Article Title: ARCHIVE | Guidance | Criteria | Structured Finance | General: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings Data: (EDITOR'S NOTE: —This article is no longer current. We moved relevant content to "Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings" without any substantive changes.) Overview And Scope Here, S&P; Global Ratings provides additional guidance and transparency to the market about how we apply the 'CCC' criteria in our ratings analysis and how we exercise analytical judgment as called for in the criteria. Our criteria for assigning 'CCC+', 'CCC', 'CCC-', and 'CC' ratings is set out in the article "Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings," published on Oct. 1, 2012 (hereafter referred to as the "'CCC' criteria"). The criteria associate our distinct scenarios with the creditworthiness of issuers and issues with ratings in the 'CCC' and 'CC' categories. When rating structured finance issues in the low speculative-grade categories of 'CCC' or below, our analysis recognizes both the increased likelihood and more imminent proximity of a default of the rated issue. Because of that, it can be easier to foresee a specific default scenario and develop transaction-specific default patterns to determine whether a securitization can be rated at a certain level. Our 'CCC' criteria is therefore generally more principles-based so that we can analyze the unique facts and circumstances underlying the increased likelihood of default of an issue and its most probable default pattern. We also provide concrete examples to illustrate the transaction-specific features that we take into account when assessing the default risk that drives our ratings analysis. We also address the interplay between sector-specific and the 'CCC' criteria, providing additional clarity about the qualitative and quantitative factors we consider when applying the 'CCC' criteria. This guidance does not change or add to our criteria. In particular, no changes are made to key assumptions or key variables within the criteria. Key Publication Information Original publication date: Jan. 18, 2018. This article is related to "Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings," published on Oct. 1, 2012. We may revise this guidance from time to time. Guidance The key assumptions and variables for issues and issuers rated in the 'CCC' and 'CC' categories are as follows: 'CCC' category ratings: An obligation rated 'CCC' is currently vulnerable to nonpayment, and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation. As a general rule, issuers and issues that face at least a one-in-two likelihood of default will be rated in the 'CCC' category. The 'CCC' category may also be appropriate--even at a lower likelihood of default threshold of approximately one-in-three--if we expect a default within the next 12 months. 'CC' category ratings: We rate an issuer or issue 'CC' when we expect default to be a virtual certainty, regardless of the time to default. We use the 'CC' rating when, for example: An entity has announced that it will miss its next interest or principal payment, but is still current on these payments. An entity has announced its intention to file a bankruptcy petition or take similar action and payments on an obligation are jeopardized, but the entity has not yet entered into receivership protection. An entity has announced its intention to undertake an exchange offer or similar restructuring that we classify as distressed, but has not yet completed the transaction. We expect the default of an issue to be a virtual certainty based on either: the specific default scenarios that are envisioned over the next 12 months, or the expectation of default even under the most optimistic collateral performance scenario over a longer period of time. Our 'CCC' Criteria And Sector-Specific Structured Finance Criteria Structured finance sector-specific criteria generally outline the methodology and assumptions for assigning ratings from 'AAA' to 'B'. For ratings lower than 'B', the analysis would be supplemented by the methodology outlined in the 'CCC' criteria. For most asset classes in structured finance, ratings are typically differentiated based on the level of credit enhancement, that is, the issuer's ability to withstand rating-specific stress scenarios without defaulting or the extent to which an issuer may be dependent on favorable conditions to meet its financial commitments. Table 1 shows the rating-specific scenarios we expect a security to be able to withstand. We expect securities rated from 'B' to 'AAA' to withstand scenarios from mild to extreme stress, respectively. 