Article Title: General Criteria: Methodology For Analyzing Letter Of Credit And Bank Liquidity-Supported Transactions Data: OVERVIEW AND SCOPE This article describes our criteria for rating debt issues involving unconditional third-party credit support fully covering principal and interest and/or liquidity support. These forms of support are typically used in variable-rate debt obligations (VRDOs) in primary markets and tender option bonds (TOBs) in secondary markets. These structures feature an underlying obligor (often a U.S. municipal entity), and the obligations are supported by a letter of credit and/or liquidity facility or standby bond purchase agreement (SBPA). See Appendix 4 for an overview of these structures and Appendix 6 for a glossary of technical terms. The criteria also apply to pooled TOBs when the trust contains fewer than 10 different underlying securities (i.e., assets). Structures analyzed under these criteria achieve credit substitution through linkage to the credit rating on a credit support provider. This is because support can only be terminated or revoked in circumstances that are either remote or captured in our rating on the underlying obligation or credit support provider. The criteria do not apply to the analysis of liquidity support in asset-backed commercial paper (ABCP) conduits, or to debt obligations supported by guarantees, insurance, or derivatives (which are rated using different criteria). However, if such transactions include the remarketing of tendered bonds, we complement the primary criteria applicable to those transactions with an analysis of remarketing risks under these criteria. Context And Analytical Fundamentals When analyzing obligations supported by letters of credit or bank liquidity facilities, our credit rating opinion has two analytical components: our forward-looking opinion of the creditworthiness of (i) the underlying obligation and (ii) the provider of the letter of credit (LOC) or relevant liquidity facility. Accordingly, in these criteria, "rating" or "rated obligation" (for example, the rating on the underlying obligor or support provider--that is, the LOC or SBPA provider) is a reference to S&P; Global Ratings' credit rating opinion on the entity or obligation. Where relevant, a correlated short-term rating may sometimes be inferred from a long-term rating by S&P; Global Ratings, as described in the chart below. KEY PUBLICATION INFORMATION Effective date: These criteria are effective March 20, 2023, except in jurisdictions that require local registration. In those jurisdictions, the criteria are effective only after the local registration process is completed. This updated methodology follows "Request For Comment: Analyzing Letter Of Credit And Bank Liquidity Supported Transactions In Primary And Secondary Markets: Methodology And Assumptions." For the changes between the RFC and the final criteria, see "RFC Process Summary: Analyzing Letter Of Credit And Bank Liquidity Supported Transactions In Primary And Secondary Markets: Methodology And Assumptions." These criteria supersede the criteria articles listed in the "Fully superseded criteria" and "Partly superseded criteria" sections at the end of this article. METHODOLOGY Section 1: Linkage To Rating On The Supporting Party When credit support is provided unconditionally, the ratings assigned to the supported issue are directly linked to the issuer credit rating (ICR) on the support provider. This applies to both long-term and short-term ratings. In addition, the short-term rating assigned to liquidity-supported debt addresses the likelihood of payment of mandatory tenders or tenders at the option of investors by the third-party support provider. In some circumstances, the tender could terminate without the investor first being paid--we analyze these situations as described in "Section 4: Support Termination Risk." If two or more third parties jointly support an issue, we apply our methodology and assumptions for rating jointly supported financial obligations. Examples include LOC-supported debt additionally secured by a back-up LOC or a rated obligor's obligation to pay debt service. If we believe the repayment sources are highly correlated, we may link the assigned debt rating to the highest-rated repayment source. If two or more partially supporting parties combine to wholly support debt repayment (several support), the debt rating is typically the same as the rating on the lower-rated supporting party. In general, rating substitution through linkage will remain throughout the life of the issue, except: If the short-term rating on liquidity-supported debt reflects a demand feature (typically in a dual rating), the rating is withdrawn when transaction circumstances lead to the termination of the put option (i.e., upon loss of a put option). If the supported debt is legally and structurally defeased, these criteria no longer apply and the ratings may be withdrawn. Subject to available information, we may be able to rate the defeased debt by applying criteria for assigning ratings to bonds in the U.S. based on escrowed collateral. In multi-modal structures, when the mode on all the debt is converted to a mode that no longer requires a credit or liquidity facility (for instance, when the debt is converted to a long-term or fixed-rate mode), the rating is withdrawn since the obligation it is based on ceases to exist. Section 2: Legal And Regulatory Risk The main legal and regulatory risks we factor in our analysis are enforceability, recapture, and bankruptcy remoteness of special purpose-entities (see table 1). Table 1: Legal And Regulatory Risks Enforceability risk Third-party support is legal, valid, binding, and, therefore, enforceable. Risk is sufficiently mitigated in typical transactions in established markets (such as transactions involving U.S. banks). For atypical situations (for example, nonbank third parties, nonstandard terms, or banks located in a different jurisdiction outside the U.S.) or new and emerging markets, we may request legal opinions to support our analysis. Recapture risk The risk that payments from the underlying obligor of the supported securities could be clawed back from investors following its insolvency (such as as an avoidable preferential payment under the U.S. Bankruptcy Code). We assess whether structural features (for instance, provisions in transaction documents) fully mitigate any potential risk. The risk may also be relevant in situations where the supported debt is legally and structurally defeased. Depending on the risk, the analysis may rely on legal opinions. Bankruptcy remoteness of special-purpose entity (SPE) When issues involve an SPE, we assess the bankruptcy remoteness of the SPE under our legal criteria applicable to the relevant jurisdiction. Section 3: Sufficiency Of Support This section focuses on typical risks and common mitigating factors relating to the sufficiency of the available support to make full and timely payments on the rated obligations. Our assessment of sufficiency of available support is based on the terms of supporting agreements and potentially on further considerations identified in Section 2. Table 2: Sufficiency Of Support--Risks And Mitigants Document-related timing risk Risk Unclear document provisions (obligor payments, receipt of remarketing proceeds, and/or LOC or SBPA draws, etc.) can lead to payment delays and default. Mitigation commonly assessed Synchronicity of support facilities' payment terms and notification provisions of the operative documents, considering maximum allowable time under each document. Sufficiency of coverage of principal and interest (see text below for details) Risk Principal and/or interest (or purchase price) not fully covered in specific circumstances. Mitigation commonly assessed Analysis that assumes the underlying obligor defaults and applies stress assumptions to test the sufficiency of the support facility. This applies to standby LOCs. Analysis that considers solely if the facility covers the full amount of the obligation, including any facility reinstatement provisions and maximum interest rate. This applies to direct-pay LOCs. Coverage for bonds with put options and commercial paper structures (see text below for details) Risk When investors tender their bonds through a put option, bonds are remarketed to fund the tender. Rollover proceeds are also used as the first source of payment in a commercial paper structure. In both cases, a coverage shortfall may result from a failed remarketing, or from the timing of the transfer of proceeds from a third-party remarketing/dealer agent. Payment to investors may not be sufficient even if the enhancer fully funds the presented draw, depending on how the amount was determined. Mitigation commonly assessed Facility terms and drawdown mechanics that ensure coverage, including through a failed remarketing. Restrictions on removal or resignation of remarketing/dealer agent prior to transfer of proceeds. Additional debt Risk Additional issuance of the same series of existing debt can dilute third-party support facility coverage for existing investors. Mitigation commonly assessed Conditions that apply for additional debt issuance (e.g., corresponding increase in facility coverage or limiting the rights under the facility of additional debtholders). Further considerations for sufficiency of coverage analysis Sufficiency of coverage of principal and interest.We review whether the support facility covers the maximum principal scheduled together with accrued interest (and any premium), including the payment of purchase price associated with a failed remarketing, as applicable. The relevant factors are: The maximum interest rate that could be payable on the debt while the facility is in effect; The maximum