Article Title: ARCHIVE | Criteria | Governments | General: Methodology For Rating Public And Nonprofit Social Housing Providers Data: (EDITOR'S NOTE: —This article, published Dec. 17, 2014, has been superseded by "Methodology For Rating Public And Nonprofit Social Housing Providers," published June 1, 2021.) 1. S&P; Global Ratings is publishing its methodology for rating social and public housing providers globally. This article is related to our criteria article "Principles Of Credit Ratings," which we published on Feb. 16, 2011. These criteria present a framework for assigning providers' stand-alone credit profiles (SACPs) (see "Stand-Alone Credit Profiles: One Component Of A Rating," published Oct. 1, 2010) and issuer credit ratings (ICRs). These criteria fully supersede "Public And Nonprofit Social Housing Providers: Methodology And Assumptions," published July 11, 2012. SCOPE OF THE CRITERIA 2. These criteria apply to ratings on public and social housing providers globally that we believe primarily fulfill public service missions, rather than seek to maximize profit, and reinvest or distribute any surpluses for public service purposes. Examples of these entities include public housing authorities in the U.S., public housing providers in Sweden and New Zealand, and social housing providers in the U.K., France, Canada, and Netherlands. These criteria do not apply to for-profit entities or associated groups of entities without a public service mission, even if they operate in affordable or social housing markets; such entities are evaluated using "Key Credit Factors For The Real Estate Industry," published on Feb. 26, 2018. SUMMARY OF THE CRITERIA 3. The criteria assign SACPs to social housing providers using a framework that considers seven factors (see chart). Industry risk, economic fundamentals and market dependencies, and market position determine the enterprise profile. Financial performance, debt profile, liquidity, and financial policies inform the financial profile assessment. Each factor is assessed on a '1' (the strongest) to '6' (the weakest) scale. Enterprise and financial risk profiles are based on a weighted average of the assessments for each factor outlined above. 4. We combine the enterprise and financial risk profile assessments to determine an indicative SACP (see table 2). Absent overriding factors and caps (see paragraph 14), the final SACP for a social housing provider will be within one notch of the indicative SACP. 5. Once the final SACP is established, the ICR on the social housing provider will equal the final SACP if the entity is not considered a government-related entity (GRE) or part of a group. If the social housing provider is considered a GRE, the criteria "Rating Government-Related Entities: Methodology And Assumptions," published March 25, 2015, will apply. If the entity is part of a group (generally defined as a parent or ultimate parent, and all the entities over which a parent or ultimate parent has direct or indirect control), we analyze parent/subsidiary links, with reference to "Group Rating Methodology," published July 1, 2019, when applicable. 6. The references to social housing providers in this article generally refer to both social and public housing providers. 7. This paragraph has been deleted. 8. This paragraph has been deleted. METHODOLOGY Determining the indicative SACP 9. The criteria assign SACPs for social housing providers using a framework that considers a provider's enterprise profile and financial profile. The enterprise profile assessment results from our analysis of industry risk, economic fundamentals and market dependencies, and market position. The financial profile assessment results from our analysis of financial performance, debt profile, liquidity, and financial policies. 10. Most factors that comprise the enterprise and financial profile assessments use the concept of an anchor with adjustment factors. One or more quantitative variables common to social housing providers in all countries form the anchor. Adjustment factors will result in the final factor assessment being higher or lower than that suggested by the anchor. Not every adjustment factor will be relevant or meaningful for every provider in every country because of differences in providers' mandates and regulatory or statutory requirements. 11. The enterprise and financial risk assessments are computed by combining and then rounding (per table 1) the weighted average of the individual assessments. Both enterprise and financial profile assessments can range from '1' ("extremely strong") to '6' ("highly vulnerable"). For instance, the combination of industry risk of '2' (30% weight), economic fundamentals and market dependencies of '3' (25%), and market position of '3' (45%) results in a weighted average assessment of 2.7, which translates (as per table 1) to the "strong" enterprise risk category. Table 1 Rounding The Weighted Average Individual Assessments ROUNDED ENTERPRISE/FINANCIAL RISK CATEGORIES WEIGHTED AVERAGE OF INDIVIDUAL ASSESSMENTS Extremely strong (1) 1-1.25 Very strong (2) Greater than 1.25-2.25 Strong (3) Greater than 2.25-3.25 Adequate (4) Greater than 3.25-4.25 Vulnerable (5) Greater than 4.25-5.25 Highly vulnerable (6) Greater than 5.25-6 Note: If the weighted average of the individual assessments is at the high or low end of any of the ranges in the table, we could lower (or raise) the assessment to the next category if we believe any of the individual assessments are likely to deteriorate (or improve), or if they represent a disproportionate credit weakness (or strength). 