Article Title: ARCHIVE | Criteria | Corporates | Recovery: Revised Revolver Usage Assumptions For Recovery Analysis In Corporate Ratings Data: (EDITOR'S NOTE: — This article, originally published on Nov. 20, 2014, has been superseded by "Recovery Rating Criteria For Speculative-Grade Corporate Issuers," published Dec. 7, 2016.) 1. This article describes Standard & Poor's Ratings Services methodology for revolver usage assumptions in recovery analysis in corporate ratings. The article clarifies and enhances certain parts of the criteria relative to "Criteria Guidelines For Recovery Ratings On Global Industrials Issuers' Speculative-Grade Debt," published Aug. 10, 2009. 2. During 2014, we completed a review of revolver usage for companies in bankruptcy, using credits in our U.S. recovery rating performance study ("U.S. Recovery Rating Performance Study: 2007-2013," published on Feb. 25, 2014). We analyzed cash flow and asset-based lending (ABL) revolver usage data (including undrawn standby letters of credit) for more than 120 credit facilities at default and prior to default. In addition, we assessed cash flow revolver usage at default for the limited pool of European credits that Standard & Poor's previously assigned recovery ratings to, and results were very similar to findings in the U.S. study. Our review of European credits in bankruptcy did not include any ABL revolvers, which is a less typical form of financing in Europe. 3. Reflecting our research conclusions, we updated our methodology and answered questions regarding how Standard & Poor's rating committees generally apply revolver usage assumptions in recovery analysis. 4. This article is also related to our criteria article "Principles Of Credit Ratings," Feb. 16, 2011. SCOPE OF THE CRITERIA 5. These criteria apply to nonfinancial corporate issuers with an issuer credit rating of 'BB+' or lower and to which we assign recovery ratings based on "Criteria Guidelines For Recovery Ratings On Global Industrials Issuers' Speculative-Grade Debt." 6. These criteria do not apply to facilities that are expressly limited to fund capital expenditures or acquisitions, or to asset securitization facilities. Further, these criteria do not apply to reserve-based lending credit facilities for oil and gas exploration companies, or revolving facilities for oil refining companies, each of which has specific criteria that address how we value these companies and estimate revolving credit exposure (see "Revised Assumptions For Assigning Recovery Ratings To The Debt Of Oil And Gas Exploration And Production Companies," published Sept. 14, 2012) and "Assumptions For Assigning Recovery Ratings To The Debt Of U.S. Oil Refining Companies," published March 14, 2011). SUMMARY OF THE CRITERIA 7. This criteria provides additional guidance regarding how we arrive at revolver usage assumptions for revolvers. We are clarifying our base-case usage assumptions for cash flow and ABL revolvers. To the extent we have more specific information, we will incorporate it into our usage assumption. 8. For background, a revolver usage assumption is one of several inputs into Standard & Poor's recovery analysis. Recovery analytics for industrials issuers have three basic components: Determining the most likely path to default for a company; Valuing the company following default; and Distributing that value to claimants based upon the relative priority of each claimant. 9. The revolver usage assumption is incorporated in the third component. After valuing a company, we estimate debt claims at default, which includes principal and accrued interest on all debt outstanding at the point of default (including estimated revolver usage), bankruptcy-related claims, and other non-debt claims. We then consider the distribution of the company's value. This distribution follows a "waterfall" approach that reflects the relative seniority of the claimants and is specific to the laws, customs, and insolvency regime practices for the relevant jurisdictions for a company. 10. This paragraph has been deleted. 11. This paragraph has been deleted. FREQUENTLY ASKED QUESTIONS What are the base usage guidelines for cash flow revolvers? Are there provisions to make an alternative usage assumption for them? 12. We generally apply a base usage assumption of 85% of commitment for cash flow revolvers. The usage assumption includes cash draws and capacity used for standby letters of credit that we believe are likely to be undrawn following default. To the extent we have more specific information, we will incorporate it into our usage assumption. In a limited number of cases, a different assumption may be appropriate depending on current or projected revolver usage and availability under covenants. 13. We apply a lower revolver usage assumption if the issuer has: a corporate credit rating of 'B-' or lower, and a liquidity descriptor of "less than adequate" or "weak" as defined in our liquidity criteria (see "Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers," published Jan. 2, 2014), and revolver availability limited by covenants, and we expect the issuer will be unable to amend the covenants before default. 14. If all of the above conditions apply, we will apply a revolver usage amount that is the lower of (i) the 85% base assumption, or (ii) the maximum availability implied by the covenants at or before default. If the company is able to obtain covenant relief under an amendment, we would reassess our assumed draw based on the new covenants and/or committed amounts. 15. We apply a higher revolver usage assumption only if regular or projected usage is consistently above the 85% guideline and is permitted by covenants. What are the base usage guidelines for ABL revolvers? Are there provisions to make an alternative usage assumption for them? 16. We generally apply a base usage assumption of 60% of the commitment for ABL revolvers. The usage assumption includes cash draws and capacity used for standby letters of credit that we expect to remain issued but undrawn after default. To the extent we have more specific information, we will incorporate it into our usage assumption. For example, a different usage assumption may be appropriate depending on availability under borrowing base levels, seasonal fluctuations, current or projected revolver usage, and availability under covenants. 17. We analyze borrowing base fluctuations over a seasonal cycle and over time as a business expands, contracts, or changes. For seasonal companies, availability and usage can vary meaningfully as current assets expand before and contract during/after the peak seasonal sales period. Our ABL usage assumptions seek to adjust for temporary swings in usage and availability that are self-liquidating at the end of a seasonal cycle. To support this analysis, we generally review borrowing base certificates. 18. We apply a lower revolver usage assumption if the low borrowing base over the seasonal cycle is less than the 60% guideline. We then assume usage at that level. 19. We also consider a lower revolver usage assumption if we expect the base usage assumption to violate a minimum liquidity or minimum availability covenant. We cap revolver usage at the maximum level allowed by the covenant. 20. We apply a higher revolver usage assumption if actual revolver usage at the seasonal low point is consistently greater than the 60% guideline (and is permitted by covenants). A higher usage assumption may also apply in rare cases where projected revolver usage at the seasonal low point is expected to be greater than 60% (and permitted by covenants). RELATED CRITERIA AND RESEARCH Methodology And Assumptions: Liquidity Descriptors for Global Corporate Issuers, Dec. 16, 2014 Corporate Methodology, Nov. 19, 2013 Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013 Revised Assumptions For Assigning Recovery Ratings To The Debt Of Oil And Gas Exploration And Production Companies, Sept. 14, 2012 Assumptions For Assigning Recovery Ratings To The Debt Of U.S. Oil Refining Companies, March 14, 2011 Principles Of Credit Ratings, Feb. 16, 2011 Criteria Guidelines For Recovery Ratings On Global Industrials Issuers' Speculative-Grade Debt, Aug. 10, 2009 Update On Rating Methodology For Debtor-In-Possession Loans With Noncash Pay Features, July 30, 2009 Notching Of U.S. Investment-Grade Investor-Owned Utility Unsecured Debt Now Better Reflects Anticipated Absolute Recovery, Nov. 10, 2008 Update: Jurisdiction-Specific Adjustments To Recovery And Issue Ratings, June 20, 2008 APPENDIX: MATERIAL RELATED TO THE INITIAL PUBLICATION OF THIS CRITERIA These criteria became effective on Nov 20, 2014. For issuers in scope of the criteria, the criteria supersede the section related to revolving credit facility and asset-based lending facility drawdown assumptions in "Criteria Guidelines For Recovery Ratings On Global Industrials Issuers' Speculative-Grade Debt." 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.