number of days between interest payment dates (including interest accruals periods, if different and including any reinstatement periods) for all interest rate modes to which the assigned rating applies; The terms for interest accruals on the debt (including analysis of the first interest accrual period, if longer); and The remedies the trustee can use to repay the debt should the LOC provider exercise any option to not reinstate interest coverage. Stressing for interest coverage is usually based on the following assumptions (see Appendix 2 for a worked example): Interest accrues at the maximum rate covered by the enhancer, as defined in the debt instrument; The interest reinstatement period is stressed to assume that the LOC provider and trustee will exhaust the maximum time allowed (for example, the LOC provider will, on the last day and/or specified time that it has the right to do so, provide notice that it is not reinstating interest coverage, and the trustee will, on the last day that it is obligated to do so, complete the steps described in the transaction's documents for repaying investors); If a trustee must rely on direction from a notice, in the absence of notice timing, the notice arrives at the end of a given business day and the trustee will take action on the following business day; and When either party may choose between two or more options, the party will choose the option that could result in the greatest amount of interest accruing on the debt. If the "most favored nation" (MFN) clause applies, loss of coverage can result from changes to preconditions to funding or conditions to purchase/fund (see table 3 for details). Coverage for bonds with put options.If there are insufficient proceeds due to a failed remarketing or rollover, investors are expected to be repaid with funds provided from a draw on the enhancement. To avoid a shortfall, the party required to draw on the enhancement (typically the trustee) may be required to draw by the deadline established under the enhancement in an amount equal to principal and interest due to investors minus any proceeds on deposit with the remarketing or dealer agent (or the trustee itself). Drawing based on actual proceeds on hand, rather than solely on the notice of the amount of debt remarketed or rolled over, also mitigates the risk of a settlement failure (a purchaser failing to deliver payment after a security is traded). Likewise, the analysis looks to identify whether the proceeds of a successful remarketing or rollover would be delivered to the trustee prior to the draw deadline or prior to the time required to pay investors. In the latter case, the remarketing agent or dealer may be required to transfer those proceeds to the trustee prior to the time they are due to investors. Alternatively, the trustee may make a draw on the enhancement assuming such proceeds did not materialize. In addition, we consider whether the remarketing agent or dealer is required to transfer any proceeds in its possession prior to its resignation or removal for deposit with the trustee. If not, the remarketing or dealer agent may be restricted from resigning or being removed prior to such transfer of proceeds. When bank-purchased tendered debt is subsequently remarketed, the available bank's commitment is replenished by the amount of debt that has been resold together with accrued interest. When a purchase of tendered debt is made with a facility draw, the facility provider or the trustee, as custodian, usually holds the purchased debt (often referred to as "bank bonds"). We assess whether transaction provisions sufficiently mitigate the risk that the custodian (if it is not the facility provider or the trustee) could release an amount of debt to new investors that exceeds the amount of reinstated third-party coverage. For example, the custodian may be restricted from releasing any purchased debt (or bank bonds) until the facility provider has confirmed the reinstated facility amount to the custodian in writing. Section 4: Support Termination Risk Support facility agreements include provisions that can lead to a termination of the support provided. We assess whether transaction documents mitigate the risk that support may terminate before investors have been repaid. Remedies that ensure investors are repaid before the support terminates include mandatory tender, mandatory redemption, or acceleration. This analysis includes suspensions or automatic termination events (ATEs) in liquidity facility agreements (e.g., SBPAs). Specific examples of termination risks and common mitigants included in transaction documents are in table 3. Table 3: Support Termination--Risks And Mitigants Support termination risk Facility terminates before investors are scheduled to be fully repaid. Partial termination (reduction in facility relative to outstanding liability). Mitigation commonly assessed Provider is obligated to make full and timely payments on the debt until final maturity, including the applicable recapture period. Support facility's expiration date is extended, substituting third-party support provider before the facility expires, or repaying investors before the facility expires. For LOC-supported commercial paper (CP) structures, further debt issuance is conditional on the availability of an LOC in relation to the CP maturity and sufficient coverage. Support termination risk Substitution, assignment, or granting of participation interests can result in a loss of credit quality not deriving from a deterioration of the existing support provider's creditworthiness. Mitigation commonly assessed Investors may be repaid before the effective date by way of a mandatory tender. Alternatively, substitution of the support provider (or assignment or granting of participation interest) is subject to rating confirmation, which will address the creditworthiness of the incoming provider, as well as the terms of the new facility. The assignment or granting of participation interests may not relieve the existing provider of its obligations. Support termination risk Facility terminates following an event of default (such as a breach of covenant under a reimbursement agreement with the obligor or under the terms of the liquidity agreement). The LOC provider, after an LOC interest draw, opts out of reinstating (or replenishing) interest coverage. Mitigation commonly assessed If the support provider notifies the trustee of its intent to terminate or not reinstate, then transaction documents direct the trustee to draw on the facility to fully repay investors before the facility terminates or coverage is exhausted. Trustee may have waiver rights over bank-declared events of default. Those rights are restricted only when the trustee has obtained 100% investor consent or written evidence of the support provider's rescission of the event of default declaration, and full reinstatement of the facility coverage. Support termination risk The LOC terminates upon an interest rate mode conversion, or coverage is not increased for additional accrual days. (This applies to debt that is multi-modal where the obligor has the option of changing how frequently interest rates are reset--e.g., daily, weekly, monthly, semiannually, and fixed-rate modes.) When the obligor can convert less than the full amount of debt service to a different rate mode, a partial conversion could cause payment shortfalls of the unconverted debt amount if future payments include the uncovered debt. Third-party support facility may terminate upon conversion to a rate mode not intended to be covered. Mitigation commonly assessed Mandatory tender upon conversion is provided, or an amended facility or substitute credit support with sufficient coverage is provided. Trustee is capable of differentiating between debt in different rate modes and not fully covered by the facility (such as by maintaining separate accounts--see Section 5 for the analysis of operational risk). After conversion has occurred, facility funds are paid only to investors in the fully covered rate modes, and, as a condition of converting back to a rate mode that is fully covered, any previous conversion-related reductions in third-party coverage are correspondingly reversed. Risk of facility termination from partial conversion affecting unconverted debt is addressed (for example, facility expressly terminates only after the entire debt amount has converted). Support termination risk Circumstances triggering termination of facility can terminate the put option for which liquidity support was required. Mitigation commonly assessed Triggering of termination event is subject to notice and takeout via a mandatory tender on the supported securities such that investors are repaid prior to termination. Support termination risk The support provider may fund a tender payment and then attempt to recover that payment if, for example, termination of support is on the day of the occurrence of the event of termination or on the business day prior to the occurrence of the event of termination. Mitigation commonly assessed Transaction document provisions ensure funding by aligning timing for the termination of the support provider's obligation with that of the event of termination. Support termination risk Defeasance caused by a noncredit event, leading to termination of put option. Mitigation commonly assessed Defeasance may be limited to interest rate modes during which investors have no put option, or a full mandatory tender or redemption is called by the first to occur of the following events: the next tender, redemption, or interest rate adjustment date following the defeasance. In this case, the analysis considers the source of funds and the maximum rate, as well as the account from which payments are made. Alternatively, prior