12. The indicative SACP results from the combination of the enterprise and financial profile assessments (see table 2). When two indicative rating outcomes are listed for a given combination of enterprise and financial profile assessments, we determine the indicative SACP based on: Expected improvement or deterioration in some of the factors composing the enterprise and financial profiles that is likely to strengthen or weaken the housing entity's creditworthiness over time, unless already reflected in the previous analysis (e.g., footnote to table 1), or Our view of the housing entity's credit standing relative to other housing entities with similar enterprise and financial profiles, unless we capture that in the comparative analysis mentioned in paragraph 13. Table 2 Determining The Indicative SACP For A Social Housing Provider --FINANCIAL RISK PROFILE-- --ENTERPRISE RISK PROFILE-- EXTREMELY STRONG (1) VERY STRONG (2) STRONG (3) ADEQUATE (4) VULNERABLE (5) HIGHLY VULNERABLE (6) Extremely strong (1) aaa aa+ aa- a bbb+/bbb bb+/bb Very strong (2) aa+ aa/aa- a+ a- bbb/bbb- bb/bb- Strong (3) aa- a+ a bbb+/bbb bbb-/bb+ bb- Adequate (4) a a/a- a-/bbb+ bbb/bbb- bb b+ Vulnerable (5) bbb+ bbb/bbb- bbb-/bb+ bb bb- b Highly vulnerable (6) bbb- bb bb- b+ b b- Note: For ratings below ‘B-’, see “Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Rating,” published Oct. 1, 2012. Determining the final SACP 13. Absent overriding factors, the final SACP will fall within one notch of the indicative SACP, with the deviations resulting from peer comparisons within the sector. In addition, various caps and overrides (see paragraph 14) can result in the final SACP being different from the indicative SACP. 14. A liquidity or strategy and management (part of market position) assessment of '6' limits the final SACP to no higher than 'bb+', while a liquidity assessment of '5' limits the final SACP assigned to no higher than 'a-'. A start-up housing provider receives a final SACP up to one category lower than that shown in table 2, as does a provider emerging from receivership or government control following financial distress, to account for additional uncertainty in these situations. This gap will generally close over a four-year period as performance informs our view and assessment under the criteria. Determining the ICR 15. If the social housing provider is considered a GRE, we will use the entity's final SACP in applying the GRE criteria to determine the ICR. If the entity is part of a group (generally defined as a parent or ultimate parent, and all the entities over which a parent or ultimate parent has direct or indirect control), we analyze parent/subsidiary links with reference to "Group Rating Methodology," published July 1, 2019, when applicable. 16. If the final SACP is higher than the sovereign rating, we will apply "Ratings Above the Sovereign--Corporate And Government Ratings: Methodology And Assumptions," published Nov. 19, 2013, to determine the final ICR. When pertinent, the rating on a social housing provider will be based on the application of "Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC'," published Oct. 1, 2012. 17. Without the aforementioned adjustments, the ICR on a social housing provider is equal to the final SACP. A. Enterprise Profile 18. The enterprise profile assessment consists of three factors: industry risk, economic fundamentals and market dependencies, and market position. Assessments for each factor range from '1' (the strongest) to '6' (the weakest). The criteria calculate the enterprise profile assessment through a weighted average of the three factors. Industry risk accounts for 30%, economic fundamentals and market dependencies account for 25%, and market position accounts for 45%. Industry risk reflects our opinion of the risk of the social housing industry relative to other industries. It includes a consideration of the ongoing support that this industry traditionally receives from sovereign or local governments. Economic fundamentals and market dependencies receive slightly less weight because the social need for providers endures through economic cycles. Market position receives the largest weight and stems from an assessment of risk based on the quality of management and governance and strategic vision, which is vitally important for these enterprises, and from asset quality and operational performance metrics, which relate to or directly affect cash flow generation. These factors assess the unique competitive risks faced by individual providers that may mitigate or exacerbate traditional industry risks. 19. The relevant credit risks for social housing providers are also influenced by country-specific risks (see "Country Risk Assessment Methodology And Assumptions," published Nov. 19, 2013). Country risk is the risk an entity faces by having some of its operations or assets exposed to one or more countries. Country-specific risks consist of economic risk, institutional and governance effectiveness risk, financial system risk, and payment culture/rule-of-law risk. The country risk assessment is determined on a scale from '1' (very low risk) to '6' (very high risk). As long as the risk assessment of the country in which the social housing provider operates is '3' or better, there is generally no positive or negative impact on the final rating. However, if the country risk assessment were to increase (worsen) to '4' or above, this affects the overall enterprise risk profile. Specifically, if the country risk assessment is '4', '5', or '6', the criteria generally assign an enterprise risk profile of no better than '4', '5', or '6', respectively. 1. Industry Risk 20. The industry risk assessment reflects our view of the risk of the global social and public housing industry as a whole relative to other corporate and not-for-profit sectors. Generally, it does not differentiate individual providers from each other; rather it helps provide transparency into relative levels of risk across industries. Accordingly, all providers of the same type will receive the same industry risk assessment. The industry risk assessment is a combination of individual assessments of cyclicality and competitive risk, adjusted for the supportiveness of government policies toward the industry. Cyclicality assessments range from '1' (the strongest) to '6' (the weakest), based on the degree of revenue and earnings volatility during cyclical downturns. Competitive risk follows the same scale as cyclicality and uses the degree of barriers to entry, levels and trends of profitability, substitution risk, and growth trends in the industry as measures. 