'CCC' and lower rated securities that have not defaulted are assumed to not be able to withstand any stress scenario and in our view would be dependent on favorable conditions in order not to default. These securities have such low creditworthiness that any level of stress is much more likely to lead to further deterioration and ultimately to default than for any other rating category. Under our ratings definitions, a security would generally be rated 'B-' if we believe the obligor has the capacity to meet its financial commitment on the obligation under the current conditions. (For our ratings definitions, see "S&P; Global Ratings Definitions," published on June 26, 2017.) However, to be assigned a rating above 'B-', a security must have sufficient credit enhancement to withstand scenarios that are more stressful than the current conditions. For example, to achieve a rating of 'B', the securities must be able to withstand a mild level of stress. To achieve a rating of 'B-', the securities must have sufficient credit enhancement to withstand a steady-state scenario where the current level of stress shows little to no increase and collateral performance remains steady (that is, performance does not deteriorate or improve). When, in our view, the security does not have the capacity to withstand a steady-state scenario where the current level of stress shows little to no increase and collateral performance remains steady (that is, a default is likely to occur if collateral performance does not improve), the rating assigned is typically in the 'CCC' category, in accordance with our 'CCC' criteria. We evaluate existing credit enhancement and prospective cash flows available to service the debt under a steady-state scenario. For instance, when we believe that credit enhancement is not sufficient to prevent a default on the notes in a steady-state scenario, we would rate the issue in the 'CCC' (or below) category, reflecting the existence of conditions outlined in 'CCC' criteria. Ratings in the 'CCC' category may be modified by the addition of a plus (+) or minus (-) sign to show relative ranking. For example, our criteria for residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS) in Europe outline the methodology and assumptions applied for assigning ratings down to 'B' (referred to as the expected case). To achieve a rating of 'B', the securities must have sufficient credit enhancement to withstand a scenario of mild stress. Our criteria for RMBS across Europe assume that an archetypal pool will endure defaults in a "mild" stress varying from a minimum of 0.5% to 4.0%. The differences reflect country-specific considerations of credit risk, which are reflected in our mortgage market assessment. Similarly, these criteria assume that the residential property market will suffer a 15% fixed market value decline (as defined in the RMBS criteria) in a "mild" stress. Our European CMBS criteria on the other hand consider the long-term sustainable value of a commercial property to correspond to the definition of a "mild" or 'B' stress. This long-term sustainable value as defined under our criteria provides a calculated commercial property value that we view as more stable through a property cycle, consistent with a 'B' creditworthiness. If we conclude after applying the European RMBS or CMBS criteria that sufficient credit enhancement does not exist to withstand a mild stress, the rating assigned will be either 'B-' or in the 'CCC' or 'CC' categories. To make this determination, the 'CCC' criteria are taken into account. According to the 'CCC' criteria, a 'CCC' rating should be assigned if the securities are currently vulnerable to nonpayment and the issuer is dependent upon favorable conditions to meet its financial commitment on such obligation. However, if the securities can withstand a steady-state scenario without favorable conditions, a 'B-' rating can be assigned. Application Of 'CCC' Criteria For Structured Finance As noted in the 'CCC' criteria, a security would be rated 'CCC+' or lower if we believe its creditworthiness has become so vulnerable that a default is likely to occur under current business, financial, and economic conditions. For structured finance securities, the 'CCC' category is used if payment of principal or interest when due is dependent upon favorable business, financial, or economic conditions. The degree of financial stress is generally the dominant factor and the time frame for anticipated default is generally a secondary consideration when assigning a plus (+) or minus (-) sign modifier to the 'CCC' rating. Expected collateral performance and the level of available enhancement (credit or cash flow, or both) are the driving risk factors in our assessment of the degree of financial stress and likelihood of default. The time frame for anticipated default is generally a secondary consideration because structured finance issuers are typically special-purpose entities, which by definition have limited ability to raise additional capital or pursue strategic alternatives that could improve their business or financial conditions--irrespective of the time horizon. Therefore, structured finance securities rated in the 'CCC' category could be expected to continue to pay timely interest and not realize a default for multiple years under a steady-state unstressed scenario, while ultimately being at risk of a principal default at legal final maturity. The starting point of the analysis is to apply the assumptions, data, and modeling techniques as outlined in the sector-specific criteria to determine if the transaction can withstand a mild level of stress. If the transaction can't, the 'CCC' criteria are applied by making a qualitative assessment of the need to rely on favorable conditions to make timely payments. This assessment is supported by the initial sector-specific analysis, transaction-specific features, and actual data from servicer reports on the driving risk factors and key variables as outlined in table 2. Judgment is used to combine the driving factors and key variables to determine their respective weight. At the lowest rating