notice of defeasance is delivered in writing, or defeasance is subject to maintaining at least the current rating on the bonds (see Section 1 for details). Support termination risk When an issuer purchases the bonds (i.e., a purchase in lieu of redemption), the liquidity facility typically stops funding bonds purchased by the issuer. Mitigation commonly assessed Preconditions exist for the bonds to be released back into the market, if the bonds aren't cancelled. If the purchased bonds remain in a variable-rate mode with a put option following their release, the released bonds should once again be enhanced by the liquidity facility. Support termination risk MFN (most favored nation) covenants may mean that if the issuer enters into an agreement with any other third party on terms more favorable, then the more favorable terms would automatically apply to the support facility provider. As a result, permitted termination events or suspension events may change, and there may be changes to noticed event timing or termination event timing. Mitigation commonly assessed The potential MFN provision does not apply to specified events, or the inclusion of any automatic amendments is subject to the rating not being withdrawn or lowered as a result of such amendment. Automatic termination of liquidity support The typical risks associated with ATEs in liquidity facility agreements (e.g., SBPAs) and common mitigants are in table 4. As appropriate, we review and assess alternative mitigants in transaction structures. Termination risk is mitigated if the circumstances that trigger an ATE are captured in our rating on the credit support provider and/or the underlying obligor, or are otherwise outside the scope of the rating (such as a change in law). Table 4: Automatic Termination Events (ATEs) In Liquidity Facility Agreements--Risks And Mitigants Risk Termination or suspension of liquidity support occurs without prior notice upon various events of default. ATEs may result in termination of liquidity support in circumstances unrelated to a credit default of the credit support provider (i.e., for reasons beyond their ability to pay, for example, a covenant default). Mitigation commonly assessed ATEs are either remote or factored into our rating on the supported obligation in consideration of the obligor's internal liquidity position (see text below this table for further details). Risk ATEs in liquidity facility agreements include the weakening of the obligor's creditworthiness, such as a loss of investment-grade standing. Mitigation commonly assessed At the time of the initial rating, our rating on the underlying obligation has an enhanced, unenhanced, or jointly-supported rating of at least 'A' (i.e., the rating threshold), which reduces the risk of losing liquidity support in the event that the creditworthiness of the obligor deteriorates (see text below this table for further details). Risk Support terminates without prior notice as a result of a failure to pay parity debt. Mitigation commonly assessed The relevant debt is on an equal ratable basis or senior to the rated bonds. Further considerations for the analysis of ATEs in the liquidity support agreement ATEs in liquidity facility agreements that are based on the following events are consistent with the linkage approach under these criteria because they are either remote or factored into our rating on the supported obligation (see Appendix 3 for ATEs applicable to insured liquidity facilities): Failure by the obligor to pay the bonds being rated, including bank bonds, or repudiation of the rated bonds. An ATE referencing a failure to pay or repudiation of accelerated bank bonds is not consistent with the linkage approach. (Bonds purchased by a liquidity provider following a failed remarketing can, at the bank's demand, be accelerated and require immediate payment. Similarly, if a bond insured transaction contains acceleration provisions, bond insurer consent should be required prior to declaration of acceleration.) Failure by the obligor to pay, or repudiation by the obligor of any debt that is senior to or on parity with the rated debt. The obligor begins proceedings related to bankruptcy, insolvency, reorganization, or relief from debtors; the obligor admits, in writing, that it's unable to pay its debts as per the applicable bankruptcy code; or an involuntary bankruptcy event occurs. The issuer, the obligor, a government authority, or a court challenges the validity or enforceability of the bond or liquidity documents, or challenges the validity or enforceability of the pledged security associated with the rated bonds. Challenges by the issuer, obligor, government authority, or court with respect to any material provisions of the bond or liquidity documents relate to the payment of principal and interest on the bonds or bank bonds. Following a finding or ruling, only government authorities and/or courts with appropriate jurisdiction over the bond transaction being rated are considered. Challenges by the issuer or obligor are those made officially through a formal written action. A governmental authority or a court with jurisdiction over the issuer or obligor imposes restrictions that negatively affect parity debt (for example, debt moratoriums or debt restructuring, debt adjustments, or comparable extraordinary restrictions). Such imposition is as a result of a finding or ruling by the government authority or court. Dissolution of the issuer as a result of reorganization without any assumption of all debt obligations, excluding the support provider's preference to the party assuming the debt. A final non-appealable court judgment that is not satisfied by the obligor within 60 days of the final judgment. Bond payments are declared taxable in the U.S. by the IRS. Events that we do not consider remote include a failure to pay fees under the liquidity facility or other transaction documents; a failure to pay any subordinated debt or debt not rated by S&P; Global Ratings; and a covenant default that leads to termination without notice of the bank's obligation to purchase tendered bonds. Ratings-based ATEs Liquidity facility agreements may contain an automatic termination provision if we lower the rating on the obligor to below investment grade (i.e., below 'BBB-') for credit-related reasons, or suspend or withdraw it. There are three possible outcomes in that event: If transaction circumstances lead to the termination of the put option (i.e., a loss of put option), the short-term rating that reflects the demand feature of the rated debt is withdrawn. If the put option continues to exist and under the agreement the obligor may, but is not obligated to, fund the put, we also withdraw the rating to reflect optionality in the agreement. If, under the agreement, the obligor remains committed to honor the put, the short-term rating, if any, is maintained under our sector-specific (i.e., U.S. public finance) criteria. The initial rating in table 4 (the rating threshold of 'A') refers to the point in time when the transaction is first rated by S&P; Global Ratings, not any subsequent rating upon a remarketing (for example, following enhancement changes). Table 5 illustrates how short-term ratings on a SBPA-supported obligation could transition assuming the initial rating on the obligor is 'AA-/A-1+', reflecting ratings-based automatic termination. Table 5 Short-Term Rating Transitions On SBPA-Supported Obligation REFLECTING RATINGS-BASED AUTOMATIC TERMINATION PERIOD A. OBLIGOR RATING (LT/ST) B. SBPA BANK RATING (ST) C. ST OBLIGATION RATING=LOWER OF A&B; D. ST OBLIGATION RATING=LOWER OF A&B; Example 1: Put feature ceases to exist when ATE is triggered or is an optional obligation of obligor. Example 2: Put feature remains a committed obligation of obligor when ATE is triggered T+0 (initial issuance) AA-/A-1+ A-1+ A-1+ A-1+ T+1 A/A-1 A-1+ A-1 A-1 T+2 BBB/A-2 A-1+ A-2 A-2 T+3 BBB-/A-3 A-1+ A-3 A-3 T+4 BB+/B N/A ATE triggered = NR* ATE triggered = B§ *The short-term obligation that the short-term rating speaks to ceases to exist. Therefore, we withdraw the short-term rating. §The short-term rating reflects the short-term obligation of the obligor, which is assessed under sector-specific (i.e., U.S. public finance) criteria. SBPA--Standby bond purchase agreement. LT--Long-term. ST--Short-term. ATE--Automatic termination event. NR--Not rated. Section 5: Application Of Other Criteria Specific considerations are relevant when applying other criteria that cover third-party supported transactions (see the Related Criteria section). To assess the sufficiency of support provided in a transaction structure (see Section 3 for details), we analyze its flow of funds under our global cash flow criteria. Under our operational risk criteria, we assess whether the structure explicitly describes and assigns responsibilities that, if not performed as agreed upon by key transaction parties (KTPs), may adversely affect the rating. Table 6 provides examples of how we apply our operational risk criteria to specific aspects of structures analyzed under these criteria. The counterparty risk framework does not apply where counterparty risk (for example, bank account risk) is managed by the underlying corporate or government obligor, typically in LOC- or SBPA-backed structures. The counterparty framework is relevant when structures use a special purpose entity. See table 6 for examples of how we apply our counterparty risk framework and temporary investment criteria to specific aspects of structures analyzed under these criteria. Table 6: Other Criteria Assessments Operational Risk Assessments Factor Trustee is an administrative key transaction party (KTP). Assessment We assess whether the trustee is explicitly instructed to draw according to facility terms. Factor