21. We currently view industry risk for social housing providers as "low" (equating to an assessment of '2') based on "Methodology: Industry Risk," published Nov. 19, 2013. Economic cycles can sometimes affect social housing providers more than other types of social services because real estate fluctuations can change asset values. Real estate markets can be overbuilt, leading to depressed occupancy rates, rentals, and property values. That said, residential rental markets typically pose less risk relative to other property classes (see "Key Credit Factors For The Real Estate Industry," published on Feb. 26, 2018), and social housing providers' focus on affordable housing typically lends further stability. Competitive risk is fairly low owing to effective barriers to entry in many jurisdictions, minimal risk of substitution, and overall stable trends in growth and margins. Although differences exist across countries, ongoing government subsidies, other support, and oversight generally limit volatility, while the overall importance of the service delivered limits the potential for negative government intervention. 2. Economic Fundamentals And Market Dependencies 22. The roles that social housing providers play globally create different dependencies and relationships to their local economies and real estate markets. Table 3 details our method for evaluating social housing providers predominantly focused on low-income housing, while table 4 details our method for evaluating providers with broader missions that bring greater market connections. When comparing social rents to market rents in table 3, the criteria use similar properties representative of the social housing occupant's demographic with regard to family size and number of rooms, among other factors. When comparing dwelling prices, the criteria use price per square unit where available. Where such data do not exist, the criteria use prices for properties representative of the average occupant's demographic. For providers assessed through table 3, the criteria use market prices rather than market rents because of the greater availability and transparency of price data in most countries and regulations specifying such links in others. 23. Over time, national strategies, regulations, and incentives for social housing providers may change, triggering a change in mission and purpose. Formerly low-income-focused providers may evolve to include a market-based component, while more market-based providers may be called on to support a given demographic, with significant subsidies attached. For low-income social housing providers, when the sustained market-based component of rental activity exceeds 15% of total revenues and where real estate property rental values are relevant to the business, we assess the market-based activity according to that detailed in table 4, and we assess the low income-based activity based on table 3. The final assessment results from an average of the two assessments weighted by the relative share of revenues from each activity. Conversely, a market-related provider's assessment begins to incorporate a new low-income or other nonmarket activity when revenues from this component exceed 15% of total revenues where relevant. Nontraditional activities, as described in paragraph 24, do not trigger the use of table 4. For example, the criteria would assess a low-income social housing provider also providing care services using table 3, even if care services revenue constituted more than 15% of total revenues. 24. In determining the final economic fundamentals and market dependencies assessment, the presence of additional factors may result in an adjustment to the anchor. Adjustments are cumulative.

For instance, the presence of two negative factors will result in an overall weakening of the assessment by two notches. Likewise, the presence of one positive factor and one negative factor will offset each other and there will be no adjustment. Exposure to nontraditional activities for more than 25% of total revenues results in a negative adjustment for all types of providers. If such activity is deemed high risk, the negative adjustment applies when the revenues account for at least 15% of total revenues. High-risk nontraditional activities include those that could have twice the volatility relative to the provider's core services or those that represent a venture into an entirely new service provision, rather than an extension or adaptation of an existing service. Examples of nontraditional activities include continuing care facilities, student or prisoner accommodation, and property management for other entities. A monopoly position in the main area of operation or long-term lease contracts that improve long-term revenue stability results in positive adjustments in jurisdictions where such conditions are possible. 3. Market Position 25. A social housing provider's market position can determine the degree to which a provider is susceptible to changes in economic and industry conditions, its ability to adapt to such changes, and the ease with which it may do so. Two measures compose market position: strategy and management, and asset quality and operational performance. We assess each measure from '1' to '6' and average them (with equal weighting) to derive the overall market position assessment. a) Strategy and management 26. The assessment of strategy and management considers four elements, which constitute the anchor, which is then adjusted for the strength of the governance function. The initial four elements are the strategic planning process, the consistency of strategy with organizational capabilities and marketplace conditions, management expertise and experience, and comprehensiveness of risk management standards and tolerances. The initial strategy and management assessment results from an average of these factors (all equally weighted) (see table 5). To receive an assessment for a given element at a given level, a social housing provider should have most, but not necessarily all, of the characteristics detailed for that level. An assessment of '2' results from relatively even mixes of what is listed for '1' and '3' assessments, while an assessment of '4' results from a relatively even mix of what is listed for assessments of '3' and '5'. Table 5 Assessment Of Strategy And Management --ASSESSMENTS-- --ELEMENTS EVALUATED-- 1 3 5 Strategic planning process (see paragraph 29) Evidence of strategic plans that contain specific financial and operational goals with clear measures of achieving those goals. Evidence of strategic plans, but some aspects lack depth or specific financial or operational goals. Measures to achieve goals are unclear. There is very limited evidence that strategic plans exist, or plans are superficial. Consistency of strategy with organizational capabilities and marketplace conditions (see paragraphs 30-31) Strategy is nearly always consistent with the organization's capabilities, taking into account marketplace conditions. A track record of marketplace leadership and effective innovation exists. Strategy is generally consistent with the organization's capabilities, taking into account marketplace conditions. Strategy is inconsistent with the organization's capabilities or marketplace conditions. Abrupt or frequent changes in strategy, unexpected acquisitions, divestitures, or restructurings have occurred. Management expertise and experience (see paragraph 32) Management has considerable expertise, experience, and a track record of success in operating all of its major operating segments. Management has sufficient expertise and experience in operating its major operating segments. Management's track record of success in carrying out its plans is comparable to peers. Management lacks the expertise and experience to fully understand and control many of its segments. The provider often deviates significantly from its plans. Comprehensiveness of risk management standards and tolerances (see paragraph 33) Management has successfully instituted comprehensive policies that effectively identify, monitor, select, and mitigate key risks and has articulated tolerances to key stakeholders. Management has a basic set of standards and tolerances in place, but may not have fully developed risk management capabilities. Management has no or few defined standards and tolerances and little risk management capability. QUALITATIVE FACTORS NEGATIVELY AFFECTING THE ANCHOR: Governing board members or other governance officials have little relevant experience, or board member turnover prohibits effective governance. Alternatively, board members provide little oversight and are not involved in making or reviewing important decisions. Social housing provider has just begun a fundamental strategic shift in its mission or service offerings. The assessment worsens by two notches without risk management plans or when high uncertainty exists. Otherwise, the assessment worsens by one notch. For each element evaluated, an assessment of '2' or '4' results from a generally equal mix of '1' and '3' characteristics or '3' and '5' characteristics, respectively. The final strategy and management assessment equals the average of the first four assessments, worsened (increased) by one for each qualitative factor. Regardless of the subfactor assessments, however, an assessment of '6' results from management instability due to consistent turnover or absent management without capable subordinates to temporarily fill management positions effectively. 27. The presence of additional elements may lower the assessment relative to that suggested by the average of the four factors. Governance officials such as board members, directors, or trustees who lack relevant experience or who fail to provide adequate oversight worsen the assessment by one notch. Because risks can increase around periods of change, the assessment worsens by one notch when a provider begins a fundamental shift in its strategy or service provisions, even when plans exist to address this risk. When a higher level of uncertainty exists because risk mitigation strategies are lacking or the change itself is significant, the assessment worsens by two notches. This gap will generally close over a four-year period as performance informs our view and assessment under the criteria. 28. An assessment of '6' results from management instability due to frequent turnover or absent management without capable subordinates to temporarily fill management positions effectively. i) Strategic planning process 29. A provider receives a positive assessment for its strategic planning process if it develops a written strategic plan that has specific financial and operational goals for all major service areas and contains specific measures for achieving those goals. A management team that has a positive assessment typically will have a transparent methodology for producing estimates, forecasts, and projections, and it will have verifiable material assumptions underlying the plan. A positive assessment also requires the participation of senior executives and governance officials in the planning process. Conversely, a provider receives a negative assessment if its process ignores major service areas or lacks specific financial and operational goals for many areas. In addition, a provider receives a negative assessment if its plan lacks specific measures for achieving the goals for major areas or if senior executives do not participate in the planning process. Providers receiving a neutral assessment include those with written plans with specific financial and operational goals for most areas and specific measures for achieving those goals. However, the plans lack the detail associated with the positive assessment. ii) Consistency of strategy with organizational capabilities and marketplace conditions 30. A provider receives a negative assessment for the consistency of its strategy with its organizational capabilities and marketplace realities if, in our opinion, it has implausible or overly optimistic strategies and projections that reflect weak internal planning capabilities or an insufficient grasp of challenges (or opportunities)--especially if management fails to consider factors on which peer providers are focusing. For example, a provider receives a negative assessment if projections for revenue or earnings growth significantly exceed recent results or peers' forecasts without good reason. A provider with strategies consistent with its capabilities and that is cognizant of marketplace conditions typically receives a neutral assessment. However, such a provider most likely fails to display market leadership or notable innovation. A provider receives a positive assessment if it possesses all the attributes for a neutral assessment and has a record of market leadership and effective innovation (i.e., being among the first in its sector to respond to changes in market conditions successfully). 31. In addition, a provider generally receives a negative assessment for strategic consistency if it exhibits abrupt or frequent changes in business strategy or unexpected acquisitions, divestitures, or restructurings. However, although almost all mergers involve risk, well-executed acquisitions can make strategic sense and benefit providers. A provider can avoid having an acquisition result in a negative assessment if the acquisition (i) proves consistent with the organization's capabilities, (ii) has potential to strengthen the provider in a stable manner, and (iii) displays strong prospects for successful integration based on either the provider's record or statements regarding specific measures it will take to achieve a successful integration. iii) Management expertise and experience 32. A provider receives a positive assessment for management expertise and experience if it has demonstrated expertise in operating all major lines of business with an ability to grasp and successfully react to changing market conditions, as reflected in the provider's track record and in comparison to peers. Such a provider enjoys a track record of success in continuously and dependably executing its plans, excluding any events that, in our opinion, are unforeseeable. Alternatively, a provider receives a negative assessment if management lacks the expertise and experience to fully understand and control its business. Such a provider has a track record of often deviating significantly from plans. A failure to acknowledge its risks or demonstrate an understanding of significant factors that could affect its cash flows also results in a negative assessment. A provider that demonstrates either unexceptional expertise in operating its lines of business or an incomplete understanding of the significant risks in specific areas will receive a neutral assessment. Such a provider usually has a track record of success in carrying out its plans, excluding any events that, in our opinion, are unforeseeable. iv) Comprehensiveness of risk management standards and tolerances 33. This subfactor addresses the comprehensiveness of a provider's risk management standards and tolerances, as opposed to the degree of aggressiveness or conservatism of those standards and risk tolerances. A provider that has both comprehensive and sophisticated standards and tolerances receives a positive assessment. Such an entity has successfully instituted comprehensive policies that effectively identify, monitor, select, and mitigate key risks and has articulated tolerances to key stakeholders. Providers that have no or few defined standards and risk tolerances receive negative assessments. The assessment is neutral if a provider has simplistic standards and risk tolerances, or standards and risk tolerances that are not comprehensive across most significant operating segments. Such a provider may not have fully developed risk management capabilities. b) Asset quality and operational performance 34. Asset quality and operational performance can strengthen or dampen demand and result in higher or lower vulnerability to economic and industry fluctuations (see table 6). High vacancy rates often reflect underlying demand issues or operational inefficiency. An older housing stock can leave a provider more vulnerable to new competitors and changes in minimum building standard regulations that may ultimately bring higher reinvestment costs. 35. Because vacancy rates and average age of the housing stock have limits as measures of asset quality and operational performance, the presence of additional factors may result in an adjustment to the anchor of up to two notches. Positive adjustments include a large property portfolio exceeding 50,000 units whose diversity limits property-specific exposure, high vacancy rates that are principally due to temporary refurbishment activity expected to last less than six months, or third-party certification that refurbishment has renewed the property. Negative adjustments include those for large arrears, a small portfolio of less than 2,000 units that increases property-specific dependencies, and a more than 15% decline in maintenance costs over the past three years, suggesting maintenance deferral. B. Financial Profile 36. Four factors comprise the financial profile assessment: financial performance, debt profile, liquidity, and financial policies. We evaluate each of these from '1' (the strongest) to '6' (the weakest), and the final assessment results from a weighted average of the four. The financial performance and debt profile assessments receive slightly more weight, at 30% each, and liquidity receives a weight of 25%. The financial policies assessment receives a 15% weight because policies in and of themselves generally cannot prevent mismanagement; they can only make risks more visible at an earlier stage. 1. Financial Performance 37. The financial performance assessment measures the profitability of an entity or its ability to generate net revenues for ongoing provisions of services. EBITDA as a percentage of revenues form the initial anchor (see table 7). The criteria use operating profits or earnings before interest income, interest expense, income taxes, depreciation and amortization, and asset impairment to calculate EBITDA. In instances where the measure fails to accurately reflect true underlying financial performance because of accounting adjustments or other influences, we adjust this figure prior to assigning the assessment. 38. The presence of additional factors may result in an adjustment to the final financial performance assessment relative to the anchor in that they reflect better or more restrained net revenue-generating capacity relative to that suggested by EBITDA. Positive adjustments include, when legally possible, the ability to reduce expenditures or increase revenues or income without affecting demand, such that the anchor can improve by one notch. Negative adjustment factors include (1) significant EBITDA volatility that is expected to continue, (2) if an entity derives 15% of its revenues from market-based property sales, and (3) if the social housing provider experiences consistent negative margins (deficits after operations and debt repayment). 2. Debt Profile 39. The debt profile assessment measures both the ability to cover regularly recurring financing costs and the provider's ability to repay debt from EBITDA in a reasonable time frame. Accordingly, EBITDA coverage of interest and debt-to-EBITDA multiples (a proxy for leverage) together create the initial anchor (see table 8). In jurisdictions where we believe that

EBITDA is not reflective of cash available to service debt because of accounting regulations or other influences, we adjust this figure prior to assigning the assessment. 40. In determining the final debt profile assessment, the presence of additional factors may result in an adjustment to the anchor because they represent additional strengths or weaknesses not captured in the interest coverage and debt-to-EBITDA measures. Positive adjustment factors include those for saleable assets (with the practical and legal ability to do so) amounting to at least 50% of debt outstanding, serial amortization of debt that minimizes refinancing risk, the presence of sinking funds representing prefunded debt repayment prior to maturity, and low levels of committed capital spending suggesting minimum additional debt going forward. Negative adjustments include those for high future funding needs, expected debt service volatility within the next 18 months due to the amortization structure, foreign exchange or variable interest-rate exposure on more than 40% of debt outstanding, property loan-to-value ratios that exceed 70%, and the foreseeable conversion of a contingent liability to an actual liability in the next 12-24 months sufficient to weaken the initial assessment by at least one category. 41. Contingent liabilities represent exposures that have yet to become an actual obligation, but could do so upon the occurrence of other events. Globally, the most common contingent obligations include the following: Subsidiaries and joint ventures: An enterprise may incur a contingent risk from providers in which it owns stakes. This risk is sometimes formalized by an explicit guarantee to provide support, but it can also be an implicit risk derived from the enterprise's less binding commitment to provide support. The risk from such relationships depends on the supported entity's credit quality and the relative size of its debt compared with the size of the enterprise's budget. Litigation: Enterprises increasingly face a variety of litigation, linked for instance to environmental considerations. When these risks are not covered in the provider's budget through a provision or budget allocation, they represent a contingent liability. It is very difficult to assess these potential liabilities. As a result, the assessment typically evolves through discussions with the enterprise's senior management and progressions of the court proceedings. 3. Liquidity 42. Obtaining a clear view of levels of funds available for operations and debt service generally requires an understanding of sources and uses of cash. Accordingly, the initial liquidity assessment results from the ratio of sources to uses over the next 12 months as a starting point for measuring the strength of the expected liquidity position (see table 9). 43. Sources of liquidity include: Forecasted cash generated from continuing operations, if positive; Cash and liquid investments; Forecasted working capital inflows, if positive; Proceeds from asset sales (when confidently predictable); The undrawn, available portion of committed bank facilities or bank lines that is maturing beyond the next 12 months and can be drawn; and Expected ongoing cash injections from a government or group member as appropriate. 