway, it is tenuous and its continuation will be closely tied to containment of the virus. As a result, the degree of uncertainty around our forecasts is unusually high.We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety.PRINCIPAL METHODOLOGYThe principal methodology used in these ratings was "Tobacco Settlement Revenue Securitizations Methodology" published in May 2020 and available at https://www.moodys.com/viewresearchdoc.aspx?docid=PBS_1221864. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.Factors that would lead to an upgrade or downgrade of the ratings:UpMoody's could upgrade the ratings if the annual rate of decline in the volume of domestic cigarette shipments decreases, if future arbitration proceedings and subsequent recoveries for settling states become more expeditious than they currently are, or if additional settlements are entered into which benefit the bonds.DownMoody's could downgrade the ratings if the annual rate of decline in the volume of domestic cigarette shipments increases, if subsequent recoveries from future arbitration proceedings for settling states take longer than Moody's assumption of 15-20 years, if an arbitration panel finds that a settling state was not diligent in enforcing a certain statute which could lead to a significant decline in cash flow to that state, or if additional settlements are entered into which reduce the cash flow to the bonds.

February 11, 2021

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.The analysis relies on a Monte Carlo simulation that generates a large number of collateral loss or cash flow scenarios, which on average meet key metrics Moody's determines based on its assessment of the collateral characteristics. Moody's then evaluates each simulated scenario using model that replicates the relevant structural features and payment allocation rules of the transaction, to derive losses or payments for each rated instrument. The average loss a rated instrument incurs in all of the simulated collateral loss or cash flow scenarios, which Moody's weights based on its assumptions about the likelihood of events in such scenarios actually occurring, results in the expected loss of the rated instrument.Moody's quantitative analysis entails an evaluation of scenarios that stress factors contributing to sensitivity of ratings and take into account the likelihood of severe collateral losses or impaired cash flows.For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating.

For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moodys.com.Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1243406.At least one

ESG consideration was material to the credit rating action(s) announced and described above.The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody’s affiliates outside the EU and is endorsed by Moody’s Deutschland GmbH, An der Welle 5, Frankfurt am Main 60322, Germany, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody’s office that issued the credit rating is available on www.moodys.com.The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody’s affiliates outside the UK and is endorsed by Moody’s Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody’s office that issued the credit rating is available on www.moodys.com.Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody’s legal entity that has issued the rating.Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating