Article Title: Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment Data: (EDITOR'S NOTE: —On June 23, 2021, we republished this criteria article to make nonmaterial changes. See the "Revisions And Updates" section for details.) 1. This article describes standards for evaluating operational risk in structured financings that apply to all new and existing 'AAA' and 'AA' rated transactions. Specifically, these standards address how sellers and servicers handle receivables collections and maintain accurate information on the securitized assets. We believe that consistent application of these criteria will enhance ratings quality and consistency. At the same time, it will help mitigate risks that, in many cases, are not explicitly addressed by a securitization structure's credit enhancement or payment mechanics. This criterion will supplement our current operations review standards, which involve an assessment of the key servicing functions in a rated transaction. 2. This article discusses the "operational and administrative risks" principles as described in "Principles Of Credit Ratings," published Feb. 16, 2011. Background 3. All structured finance securities are exposed to some measure of risk associated with the servicing of a transaction. This article focuses on a specific servicer risk related to the deliberate unauthorized retention, or misdirection, of funds that are otherwise payable to investors. This new criterion is an addition to our existing servicing analysis and operations review standards. 4. This paragraph has been deleted. 5. While the risk of fraud and/or misappropriation of funds cannot be eliminated, prudent safeguards would have the potential to mitigate it. S&P; Global Ratings believes that, generally speaking, this risk is more significant for a servicer that does not have at least one of the following characteristics: Has an investment grade rating or is a significant subsidiary of an investment-grade company; Is listed (or is a significant subsidiary of a company that is listed) on the leading national stock exchange of a G-7 country; Has a tangible net worth of at least US$5 million, servicing loans in securitizations is a major part of its business, and it has external audits or attestations on internal reviews from a reputable external accounting firm indicating that there are no material weaknesses in cash management or servicing controls; Has an active Servicer Ranking of at least Average; Is a regulated financial institution or a significant subsidiary of a regulated financial institution; or Is a government agency or the servicing of loans guaranteed by a government agency represents a major part of its business. 6. Under these criteria, servicers that do not have any of the above characteristics will need to establish one of the additional safeguards listed below to achieve 'AAA' and 'AA' ratings on securities issued: Direct collections from obligors to a third-party payment processor, where collections are deposited in an eligible account that is not owned or controlled by the seller/servicer; or Establish a cash reserve or other form of eligible enhancement equal to one payment period's worth of collections to offset the risk of a servicer failing to remit collections on a timely basis. 7. To the extent the latter approach to mitigating risk applies, the cash reserve or other form of eligible enhancement would need to be available to fund any shortfall resulting from the failure of a servicer to make payments in accordance with the securitization documents and may supplement other reserves that are available for this as well as other purposes such as credit, liquidity or commingling risk. We will review the adequacy and availability of all forms of credit enhancement in an outstanding transaction when conducting our surveillance review. 8. This paragraph has been deleted. Revisions And Updates This article was originally published on May 28, 2009. Changes introduced after original publication: We republished this article following our periodic review completed on July 16, 2017. Following our periodic review completed on July 11, 2018, we updated the contact information. On Aug. 5, 2019, we republished this criteria article to make nonmaterial changes to criteria references. On July 30, 2020, we republished this criteria article to make nonmaterial changes to update a reference to the revision of these criteria in paragraph 6. On June 23, 2021, we republished this criteria article to make nonmaterial changes. Specifically, we deleted paragraph 4, which included outdated market commentary from the original publication date of the article. Related Criteria And Research Related Criteria Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019 Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014 Principles Of Credit Ratings, Feb. 16, 2011 These criteria represent the specific application of fundamental principles that define credit risk and ratings opinions. Their use is determined by the issuer-specific or issue-specific attributes as well as Standard & Poor's Ratings Services' assessment of the credit and, if applicable, structural risks for a given issuer or issue rating. Methodology and assumptions may change from time to time as a result of market and economic conditions, issue-specific or issuer-specific factors, or new empirical evidence that would affect our credit judgment.