Remarketing agent may be classified as an administrative KTP. Assessment We assess whether investor's notice of optional tender is given to the remarketing agent and/or if the remarketing agent holds remarketing proceeds prior to draw time. Factor Any entity holding remarketing proceeds is a KTP. Assessment We assess whether the KTP commits to transfer proceeds prior to resignation or removal. Factor A KTP could require an indemnity as a condition for fulfilling responsibilities that are necessary for the financing to perform. Assessment We assess whether the requirement is independent from any such operations (such as draws on a facility, debt acceleration following an event of default). Counterparty Risk Assessments Factor Commingling of funds may pose a risk, depending on the account into which liquidity and remarketing proceeds are deposited. Assessment We review account ownership to confirm that relevant amounts are held in the trustee's name for the investors' benefit. We consider whether any other funds could be commingled in the accounts. If there are several or joint supporting parties, we assess commingling risks for each repayment source. Temporary Investment Assessments Factor Guidelines for investing idle cash may create market value exposure. Assessment Cash on hand, including remarketing proceeds, LOC and liquidity draws, or obligor monies received by the trustee before a debt payment date are invested on a short-term basis in temporary investments that do not bear market value risks. APPENDICES Appendix 1: Analyzing Recapture Risk Recapture risk may be present in standby LOC-supported transactions and in other transaction types if debt payments to investors are made by the underlying obligor. This appendix covers the various forms of claw-back risk that can take place in the U.S., where these transactions are typically domiciled, and some of the common mitigating factors. Recapture risk in LOC-supported debt: direct-pay, prioritized direct-pay, and standby LOC In a direct-pay structure, funds drawn under the LOC are the first source for repaying investors; therefore, recapture risk is not present. Obligor funds reimburse the support provider, and investors are paid only with support provider funds. In a prioritized direct-pay structure, investors are vulnerable to recapture risk because LOC funds are a secondary payment source available to be drawn upon if the primary source of funds is insufficient. The obligor is the primary source of funds. In transactions governed by U.S. law, mitigation of the risk consists of making funds "preference-remote." The process often involves a trustee, which represents investors, by: Paying the debt with obligor funds that were aged for the appropriate preference period before being used to pay investors, and Verifying that the obligor did not become bankrupt during the aging period. In a standby LOC structure, investors are vulnerable to recapture risk because they are usually paid first with obligor funds that may not be aged or otherwise preference-remote. LOC funds are used to cover payment shortfalls. Therefore, in transactions governed by U.S. law, we review whether the support agreement and other transaction documents include provisions requiring the support provider to pay, on the investors' behalf, monies that are clawed back from investors as preferential transfers in a bankruptcy of the obligor. Such provisions shift preference risk from investors to the third-party support provider. Considerations for the analysis include assessing the maximum aggregate amount of debt service payments that may be subject to recapture (to verify that the standby LOC will be sufficient to cover them) and evaluating the risk of recapture after the debt has been fully repaid. Regarding the risk of recapture, we assess whether transaction provisions require the trustee to continue performing its duties and make third-party support available to be drawn until no risk of recapture remains, including following the final obligor payment. (An example of this is after the longest applicable preference period has expired and the trustee has received a certificate of "no bankruptcy filing" from an authorized officer of the obligor.) Funding sources that mitigate obligor-related recapture risk in transactions governed by U.S. law include: Initial debt sale proceeds; LOC draws, provided the LOC is subject to International Standby Practices (ISP) 98, or the LOC provider explicitly has agreed to make payments with its own funds; Remarketing proceeds, if restricted (see below); Funds held by the trustee for at least 90 days or the applicable preference period (for example, one year if payments are to "insiders," as defined by the U.S. Bankruptcy Code [the Code]), during which time there has not been a bankruptcy filing by or against the obligor; Insurance proceeds paid directly to the trustee, as a beneficiary (on the investors' behalf) of an insurance policy; Proceeds from a refunding debt issue; and Other monies, if accompanied by a preference opinion by a nationally recognized bankruptcy counsel concluding that payments to investors from a specified source of funds would not be preferential transfers. Transactions that include put options Recapture risk may exist when rated debt includes an investor put option where a tender occurs and the LOC or SBPA provider funds any deficiencies caused by failed remarketings, depending on the sources of funding used to settle the put. Usually in such structures, a remarketing agent will remarket any securities that have been tendered, and the proceeds of the remarketing are the first source for funding principal and interest payments (purchase price) to tendering investors. In most cases, the transaction documents restrict the remarketing agent (i.e., the broker-dealer) from remarketing debt to the obligor and the issuer, if they are different, as well as to any of the obligor's guarantors and affiliates. In transactions governed by U.S. law, the remarketing agent may, however, purchase tendered debt for its own account and at its sole discretion, paying investors with its own funds, and then resell the debt to any potential buyer (including the obligor). Tendering investors would not be exposed to preference risk as a result of the obligor's bankruptcy because they would have received a payment from the remarketing agent's own funds, as opposed to a payment from the obligor. New third-party support of previously issued debt Recapture risk can occur in the U.S. when an obligor grants the LOC provider new or additional collateral for: Agreeing to support previously issued but unsecured or undersecured debt (such as by providing additional credit support following the deterioration of preexisting credit support), or Replacing a departing provider (i.e., LOC substitution). We may request legal opinions to address the issue. Optional redemptions In some transactions, payments due to investors (i.e., principal, interest, and/or premium) upon an optional redemption are not supported by a support provider and this creates potential recapture risk, depending on the payment source. We review whether transaction documents include certain restrictions for the trustee in order to mitigate the risk, such as: The trustee cannot send a notice of optional redemption to investors unless it has enough preference-remote funds on deposit; The trustee cannot send an optional redemption notice unless it explicitly conditions the redemption on the trustee to have sufficient preference-remote funds to make the redemption payment by the scheduled redemption date; or The trustee cannot send an optional redemption notice unless it states that a redemption will occur only if sufficient preference-remote funds are available. Standby LOCs The extent to which recapture risk is sufficiently covered depends on the following factors: Loan agreement (or equivalent document) payment due dates; Loan agreement grace periods for curing obligor payment defaults; The longest applicable recapture period; The sum of all payments (including principal) that could be due under the loan agreement during the longest applicable recapture period; and If the LOC does not reinstate following a draw, the provisions for and timing of remedies to repay investors (for example, acceleration following an event of default due to trustee notice of obligor bankruptcy or loan agreement payment default) relative to the date of obligor bankruptcy. (Appendix 2 includes a worked example.) Insured liquidity facilities Bond insurance policies typically cover scheduled payments of principal and interest. If a payment event is not a scheduled event (such as an optional redemption), we review whether such optional redemption is made with preference-remote monies. Additional considerations When the obligor is a U.S. entity, we generally view recapture risk as limited to preference risk under section 547 of the Code. Under section 547 of the Code, a bankrupt debtor's estate may void and recapture certain property transfers, potentially including payments made by the debtor to service and/or repay existing debt. Transferred funds may be subject to recapture if they were made during the 90 days (one year, if payments are to "insiders," as defined in the Code) that preceded the debtor's bankruptcy filing. Therefore, there may be a risk that debt service payments to investors in U.S. law-governed LOC-supported debt may be recaptured as a voidable preference if an obligor becomes bankrupt. This does not apply when the obligor is a municipality under Chapter 9 of the Code because debt payments by municipalities are not subject to recapture according to Code section 926. We analyze recapture risk of LOC-supported debt secured by additional rated sources of credit support (for example, an LOC with bond insurance or a fronting LOC with a confirming LOC). The insurance policy, confirming LOC, or rated obligor typically does not cover a direct-pay LOC bank's insolvency risk. However, we usually assume that preference risk arising from LOC bank insolvency is remote in the U.S. We generally view the risk that funds drawn under an LOC issued by a U.S. bank will be recaptured as remote, regardless of whether the bank is FDIC insured. Depending on the particular facts and circumstances we may request a legal opinion that addresses this issue in any given case. Non-U.S. banks (including their U.S. branches) may be subject to the general bankruptcy provisions or bank-specific statutes that apply in their particular jurisdictions. Non-U.S. statutes often require, as a precondition of a preferential claw-back, knowledge by the payee of the payor's insolvency at the time the payment was made. Multiple jurisdictions and governing laws might be involved when a non-U.S. bank is the LOC provider, and we may request legal opinions addressing recapture risk in these situations. Appendix 2: Worked Example--Assessing Sufficiency Of Coverage The example below illustrates the potential size of the maximum exposure in a worst-case scenario, when assessing sufficiency of coverage under Section 3. The main components of a worst-case scenario (LOC structure) are: Maximum bond coupon days; Potential notice timing under the LOC; and Potential remedy time to full bondholder payout should the LOC not reinstate. Sample Interest rate mode: Weekly rate mode, monthly interest. Payable on the first Thursday of a month ("a name day"), the interest payment date (IPD). LOC reinstatement provisions: Interest reinstates on the ninth day unless notice is received by the eighth day that an event of default has occurred under the reimbursement agreement directing either a mandatory tender or acceleration. The LOC will terminate 15 days after receipt of notice. Bond document provisions: Acceleration: Declare acceleration immediately upon receipt of notice from the bank. Interest ceases to accrue upon declaration of acceleration. Mandatory tender: Tender no later than the third business day following receipt of notice. Worst-case scenario: IPD to IPD: 35 days. Depending on the transaction details, interest coverage stresses will utilize different months of the year. Typically, we use the months of January and September in a monthly pay structure because these months have U.S. holidays that stress the maximum days between IPDs. Notice period: 12 days. Bank notice is eight days. However, unless the transaction documents state that notice must be received by the close of business on the eighth day, we will assume that the bank may send notice at any time on the eight day, which may be after the close of business. While performance will only occur on a business day during regular business hours, we assume calendar days, unless business days are stated. Under this stress scenario, we will consider the trustee's receipt of bank notice to be the next subsequent business day and will then proceed to take action as outlined in the transaction documents. In our example, this is the Tuesday after Martin Luther King Jr. Day in January, hence 12 days. "Remedy" time (the time before the bonds are paid out): Acceleration is declared on the date of notice receipt (with interest ceasing to accrue on the date of declaration)--48 days. Mandatory tender is the third business day after receipt of notice--51 or 50 days, depending on whether the transaction documents state when interest accrues vis a vis the mandatory tender date. (Our stress scenarios assume that interest accruals will include the mandatory tender date unless stated in the transaction documents that interest accrues up to, but not including, the mandatory tender date.) Assessment: Depending on interest accrual vis a vis the mandatory tender date, the worst case scenario is 51 days of interest coverage when interest accrual includes the mandatory tender date and 50 days of interest coverage when interest accrual does not include the mandatory tender date. Appendix 3: ATEs For Insured Liquidity Facilities We generally consider that ATEs based on events 1-5 and 7 below are remote or already factored into the underlying ratings. Event 6 reflects a ratings-based ATE (see Section 4 for details). 1. Insurer declaration of insolvency or admission of inability to pay its debts in writing, or a proceeding is commenced against the insurer by an oversight body or court of appropriate jurisdiction, the effect of which would be to declare the insurer insolvent. 2. Insurer default under any bond insurance policy, fee surety bond associated with the issue, or surety bond issued by the insurer that insures or supports the payment of principal and interest on municipal obligations. 3. Issuer substitution of the insurer or cancellation of the insurance policy without the liquidity bank's written consent, provided that a corresponding covenant requiring the issuer to receive the liquidity bank's consent is included in the documents. 4. Insurer contests or repudiates the validity or enforceability of the bond insurance policy, or fee surety bond associated with the issue, or any provision thereof affecting the obligation of the insurer to pay thereunder. 5. A finding or ruling by a court or governmental authority with jurisdiction to rule on the validity of the bond insurance policy that the policy, or any provision thereof affecting the obligation of the insurer to pay thereunder, is not valid and binding on the insurer. 6. We suspend, withdraw, or lower the rating on the bonds to below investment grade (below 'BBB-') for credit-related reasons. 7. The IRS declares that the bonds being rated are taxable. Another possible payment event is acceleration of the debt. However, unless specifically noted in the bond insurance policy, insurers will not fund accelerated debt unless the acceleration happens with their prior written consent. Therefore, the trust agreement typically states that acceleration can only occur with the bond insurer's prior written consent. Special mandatory redemption of bonds held by the liquidity facility provider is another payment event. However, unless specifically covered under the bond insurance policy, insurers will not fund this special mandatory redemption. Therefore, the endorsement or rider to the bond insurance policy evidences coverage of this redemption. Appendix 4: Product-Specific Examples And Application Variable-rate demand obligations (VRDOs) A VRDO is usually multimodal (meaning it allows for different interest rate modes taking place simultaneously), with an embedded demand feature (such as a put option). VRDOs can be supported by an LOC or a liquidity facility--usually a standby bond purchase agreement--and are sometimes supported by two or more rated parties. In LOC-supported VRDOs, both the short- and long-term ratings are directly linked to the ICR on the LOC provider (see charts 1 and 2 for examples). Similarly, the short-term rating assigned to LOC-supported commercial paper (CP) reflects the ICR on the LOC provider (CP is often a mode in VRDOs). Chart 1 Chart 2 In order to enhance liquidity to fund tenders, a liquidity facility can be provided to fund the purchase price of bonds that cannot be successfully remarketed, typically via an SBPA. In these structures (see chart 3), the short-term rating is the lower of the rating on the support provider and the short-term equivalent of the long-term rating on the issuer (or the short-term rating, if available). The long-term rating is not supported by the SBPA and simply reflects the rating on the issuer. Chart 3 TOBs Tender option bonds (TOBs) are secondary-market derivative products. Tax-exempt USPF debt obligations are typically deposited into a specially instituted trust and the tax exemption is passed on to the trust. If the underlying assets are taxable, then the certificates issued by the trust will also be subject to taxes. Underlying USPF deposits can come in various forms, typically as deposited municipal bonds, notes, leases, custodial receipts, or anticipation notes. The trust, in turn, issues synthetic floating-rate receipts with a tender option (referred to as "synthetic floaters") and inverse floating-rate receipts (referred to as "residuals"). TOB floater and residual certificates may only be marketed to qualified purchasers (see chart 4 for a typical TOB structure). Chart 4 A floater's tender option is supported by liquidity, and, in some structures, the underlying collateral is also supported via an LOC or a municipal bond insurance policy (see chart 5).

