Article Title: Criteria | Structured Finance | General: Global Methodology For Rating Interest-Only Securities Data: (EDITOR'S NOTE: —On Aug. 7, 2020, we republished this criteria article to make nonmaterial changes. See the "Revisions And Updates" section for details.) 1. This article describes S&P; Global Ratings' methodology for rating interest-only (IO) securities. With this article we seek to help market participants better understand our approach to rating IO securities. This article is related to our criteria article "Principles Of Credit Ratings," published on Feb. 16, 2011. SCOPE OF THE CRITERIA 2. These criteria apply to all structured finance IO ratings globally, including those assigned in the following asset classes: commercial mortgage-backed securities, residential mortgage-backed securities, asset-backed securities, and collateralized debt obligations. The criteria would also apply to IO securities that are subject to an "available funds cap." SUMMARY OF CRITERIA UPDATE 3. A notable change from our criteria in place prior to April 15, 2010, is that IO ratings are no longer based solely or primarily on their senior or pari passu payment priority status relative to the issuer's other securities within a transaction's cash waterfall. The ratings assigned to new IO securities on or after April 15, 2010, are based on both the IO's payment priority as well as the credit quality of the underlying assets on which the IO's notional amount is based. 4. This paragraph has been deleted. METHODOLOGY 5. This paragraph has been deleted. 6. Pursuant to these revised criteria, where we assign ratings to newly issued (originally rated from and after April 15, 2010, the original publication date of these criteria) IO securities that reference one or more rated classes of a securitization, the ratings would not be higher than the reference class with the lowest creditworthiness for which we have a view on. Furthermore, for any newly issued IOs we rate that reference the entire principal balance of a collateral pool supporting multiple rated classes, we would assign a rating no higher than the lower of: (i) the credit opinion on the principal and interest paying class with the lowest creditworthiness, or (ii) 'B', if the credit enhancement in the form of overcollateralization supporting the most junior class for which we have a credit opinion is greater than 1% of the total notional amount. 7. Finally, we may rate certain IO securities based on their stand-alone credit quality if they reference an amortization schedule or formula that is not tied to either the entire asset pool or a rated principal and interest paying class and if asset losses cannot diminish the IO notional amount. 8. For IO securities outstanding on April 15, 2010 (the original date of publication of this criteria), we will apply a different approach. For such securities that reference either the entire asset pool or an amortization schedule or formula, we may maintain their current ratings until all principal and interest paying classes rated 'AA-' or higher have been retired or downgraded below that rating level--at which time we will withdraw these IO ratings (see FAQ I in Appendix 1). We may apply the same approach for existing IO securities that reference one or more rated classes of a securitization. Rationale For The Criteria Change 9. We changed the criteria for newly issued (originally rated from and after April 15, 2010) IO securities so that ratings we assign to such securities, unlike those we have assigned to IO securities prior to that date, reflect our opinion of the risk that credit losses on a securitized pool may reduce cash flow to the IO securities by reducing the notional amount upon which the interest-only cash flow is determined. With this revised criteria, ratings we assign to IO securities issued since the publication of these criteria should reflect the creditworthiness dimension of those securities in the same way as do ratings on principal and interest (P&I;) securities. The change represents a step toward harmonizing ratings on IO securities with ratings on P&I; securities. Rationale For Applying Different Criteria To Previously Issued IO Securities 10. As noted above, in the case of IO securities rated before April 15, 2010, S&P; Global Ratings' criteria and, accordingly, its ratings for these securities specifically do not address the risk of cash flow reduction from credit losses in the underlying collateral pool. Effectively, we defined our ratings on IO securities as excluding this aspect of the credit risk of IOs. Based on feedback from IO investors, we believe they have been comfortable with this approach to analyzing and rating IO securities due to their assessment of the following factors: The fact that IO securities have displayed very high variability as to both the amount and timing of their total cash flows. The small magnitude of cash flow reductions attributable to credit defaults on the underlying loans in relation to an IO's total cash flow. The fact that only a very small portion of the overall investment risk in an IO security is credit risk. 11. Nevertheless, in support of our broader efforts to enhance overall ratings comparability, we have decided to take steps under this revised IO criteria toward harmonizing ratings on IO securities issued since April 15, 2010 with ratings on P&I; securities. Accordingly, as noted above, ratings on IO securities issued since the original publication of this article will incorporate our view regarding credit risk of the underlying collateral pool and the potential for any associated cash flow reductions. We recognize, however, that modifying our IO criteria and our ratings on IOs to incorporate this aspect of credit risk that we had previously specifically carved out of our analysis and our ratings of these securities has the result that the risk of small reductions in cash flow would now drive a previously rated IO's rating to very low levels. We are mindful that this type of "light switch" effect (i.e., on or off, all or nothing) can produce unintended consequences. 12. One such unintended consequence is to have a criteria change relating to small amounts or changes in cash flows drive large rating movements. Further, rather than conveying useful information to the market about S&P; Global Ratings' views on the creditworthiness of these previously rated IO securities, such significant downgrades risk being misinterpreted as conveying that S&P; Global Ratings currently sees significant deterioration in the creditworthiness of these securities, which is not the case. Accordingly, to prevent such an effect in this case, we are establishing a distinct treatment, as outlined above, for already-outstanding IO securities. APPENDIX 1: FREQUENTLY ASKED QUESTIONS For IO securities outstanding on April 15, 2010, do we lower the IO class as we lower the reference class or maintain the rating outstanding as of April 15, 2010? 13. For such securities that reference either the entire asset pool or an amortization schedule or formula, we may maintain their current rating as stated in paragraph 8; however, if we believe the structure does not support de-linking the rating on the IO security to the reference security (for example, if there are no mitigating structural features), we may also lower then as we lower the reference class. We will do either of these until all principal and interest paying classes rated 'AA-' or higher have been retired or downgraded below that rating level--at which time we will withdraw these IO ratings. Do the reference P&I; securities have to be rated by S&P;? 14. While the criteria anticipated that reference P&I; securities would generally have S&P; Global Ratings long-term public ratings assigned, the primary intent of the criteria are to reflect the credit quality of the IO securities and there is not a requirement to have an outstanding rating on the referenced principal and interest securities. In limited cases we may use other credit related opinions. For U.S. RMBS combination notes issued and rated prior to April 15, 2010, where (a) the rating was initially based on both the IO and PO components together, (b) the PO component on the note was based upon expectation of the accretion of a principal balance but now has a zero dollar balance and can no longer accrete a balance, and (c) the IO component continues to receive payments based on an outstanding notional balance, should the IO component be considered to have been outstanding prior to April 15, 2010 for purposes of applying these criteria? 15. Yes, but in order for the treatment of paragraph 8 to apply to the IO component of rated U.S. RMBS combination notes, there must be evidence that the PO component has a zero balance and no longer had the ability to accrete a principal balance prior to April 15, 2010. For U.S. RMBS, how do these criteria apply with respect to a potential reduction in interest payments to IO securityholders over time due to loan modifications and other credit-related causes? 16. Our analysis considers whether or not an instrument individually contains promises that are credit-based and measurable, as outlined in "S&P; Global Ratings Definitions." Our criteria for RMBS issued in 2009 and later (see "Related Criteria") and related guidance outlines how we consider a potential reduction in interest payments to securityholders over time due to credit-related causes. Paragraph 8 of this criteria article for IO securities should be applied to these securities that meet the conditions set forth herein. As noted in paragraph 11 of this IO criteria article "ratings on IO securities issued since the original publication of this article will incorporate our view regarding credit risk of the underlying collateral pool and the potential for any associated cash flow reductions." Accordingly, the criteria for RMBS issued in 2009 and later and related guidance, which seek to capture the credit risk associated with loan modifications and other credit-related causes, are meant to be applied only to IO securities issued on or after April 15, 2010. REVISIONS AND UPDATES This article was originally published on April 15, 2010. These criteria became effective on April 15, 2010. Changes introduced after original publication: Following our periodic review completed on Dec. 23, 2015, we updated our contact information and references to criteria that had been fully superseded. We also removed paragraph 5, which was related to the initial publication of the criteria and no longer relevant. Following our periodic review completed on Dec. 19, 2016, we made editorial updates to clarify that references to newly issued IO securities refer to those issued since the original publication date of April 15, 2010. We also removed paragraph 4, which was related to the initial publication of the criteria and no longer relevant. We added "Appendix 1: Frequently Asked Questions" and the "Revisions And Updates" section. Following our periodic review completed on Dec. 18, 2017, we made minor editorial updates. On Feb. 13, 2019, we republished this criteria article to make nonmaterial changes to the contact information. On July 29, 2019, we republished this criteria article to make nonmaterial changes as a result of the retirement of the U.S. RMBS Loan Modification criteria ("Methodology For Incorporating Loan Modifications And Extraordinary Expenses Into U.S. RMBS Ratings," April 17, 2015), which was related to the Imputed Promises criteria ("Principles For Rating Debt Issues Based On Imputed Promises," Dec. 19, 2014). Specifically, we replaced the Loan Modification criteria references in these criteria with references to the Imputed Promises criteria and the new related guidance ("Guidance: Principles For Rating Debt Issues Based On Imputed Promises," July 26, 2019). We also updated paragraphs 3 and 16 to clarify that these criteria are meant to be applied to IO securities issued on or after April 15, 2010, instead of after April 15, 2010. On Aug. 7, 2020, we republished this criteria article to make nonmaterial changes. Specifically, we clarified in paragraph 16 that our analysis considers the concept of imputed promises as outlined in "S&P; Global Ratings Definitions" after the Aug. 7, 2020, retirement of "Principles For Rating Debt Issues Based On Imputed Promises," initially published on Dec. 19, 2014. We also updated paragraph 16 to refer to "Methodology And Assumptions For Rating U.S. RMBS Issued 2009 And Later," published Feb. 22, 2018, and related guidance. We also updated "Related Criteria." RELATED CRITERIA AND RESEARCH Related Criteria Principles Of Credit Ratings, Feb. 16, 2011 Methodology And Assumptions For Rating U.S. RMBS Issued 2009 And Later, Feb. 22, 2018 These criteria represent the specific application of fundamental principles that define credit risk and ratings opinions. Their use is determined by issuer- 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, issuer- or issue-specific factors, or new empirical evidence that would affect our credit judgment.