44. Uses of liquidity include: Forecasted cash generated from continuing operations, if negative; Forecasted working capital outflows, if negative; Expected capital expenditure; and All interest and principal payable on short- and long-term debt obligations coming due. 45. Positive adjustments include "exceptional" or "strong" access to external liquidity (see table 9). If access to external liquidity is "exceptional," the anchor assessment improves by two notches. If access to external liquidity is "strong," the anchor improves by one notch. 46. Negative adjustments include "limited" or "uncertain" access to external liquidity as defined in table 10, aggressive use of investments, and potential liquidity pressure from high refinancing risk. Examples of aggressive use of investments include the use of derivatives for investment, rather than hedging purposes, a focus on return over preservation of principal and liquidity, and the use of nontraditional instruments without an ability to articulate their risks and how they will be mitigated. High refinancing risk includes instances where the issuer could be forced to access outside financing because of a lack of internal liquidity, but the issuer will have limited warning when the need arises and has no credible plan to do so on a timely basis. For more information on rating triggers and other contingent liquidity risks, see "Contingent Liquidity Risks In U.S. Public Finance Instruments: Methodology And Assumptions," published March 5, 2012. a) External liquidity 47. Market funding--bank loans, bonds, and commercial paper--can be an important source of enterprise financing, particularly in countries with liquid and mature banking or capital markets. In some countries, social enterprises rely largely on a well-developed capital market for their funding, while in other countries, these entities rely mostly on bank loans. Furthermore, the legislative frameworks that social housing providers operate under can positively or negatively affect their access to liquidity. For example, providers in countries like Australia benefit from special access to central government liquidity, while other jurisdictions may limit the use of debt instruments for liquidity purposes. 48. Consequently, both country-specific and individual characteristics of a social housing provider affect its access to external liquidity (and, accordingly, refinancing risk). The analysis of external liquidity includes: The legal framework defining the provider's access to liquidity; The general strength and diversity of domestic banks, focusing particularly on active lenders to the municipal/public sector; The development of the domestic bond market in general and for social enterprises in particular; and An individual provider's track record of market access and/or links to a diversified pool of banks. Table 10 Assessment Of Access To External Liquidity (see paragraphs 47-48) ACCESS TO EXTERNAL LIQUIDITY TYPICAL CHARACTERISTICS Exceptional Well-tested access to capital markets through different capital financing programs and a history of tapping these markets through different economic cycles. Or, access to exceptional sources of liquidity such as sovereign funds. Strong A proven record of sufficient access to deep and liquid capital markets, and access to a diversified pool of domestic and international banks. Satisfactory A limited record of access to the capital markets, but providers enjoy access to a relatively diversified pool of domestic and international banks. Limited Possible legal restrictions on the use of debt instruments for liquidity management; domestic capital markets are still developing, and a limited number of domestic and international banks lend to this market. Uncertain Possible legal restrictions on the use of debt instruments for liquidity management; domestic capital markets have seen little development, and an extremely limited number of domestic and international banks lend to this market. 4. Financial Policies 49. The analysis of financial policies covers four main areas: Transparency and disclosure policies; Reserve and liquidity policies; Long-term planning polices; and Debt management policies. 50. Table 11 details the attributes of each component associated with assessments of '1', '3', and '5'. A social housing provider does not need to display all of the attributes associated with a given assessment, but should display a preponderance to receive the related assessment. An assessment of '2' results from a roughly equal mix of attributes in the '1' and '3' categories, while an assessment of '4' results from a roughly equal mix of attributes in the '3' and '5' categories. The final financial policies assessment results from the average of the four component assessments, with each component receiving equal weight. However, regardless of this average, an assessment of '6' results from a weak financial or credit culture, with a suggested lack of willingness to support debt repayment. Table 11 Assessment Of Financial Policies --ASSESSMENTS-- --ELEMENTS EVALUATED-- 1 3 5 Transparency and disclosure policies Timely and detailed financial reports on all operating segments exist. Reports use accrual-based accounting concepts and include both consolidated and segment-level reporting, if applicable. No material audit findings or qualifications exist. The effective and integrated use of accounting and reporting software provides data as needed on short notice for information and control purposes. Providers publish comprehensive reports. Both accrual and cash-based elements may exist. The report is independently audited, and only minor qualifications exist. Data for reporting and control analysis exist periodically but require significant resources to generate. Financial reporting is basic or incomplete. It may be communicated with material delays. Accounting standards are limited or unclear. An audit either does not exist or has significant findings. Reserve and liquidity polices A well-defined, formal operating