Joint support applies when the underlying rated collateral is enhanced by an LOC via a custodial receipt arrangement (see chart 6). The enhanced custodial receipt is then the underlying collateral for the TOB trust. We assign a dual rating to synthetic floaters. The liquidity facility provides coverage for unremarketed tendered floater receipts. We assign only a long-term rating to the residual certificates. The long-term rating on floaters is based on the rating of the underlying obligation. The rating addresses the likelihood of the holder receiving par plus any accrued interest based on regularly scheduled principal and interest payments from the underlying obligation. S&P; Global Ratings' municipal ratings do not address the likelihood that the interest payable on the receipts or the underlying bonds may be deemed or declared includable in the gross income of synthetic floater holders by the relevant authorities at any time. The ratings also do not address the likelihood of the obligor making any payments in excess of principal and interest, such as premium on redemption payments from the underlying obligations or gain share payments. When a TOB trust contains multiple assets (subject to limits on multiple assets discussed below in Appendix 5), the long-term rating on the trust certificates reflects the lowest-rated asset in the trust. The long-term rating on residuals addresses timely payment of interest and full payment of principal. Residuals do not have a tender option and the long-term rating on the residual reflects the rating on the underlying obligation. Interest paid to residual holders generally equals the "leftover" or "residual" interest collected on the underlying obligation, following the payment of interest to the floater holders, minus any fees and any reimbursements owed to the liquidity provider. When proportionality between the floater and residual holder is adopted, such interest is measurable, but may be low or zero given a maximum floater interest rate. Chart 5 Chart 6 Appendix 5: Specific Rating Considerations For TOBs Trusts that contain 10 or more differently issued underlying securities are not in scope of these criteria. The linkage approach under these criteria is intended for trusts with five or fewer assets. We analyze trusts that have more than five (but fewer than 10) assets on a case-by-case basis. We consider the degree of correlation between assets. If the assets are likely to be highly correlated, we may still apply the linkage approach. If not, we may consider alternative approaches that would likely produce a rating outcome that is lower than that of the lowest-rated asset in the trust. Further considerations for linkage analysis in a defeasance situation (Section 1) When the underlying asset in a TOB structure is fully or partially defeased and the certificates are not fully called, the outstanding rating on all floaters and residuals may be withdrawn. If the defeased underlying bonds are assigned an escrow rating, the rating of such defeased underlying bonds is reflected in our rating on the TOBs. Further considerations for sufficiency of support (Section 3) Sufficiency of coverage of principal and interest.Some liquidity structures involve an additional party who may voluntarily step in ahead of the liquidity provider to purchase certificates. Regardless of the form, we assess whether the rated liquidity provider agrees to fund the full par and accrued interest on a given purchase date. Given this additional support is optional, it does not factor into the ratings assigned. If the underlying obligations are variable-rate interest obligations, we assess whether the interest paid to the trust is subject to a cap and account for both fixed and variable underlying obligations when analyzing the TOB interest rate setting mechanism for sufficiency of coverage by liquidity. We assess potential document-related timing risk that may be caused by mismatches between the date the interest rate is set for the trust versus the variable-rate underlying obligation. Additional TOB debt.Issuance of additional debt can result in the trust being undercollateralized or can alter the composition of the existing underlying collateral. Common mitigants (meaning preconditions to additional issuances known as "bond criteria") that we assess are: The additional collateral is from the same bond issue as the existing collateral, and The additional collateral relies on the same principal credit source, has the same interest payment date, and the same rating as the existing collateral. Further considerations for support termination risk (Section 4) Tender option termination events (TOTEs).Upon specified TOTEs occurring in a TOB structure, the floater holders' tender option terminates, the liquidity facility terminates, and the trust winds down after a grace period of generally five days. In such an event, the certificate holders either receive liquidation proceeds from the sale of the underlying collateral and/or a payment in kind, and we assess that the orderly distribution of assets results in a full payment of par and accrued interest on the certificates. Our analysis assumes that payment of principal and interest is made pari passu with the senior-most class in the capital structure. In the event of a payment in kind, we review that the documents provide for a pro rata distribution of the share of the underlying obligation. The liquidation of underlying obligations to pay noteholders can introduce market value risk to holders. Common mitigants include a liquidation test in which the trustee ensures that the bids solicited by the remarketing agent are sufficient to cover full par plus accrued interest and trust fees. Otherwise, the trustee is directed to distribute the securities in kind. In addition to sufficient proceeds, we assess whether there are any timing or other operational issues related to the solicitation of bids or liquidation of the securities that could affect a timely payment to holders in the event of termination (see Sections 3 and 5 for further details). Certain TOTEs lead to termination without notice. The following events speak to credit deterioration of the underlying deposit and a change of tax status, and include ratings-based events subject to the rating threshold (see Section 4 for further details): The issuer of the underlying obligation fails to pay principal or interest when due, and such failure is not cured during any designated cure period (if applicable). If the bond rating is based on credit enhancement, payment default is limited to the credit enhancement provider. If the rating on the underlying obligation is based on the application of joint-support criteria, then the TOTE cannot occur until both entities providing support fail to pay principal and interest when due and such failure is not cured during any designated cure period (if applicable). The issuer of the underlying obligation files for bankruptcy. If the obligation's rating is based on credit enhancement, bankruptcy is limited only to that of the credit enhancement provider. If the rating on the underlying obligation rating is based on the application of joint-support criteria, bankruptcy applies to both entities providing support. The underlying obligation is deemed taxable. S&P; Global Ratings' rating on the underlying obligation falls below investment grade (below 'BBB-'). We rate the receipts only if they are derived from underlying obligations that, at the time of the initial trust rating, have an enhanced, unenhanced, or jointly supported rating of at least 'A' or higher (the rating threshold); this is the same as our approach for ATEs in SBPA. We consider the initial trust rating to refer to the point in time when the trust is first rated by S&P; Global Ratings and not any subsequent ratings that may be related to future remarketings. Mandatory tender events (MTEs).Mandatory tender events are typically triggered by noncredit-related events and can cause the trust to unwind. They can pose a risk to the appropriate collateralization of residual receipts. This is because the direction by the liquidity provider to sell the underlying assets prior to drawing on the liquidity facility can result in sale proceeds that are only sufficient to cover the floater certificates. When rating residuals, we assess whether all the underlying assets are sold and whether a related amount of underlying assets, up to the residual allocated share, is set aside to cover the residuals (known as "reserve bonds"). Residual holders can elect to subordinate payments due upon certain MTEs where funds are directed to the liquidity provider in reimbursement. In these circumstances, we consider subordination to be consistent with our repack criteria (see below) because the residual holders are still entitled to their funds at an appropriate nonsubordinated place in the payment waterfall and actively choose to direct the money. Further considerations for application of other criteria (Section 5) Repack criteria.These criteria apply to TOBs in conjunction with our global methodology for rating repackaged securities. Certain types of USPF deposits may not be consistent with our repack criteria (for example, perpetual assets that expose investors to market value risks and equity deposits). Custodial analysis covered in our repack criteria is relevant when rating TOBs. A custodial arrangement with credit enhancement in the form of an LOC may be used where the underlying bond does not meet the trust's documented rating threshold (joint support may apply in this case). Given the nature of TOBs' custodial structures, their analysis focuses on whether the underlying assets deposited are: Irrevocable; Free and clear of any lien or encumbrance; Not commingled with other assets; and Maintained in a separate designated account for each issue, where cash flows are available to make timely and sufficient payments to holders regardless of fees payable. Consistent with repack criteria, we assess that the authorized denomination of the underlying obligation is the same as the authorized denomination of the synthetic floaters--such that the underlying obligations do not accrue sufficient interest because of the occurrence of a prepayment. Further considerations--nonstandard underlying assets Nonstandard forms of USPF deposits are evaluated on a case-by-case basis. They can pose additional risks, such as denomination mismatches, reset dates on variable underlying obligations, the analysis of bankruptcy remoteness, or potential tax and legal implications of debt versus equity. Potential mitigants include a final maturity date upon which the underlying securities pay the stated amount of principal assigned at issuance, and structures providing credit enhancement to pay full and timely principal and interest regardless of underlying security payment deferrals. An example of these