levels, the securities will be experiencing specific stress characteristics. As this stress manifests itself differently in each situation in how the various credit factors come together, a qualitative assessment is key in the analysis of these credit factors, as outlined in the criteria. It is the transaction-specific analysis of all relevant factors that will help explain their relative importance in each individual situation. Table 2 Risk Factors And Key Variables In The Application Of The CCC Criteria DRIVING RISK FACTORS KEY VARIABLES EUROPEAN RMBS Collateral performance Shortfalls (including provisional shortfalls), existing pool losses, cumulative asset default level, delinquency levels Available credit enhancement Reserve funds available to cover credit losses; excess spread available to cover credit losses Market and sector outlook Structural changes in the mortgage market including underwriting; prevailing macroeconomic conditions and forecasts Transaction-specific features Triggers; waterfall features EUROPEAN CMBS Collateral performance Estimated losses under current market conditions Available credit enhancement Credit and liquidity enhancement Market and sector outlook Specific risks, for example, natural disasters; macroeconomic conditions; prevailing commercial loan performance Transaction-specific features Loan-to-value ratios CMBS--Commercial mortgage-backed securities. When reviewing a transaction structure, analytical judgment is used to determine the importance of each of the driving risk factors and key variables listed above, in order to determine their relative weight in the overall creditworthiness of the issue being analyzed. This analysis also considers the individual circumstances of the issue. A predetermined statement of their relative importance (or weighting) cannot be given, because it depends on individual circumstances that will vary over time and across transactions, portfolios, and different market conditions. Therefore, the driving risk factors and key variables analyzed to assess a transaction typically reflect the specific features of an individual structure, as well as how a portfolio has reacted to an already stressed environment. The source for the key variables is available performance data (for instance, from transaction-specific servicer reports). No specific modeling techniques are used when analyzing securities under our 'CCC' criteria. Below, we address a number of real-life examples from our portfolio of rated European RMBS and CMBS. They show how deal-specific data inform the key variables we use for assessing credit risk. They serve to illustrate the analysis of each credit factor, as discussed above, and their relative importance at that point in time in assessing the creditworthiness of an issue, and ultimately, in assigning its rating. Appendix: Application Examples For Structured Finance Disclaimer: The information and analysis presented are as of the date of the rating action or rating analysis that is being shown as an example. RMBS 1. 'B-' rating affirmed for class B2 notes in Eurohome UK Mortgages 2007-2 PLC.Eurohome UK Mortgages 2007-2 PLC is a U.K. nonconforming RMBS transaction that is backed by first-ranking mortgages originated by DB UK Bank Ltd. The transaction closed in August 2007. On April 6, 2017, we affirmed our 'B-' rating on the class B2 notes because payment of principal and interest on the notes is not dependent upon favorable business, financial, or economic conditions. These notes are the most junior class in the structure and our ratings on this class of notes address timely receipt of interest and ultimate repayment of principal. We applied our European residential loans criteria (see "Methodology And Assumptions: Assessing Pools Of European Residential Loans," published on Dec. 23, 2016) including our credit and cash flow analysis. The weighted-average foreclosure frequency and weighted-average loss severity at 'B' was 19.63% and 13.60%, respectively, resulting in an expected loss of 2.67%. This expected loss of 2.67% does not include the negative carry resulting from interest due on the notes during the foreclosure period, which we accounted for in our cash flow analysis. In our cash flow analysis, the class B2 notes did not pass our 'B' rating level cash flow stresses in a number of our cash flow scenarios, in particular when we modelled high prepayment stresses of 30% and a recession at the end of year three. Therefore, we used the 'CCC' criteria to assess if either a rating of 'B-' or in the 'CCC' category would be appropriate. The 'CCC' criteria specify the need to assess whether there is reliance on favorable conditions to continue in an unstressed scenario. Credit enhancement for this class of notes was 3.81% and was trending upward, which compares favorably to our expected loss of 2.67%. The reserve fund was fully funded and the transaction had a fully funded liquidity facility provided by Deutsche Bank AG that provides support to pay interest on the notes. In addition, all losses were covered by excess spread in the transaction. Annualized excess spread was 1.68%. Total delinquencies in the transaction were below 20% and had fallen steadily since 2012 when total delinquencies were over 30%. At the time of our review, quarterly prepayments were 6.34%, so below our modelled level of 30%. Therefore, the transaction had so far experienced less negative carry due to prepayments than assumed by our cash flow analysis. Our outlook for the U.K. residential mortgage market was benign, with historically low unemployment at 4.6%, low mortgage interest rates, and falling delinquencies across the sector. Taking these factors into account, reflected in improving collateral and transaction performance, we considered that payment of principal and interest on the class B2 notes was not dependent upon favorable business, financial, or economic conditions. Therefore, we affirmed our 'B-' rating on the class B2 notes. 