reserve policy exists. The policy links reserve levels to the provider's cash flow needs. Management has historically adhered to the policy and will likely continue to do so. The provider enjoys centralized and integrated cash and debt management. A reserve policy exists, but it may be less formal or the level has less connection to the provider's cash flow needs. The provider has historically adhered to the policy. Cash management is less centralized and may not be integrated with debt management. No reserve or liquidity policies exist, or if they do, they are not followed. Cash management is highly decentralized. Long-term planning polices Multiyear financial and capital plans exist where future issues are identified along with possible solutions. Well-documented and realistic assumptions support the plans, and the plans are used for drawing up budgets to support a strong commitment to financial discipline. The provider does multiyear projections only informally that lack detail on assumptions and implications. Some assumptions may be optimistic, but are recognized as such. There is an absence of medium-term financial planning, reflecting a short-term approach. The financial strategy is aggressive and based on unrealistic assumptions without clear financial benchmarks. Debt management policies A debt management policy with well-prescribed debt limits exists. The policy dictates that long-term debt is used for capital expenditures and not operating costs. The policy is detailed, active, and risk-averse. If derivatives are allowed, detailed policies prudently limit their uses. A basic policy exists and includes provisions that long-term debt be used for capital expenditures and refinancing of long-term borrowings. Derivatives are only used for hedging purposes. An absence of effective policies. The provider uses long-term debt to cover liquidity needs and regularly breaches debt limits. Debt management is aggressive, with derivatives used for speculative purposes. Note: Regardless of the presence or absence of the above characteristics, an assessment of '6' results from a weak financial or credit culture, with a suggested lack of willingness to support debt repayment or poor monitoring and reported information that just meets the minimum requirements to maintain a rating. APPENDIX I 51. The main changes when this criteria was published on Dec. 17, 2014, relative to the article that it superseded, "Public And Nonprofit Social Housing Providers: Methodology And Assumptions," published July 11, 2012, were: We clarified how we assigned the enterprise and financial risk categories based on the weighted average of the individual assessments (see table 1). We updated table 2, primarily to include cells with split indicative SACPs (i.e., cells where two outcomes exist). This table was aligned with those in other public finance criteria. Concurrently, we explained how the indicative SACP selection from such split cells is performed. We added the reference to country risk, which, at weaker levels, established a cap on the enterprise risk assessment for social housing providers. We updated the industry risk section of these criteria so that they were in line with "Methodology: Industry Risk," Nov 19, 2013. APPENDIX II: How do we determine issue credit ratings for social housing providers? 52. For social housing entities based in the U.S., where it's typical to have a specific revenue pledge and covenant structure for debt issues, we will refer to the criteria, "U.S. Public Finance: Assigning Issue Credit Ratings Of Operating Entities," May 20, 2015. For social housing entities based outside the U.S., where it's typical for the entities to issue secured or unsecured debt at the enterprise level as general obligations of the issuer, meaning all resources of the enterprise are available to repay the debt, we will typically equalize the issue credit rating with the ICR, unless we determine the issue is subordinated. If the issue is subordinated, we will typically notch down from the issuer's ICR depending on our analysis of the subordination provisions. If a debt issue benefits from a guarantee that meets our guarantee criteria (as explained in "Guarantee Criteria," Oct. 21, 2016), we would generally rate an issue by a social housing provider at the same level of the guarantor. REVISIONS AND UPDATES This article was originally published on Dec. 17, 2014. Changes introduced after original publication: Following our periodic review completed on Dec. 16, 2016, we updated the contact information and criteria references. Following our periodic review completed on Dec. 13, 2017, we updated the contact information. On Feb. 12, 2019, we republished this criteria article to make nonmaterial changes. We updated the contact information and criteria references. On Oct. 16, 2019, we republished this criteria article to make nonmaterial changes. We updated the contact information and criteria references. On Oct. 28, 2020, we republished this criteria article to make nonmaterial changes. We updated the contact information and criteria references. RELATED CRITERIA AND RESEARCH Related Criteria Group Rating Methodology, July 1, 2019 Key Credit Factors For The Real Estate Industry, Feb. 26, 2018 Guarantee Criteria, Oct. 21, 2016 U.S. Public Finance: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015 Rating Government-Related Entities: Methodology And Assumptions, March 25 2015 Methodology: Industry Risk, Nov. 19, 2013 Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013 Ratings Above the Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013 Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC', Oct. 1, 2012 Contingent Liquidity Risks In U.S. Public Finance Instruments: Methodology And Assumptions, March 5, 2012 Principles Of Credit Ratings, Feb. 16, 2011 Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010