structures includes zero-coupon capital-appreciation bonds. We assess whether the issuance schedule contains a forward-looking schedule of placed receipts in advance of the payment date, and if the trust documents contain take-out provisions prior to the payment date if receipts cannot be successfully placed. We consider whether liquidity automatically increases in coverage by the amount of additional floater receipts issued and interest due on any payment date in accordance with the accretion schedule. Appendix 6: Glossary The following glossary comprises terms frequently used in S&P; Global Ratings' analyses of VRDOs and TOBs. The definitions are limited to how these terms apply when reviewing these types of securities. Glossary TERM DEFINITION Acceleration Immediate maturity and repayment of bonds before their legal maturity. Assignment of obligation When the bank makes a transfer or conveyance of its payment obligation to another institution. ATE Automatic termination event. Associated with immediate termination of an SBPA without notice. Automatic stay An automatic injunction that halts, with certain exceptions, creditors' actions to collect debts from a debtor who has entered into bankruptcy. Bank bonds Bonds purchased by the supporting third party under the terms of the SBPA or LOC. Not considered outstanding and covered by the facility until remarketed. Also known as "pledged bonds." Bankruptcy remote We view an SPE as "bankruptcy remote" if it is structured to minimize the risk that it will voluntarily or involuntarily file for bankruptcy in accordance with our legal criteria. Bankruptcy remote transferors Entities that we view as bankruptcy remote, even though they are eligible to be debtors under the U.S. Bankruptcy Code, such as municipalities, public-purpose entities, or SPEs. Bankruptcy remoteness Refers to the likelihood that a voluntary or involuntary bankruptcy filing will be made (bankruptcy remote does not mean bankruptcy proof). Clawback risk A term generally used to describe the risk that a transfer of funds, transfer other assets, or entry into certain transactions that occurred within a specified period preceding insolvency (sometimes referred to as a look-back period or suspect period) would be susceptible to the risk of being reversed or declared void post insolvency. Confirming LOC Backstop secondary LOC, typically used as second source of funding following a payment shortfall from a fronting bank. Conversion The act of converting or changing the interest rate mode from one mode to another. Covenant default Failure to comply with a given term or promise under an operating document. Credit cliff risk Third-party enhancer terminates prior to remedy and draw, leaving the investors without a rated funding source. Credit support facility A third-party enhancer that covers scheduled debt service payments, including redemption price, maturity, and acceleration. Creditor A person or company to whom money is owed. Custodial receipt A receipt that represents ownership of certain assets held by a custodian. Typically enhanced with an LOC and used as the underlying asset in a TOB structure. Custodian Typically, the role is to hold collateral, including bank/pledged bonds. In a TOB-related structure, the custodian's role is to also draw on credit support instrument. Debtor A person or company that owes a sum of money. Defeasance An existing bond issue is defeased or refunded when enough collateral--often funded by new debt--has been set aside to make all future payments on the existing bond issue. Typically, the collateral is deposited into an escrow account and the escrow agent applies the collateral cash flows as bond payments come due. A partial defeasance is when some, but not all, of the bond is defeased. Delaware trust A trust set up for business purposes under Delaware statutory trust law. Depositor The entity depositing an asset into a trust in a secondary market transaction. Direct-pay LOC Funds drawn under the LOC are the first source for repaying debt service. Dual ratings Dual ratings reflect debt issues that have a put option or demand feature. The first component of the rating addresses the likelihood of repayment of principal and interest as due, while the second component addresses only the demand feature. The first component of the rating can relate to either a short- or long-term transaction and, accordingly, use either short- or long-term rating symbols, while the second component to the put option and is assigned a short-term rating symbol (e.g., 'AAA/A-1+' or 'A-1+/A-1'). With U.S. municipal short-term demand debt, U.S. municipal short-term note rating symbols are used for the first component of the rating (e.g., 'SP-1+/A-1+'). Eligible bonds Bonds that are enhanced by credit and/or a liquidity provider. Floaters Certificates with tender option (similar to primary market VRDOs) that are typically secured by a liquidity facility, which provides coverage for unremarketed tendered receipts. A dual rating will typically be assigned. Fronting LOC First source of payment that fully supports repayment of the debt. Funding commitment The finite amount that the LOC or liquidity provider contractually provides for coverage. Gain share A predetermined gain/excess that is shared between certificateholders in a TOB, typically determined to be 80% of the remaining life of the underlying bonds. Payment is made on the gain share date. Grace period The number of days stated in a TOB transaction before a TOTE can be declared. Insolvency The state of being insolvent or inability to pay one's debts. Interest payment date Date of payment for regularly scheduled interest. Interest rate mode The mode in which the interest rate is determined on a bond. Typically daily rate, weekly rate, monthly rate, quarterly rate, semiannual rate, and fixed rate. Interest reinstatement or nonreinstatement of interest Typically, the terms that state when interest coverage reinstates after an LOC interest draw. The terms for reinstating interest coverage are important because the LOC provider usually provides limited interest coverage (e.g., coverage for only one interest accrual period). Therefore, if the provider does not reinstate interest coverage, the LOC may terminate or lack the coverage required to fully honor a future interest drawing. ISP 98 International standby practices that govern standby LOCs. Joint support When two or more parties are contractually committed to irrevocably provide full and timely debt service payments on an obligation and each party has a public long-term rating. (Assessed under our criteria, "Methodology And Assumptions For Rating Jointly Supported Financial Obligations," published May 23, 2016.) KTP Key transaction party. A party integral to the function of the transaction with administrative responsibilities. Typically a trustee, tender agent, remarketing agent, custodian, administrative agent, and/or Delaware trustee. Limited recourse In a TOB structure, recourse is limited to the assets of the trust. Liquidity support facility A facility provided by a bank that is used to fund tenders typically following a failed remarketing. LOC Letter of credit. An irrevocable facility used to provide credit and/or liquidity support. LOC substitution Replacement of a departing LOC provider. Required draws are made on the departing LOC provider. Mandatory redemption A call provision that requires an issuer to redeem/repay the bonds at par plus accrued interests prior to maturity. Debt is extinguished. Mandatory tender Issuer-caused tender of the bonds for certain events such as facility expiration, substitution, and events of default. Bonds are subsequently remarketed. Debt is not extinguished. Market risk Market exposure that may reduce the market value of a bond. Exposes bondholders to the risk that their repayment would be based not on par plus accrued interest, but rather the current market value of the bond at a given time. Maximum rate The ceiling rate of interest coverage on the eligible bonds. MFN Most favored nation. A provision that permits covenants or terms from another transaction to become automatically incorporated into another agreement. Multimodal A variable-rate structure that allows for different interest rate modes simultaneously. New York common law trust A trust set up under New York trust law. NonCon Nonconsolidation opinion. An opinion that provides that, if the seller were to become bankrupt, a court would hold that neither the purchaser nor its assets and liabilities would be substantively consolidated with the seller. Nonpetition All creditor parties in the transaction (e.g., servicer, trustee, or liquidity provider) agree not to file the conduit into bankruptcy before one year and one day after the rated debt is paid off. Reduces any incentive parties might have to file a claim against the trust and cause the trust to enter bankruptcy. Open market transfer A type of sale considered to be an arm's length transaction between nonaffiliated parties. The seller received payment in full at the time of the transfer and did not receive any securities issued in the transaction as payment. Optional redemption Allows the issuer to optionally redeem/repay the bonds at par plus accrued interest prior to maturity. Debt is extinguished. Parity debt Obligations that are secured by the same lien, equal in payment rights, and seniority. Participation interest When the bank grants an interest in its payment obligations to another institution. The granting bank looks to the participator to assume a portion of its obligation. Partnership trust Relationship between two or more parties who share profits and losses. Typically created for income tax purposes. Preference risk, preferential transfer, and voidable preference Under Section 547 