2. 'CCC' rating for class 'B' notes in Bancaja 10, Fondo de Titulizacion de Activos. Bancaja 10, Fondo de Titulizacion de Activos is a Spanish RMBS transaction that closed in January 2007. The originator of the loans was Bancaja (now Bankia). The assets are first-ranking mortgages over residential properties in Spain. On Dec. 1, 2015, we lowered our rating on the class B notes to 'CCC' from 'B-' because we considered this class of notes to be currently vulnerable and dependent upon favorable business, financial, and economic conditions to pay timely interest and ultimate principal. The transaction was structured with a mechanism where interest can defer on any class of notes junior to the class A notes based on class level-defined cumulative default triggers. As the rating was already 'B-', the 'CCC' criteria were applied to determine whether there was reliance on favorable conditions to continue in an unstressed scenario. In October 2015, the level of cumulative defaults was 9.76% and the interest deferral trigger for the class B notes was 10.9%. Credit enhancement for the class B notes was 5.37% and had continued to increase. In addition, total delinquencies were below 5% and also below the Spanish RMBS index (about 8%). However, severe delinquencies continued to roll into default (based on the 18-month definition of default under the transaction documentation). Based on the evolution of cumulative defaults in the transaction, it was our expectation that they would increase to above the 10.9% trigger level within 12 months, which would cause interest to be deferred on the class B notes. Although economic conditions suggested that the Spanish economy was improving, with falling unemployment and increasing GDP, the structural features and the transaction's performance trends were key factors in the rating decision. The stabilization of cumulative defaults in the transaction necessary to prevent a trigger-based deferral on class B note interest depended on favorable business, financial, and economic conditions for severely delinquent borrowers not to roll into default. At the point where defaults increased to above 10.9%, the issuer would not be able to meet its financial obligations to pay the class B note interest. Therefore, in this instance, a 'CCC' rating was assigned. CMBS DECO 11 - UK Conduit 3 PLC. On April 22, 2016, we assigned ratings of 'CCC+', 'CCC', 'CCC-', and 'CCC-' to Deco 11 – Conduit 3 PLC's class A-2, B, C, and D notes, respectively. A qualitative assessment of key variables, together with analysis of performance and market data, was performed. We considered repayment of these classes to be dependent upon favorable business, financial, and economic conditions, and vulnerable to default. In particular, we considered the January 2016 servicer report that disclosed securitized loan-to-value (LTV) ratios of over 100% for each of the four loans remaining in the transaction based on current market valuations. Based on these valuations, we projected losses of principal for the class A2 to D notes. (The class E and F notes were already rated 'D' due to previous non-accruing interest amounts and interest shortfalls.) The ratings on the class A2, B, C, and D notes were subsequently further lowered seven months later in November 2016 to 'CCC-' 'CCC-', 'D', and 'D', respectively. This reflected changes in current market conditions following the receipt of an issuer special notice regarding an updated valuation and a payment default on the Class C and D notes. NEMUS II (Arden) PLC. On April 29, 2016, we assigned a rating of 'CCC-' to NEMUS II (Arden) PLC's class E and F notes. We considered the repayment of these two classes to be dependent upon favorable business, financial, and economic conditions, and vulnerable to default. In particular, we considered the reported securitized LTV ratios of the remaining loans based on current valuations. One of LTV ratios was above 100%. Therefore, based on this current market valuation, we projected losses of principal to the class E and F notes. Both classes were subsequently lowered to 'D' on March 15, 2017, following a payment default. Revisions And Updates This article was originally published on Jan. 18, 2018. Changes introduced after original publication: On March 4, 2021, we updated the section that defines a "mild stress" for RMBS to reflect the minimum and maximum ranges currently envisaged by our global RMBS criteria and removed references to retired criteria. We also updated the related criteria and research sections below. Related Criteria Global Methodology And Assumptions: Assessing Pools Of Residential Loans, Jan. 25, 2019 European CMBS Methodology And Assumptions, Nov. 7, 2012 Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012 Related Research S&P; Global Ratings Definitions, updated periodically