of the U.S. Bankruptcy Code, certain property transfers that a bankrupt debtor made during certain period prior to its bankruptcy could be deemed a preferential a transfer, and the bankrupt debtor's estate may void and recapture those property transfers, which may include payments made by the debtor to service and/or repay existing debt. Similar preferential transfer and recapture risk may exist under the insolvency regime of other jurisdictions. Primary market Generally refers to the market of debt directly issued by the issuer. Contrasts with the "secondary market," which is characterized by the resale of primary market debt. Principal credit source Credit support provider supporting payments on the underlying assets in a TOB structure (e.g., bond insurance or letter of credit). Prioritized direct pay LOC funds are a secondary payment source available to be drawn on if the primary source of funds is not enough to pay debt service. Purchase in lieu of redemption The borrower/obligor purchases the bonds instead of redeeming the debt. Bonds purchased by the obligor and not cancelled are typically no longer considered eligible bonds. Purchase period The effective date to the last possible date that the facility is obligated to fund. Purchase price Principal and interest payments paid to tendering holders. Qualified purchaser Generally refers to an individual or a family-owned business that owns $5 million or more in investments. Quotation of bond price The bidding process used in a TOB structure to determine the sale price of underlying bonds. RAC Rating action confirmation. Recapture risk and recapture period The term "recapture" generally covers the risk that debt service payments made by an obligor during a certain period prior to its bankruptcy filing may be clawed back from investors. "Recapture period" refers to the period prior to an obligor's bankruptcy filing during which a payment by the obligor was subject to the recapture risk (typically 90 days or one year under the U.S. Bankruptcy Code). Refunding debt issue An issuance whose proceeds are used to pay off an existing series of debt. Reimbursement agreement A legal agreement, typically between the issuer/obligor and the bank, where the issuer/obligor agrees to reimburse certain expenses incurred by the bank. The reimbursement agreement usually contains bank considered events of default, remedies, participation interests, and assignment language. Related documents Related documents typically include the bond documents, liquidity documents, remarketing agreement, trustee fee letter, etc. When reviewed in conjunction with an SBPA analysis, applicable related documents are those that have provisions relating to the payment of principal and interest on the bonds being rated. Remarketing proceeds Tendered bonds successfully sold by the remarketing agent. Residuals Inverse floaters with no put option. Only a long-term rating will typically be applied. Rollover proceeds Proceeds/payments from maturing commercial paper. SBPA Standby bond purchase agreement. A revocable and conditional liquidity facility used to backstop the purchase price following a failed remarketing. Secondary market A broad term used to describe the resale of issued primary market debt. Separateness covenant Designed to provide legal comfort that the SPE will operate as an independent entity and mitigate the risk that a court may order the substantive consolidation of the SPE or apply a similar remedy. SPE/SPV Special-purpose entity/special-purpose vehicle. A legal entity created to fulfill narrow, specific, or temporary objectives, typically used by companies to isolate the firm from financial risk. Standby LOC Structure in which investors are usually paid first with obligor funds. LOC funds are used primarily to cover payment shortfalls. Suspension event Events of default that cause the obligation of the bank to suspend the obligation to fund tenders. Analyzed like ATEs. Tender option/put option The put option allows the investor to direct a specified third-party (i.e., trustee/tender agent) to purchase the bonds at par plus accrued interests prior to maturity. TOB Tender option bond. Secondary market issuance with a put option. TOTE Tender option termination event. Immediate termination of the put option, including termination of the liquidity support without notice. True sale opinion Provides the issuer's creditors with assurances that, in the event the company becomes bankrupt or insolvent, its creditors will not have access to the assets sold to an SPE. Trustee advance In a TOB structure, moneys paid from the trustee's own funds. May be considered a rating factor if involuntary. UCP 600 The Uniform Customs and Practice for Documentary Credits (UCP) is a set of rules on the issuance and use of letters of credit that was developed and promulgated by the International Chamber of Commerce. UCP 600 is the sixth revision of these rules. Underlying obligor The primary-market underlying obligor in a TOB structure. The rating on the primary-market underlying obligor is the basis for the long-term rating on the TOB certificates. Unqualified purchaser "Unsophisticated" investors with respect to private placements. A sophisticated investor indicates that an investor has met the requirements to purchase certain securities and is knowledgeable in more advanced types of investments. VRDO Variable-rate demand obligations. Typically multi-modal interest modes with a put option. CHANGES FROM PREVIOUS CRITERIA In the analysis of liquidity support, the criteria reference a threshold of 'A' for the initial rating on the underlying obligor or issuer when either of the following includes credit-based events relating to the underlying obligor's loss of an investment-grade rating: The supporting SBPA automatic termination events (ATEs) in a primary market transaction, or Tender option termination events (TOTEs) in a secondary market transaction. Previous criteria set the threshold at 'A+'. The ATE typically results in the investor losing the benefit of a put option, and the short-term rating that speaks to such demand feature is withdrawn (see Section 4 for more details). Based on historical transitions of ratings in the U.S. municipal sector (i.e., the underlying obligors), we believe that an initial rating threshold of 'A' provides ample distance and time for investors to consider rating transitions and performance when potentially exercising the put option. It also allows sufficient time for adequate observation of the performance of short-term ratings assigned under these criteria. The criteria now also clarify that the rating threshold of 'A' applies at the point of initial rating only. The criteria include an additional consideration for any SBPA ATE that includes dissolution (when dissolution does not result from a bankruptcy event). Finally, the criteria made changes to the analysis of pooled TOBs that contain less than 10 assets. The approach is detailed in Appendix 5. For pools containing between six and nine underlying assets, we use a case-by-case approach that is likely to produce a rating outcome lower than the weakest-link approach previously referenced by our pooled TOBs criteria. The rest of the analysis is unchanged from our previous approach under the articles listed in the "Fully superseded criteria" and "Partly superseded" sections. The revised criteria clarify several aspects of our methodology: We merged our LOC criteria with our bank liquidity, SBPA ATE, and third-party derivative criteria to provide greater transparency in the application of common analytical factors; We clarified the criteria scope as pertaining to third-party credit and liquidity support; We included a glossary and worked example; We clarified that we do not maintain ratings under these criteria where the underlying obligations have been fully or partially defeased; such ratings may, however, be analyzed under our escrow criteria; and We clarified the risks that most favored nation clauses can raise. IMPACT ON OUTSTANDING RATINGS The criteria remain largely unchanged, and we therefore do not expect any impact on outstanding ratings. Our expectation of impact is also unchanged from the request for comment. RELATED PUBLICATIONS Fully superseded criteria Methodology And Assumptions For Analyzing Letter Of Credit-Supported Debt, Feb. 20, 2015 Standby Bond Purchase Agreement Automatic Termination Events, April 11, 2008 Secondary Market Derivative Products, June 27, 2007 Bank Liquidity Facilities, June 22, 2007 Partly superseded criteria CDOs And Pooled TOBs Backed By U.S. Municipal Debt: Methodology And Assumptions, April 3, 2012 Related criteria For U.S. public finance sector-specific criteria, see: Table of Contents: S&P; Global Ratings U.S. Public Finance Criteria Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021 Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020 U.S. Structured Finance Asset Isolation And Special-Purpose Entity Criteria, May 15, 2019 Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019 Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017 Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017 Guarantee Criteria, Oct. 21, 2016 Methodology And Assumptions For Rating Jointly Supported Financial Obligations, May 23, 2016 Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014 Methodology And Assumptions For Market Value Securities, Sept. 17, 2013 Global Derivative Agreement Criteria, June 24, 2013 Global Methodology For Rating Repackaged Securities, Oct. 16, 2012 Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012 Principles Of Credit Ratings, Feb. 16, 2011 Structured Finance Criteria Introduced for Cayman Islands Special-Purpose Entities , July 18, 2002 Other related publications S&P; Global Ratings Definitions, Nov. 10, 2021