

What Is A Credit Estimate?

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A credit estimate is Standard & Poor's Ratings Services' opinion on an obligor's general creditworthiness or an obligor's creditworthiness with respect to a particular obligation. Credit estimates are created to include collateral not rated by Standard & Poor's in a collateralized debt obligation (CDO) or other structured finance vehicle that Standard & Poor's does rate. They are formulated from an abbreviated analysis and do not include all of the aspects of a standard ratings analysis. For these reasons, a credit estimate should not be considered as a substitute for an actual rating and should only be used in a portfolio context.

Credit estimates do not involve the direct participation of the obligor and are based on information provided from the requesting party together with other information we consider reliable. They are confidential in nature and Standard & Poor's does not publish them.

A credit estimate does not constitute a recommendation to buy, sell, or hold a particular security. It does not comment on the suitability of an investment for a particular investor. We do not perform an audit in connection with any credit estimate.

Although credit estimates are distinct in their formulation from ratings, they both share the same familiar scale and the meanings of those letter grades. The results are published in lower case (e.g., 'aaa', 'aa+', 'd') to help ensure users do not mistake credit estimates for standard ratings. For corporate obligations, such as a bond, loan, or lease, the credit estimate is an opinion of the obligor's default risk or capacity to meet its financial obligations on a timely basis. For securitization collateral, such as a CDO tranche, the

credit estimate is an opinion of an obligor's creditworthiness with respect to a specific financial obligation and the opinion takes into consideration the terms of the collateral.

Unlike ratings, credit estimates do not have outlooks and are ineligible for Standard & Poor's CreditWatch listings. Credit estimates are not followed for ongoing surveillance, but are updated regularly. If the requesting party requires ongoing surveillance, an application for a full rating by the obligor would be required. Recovery and issue estimates are not provided on corporate, financial institution, or insurance assets, but are sometimes applied on request for i) project finance transactions (recovery) or ii) securitization collateral (issue).

The European Credit Estimate Process In Brief

We assign a credit estimate only when adequate information is available. The process begins when the collateral manager for a

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CDO rated by Standard & Poor's provides us with (usually) the financial history of the company, financial projections, and relevant transaction documents. We do not meet with the company's management or perform the more extensive review that is typical of the standard ratings process.

Once we receive the necessary information, an analyst from the appropriate area is assigned. There is a limited review of the company's financial information or, if appropriate, of the collateral's transaction documents and payment reports. The analyst reviews the materials with the relevant senior specialist familiar with that sector to recommend a credit estimate. After a credit estimate is agreed upon, the requesting party is notified. It takes about two weeks after receipt of the necessary information to complete the process for assigning the credit estimate.

As the credit estimate is based on an abbreviated review of a company, it is designed for use only in a portfolio context and there is no report detailing our analysis, there is no appeals process, and the analyst is not available to discuss the rationale.

European Credit Estimate Updates

After a credit estimate is assigned, the credit estimate is reviewed periodically and at least annually for possible change. The original requesting party is responsible for supplying Standard & Poor's with the information needed to maintain the credit estimate. We reserve the right to change a credit estimate at any time if information available to us affects our opinion.

Credit Estimate Application

Credit estimates are appropriate for use in a portfolio context and are used across a variety of asset classes, most commonly including leveraged buyouts (LBO), investment-grade corporates, project finance, and financial services companies. Almost exclusively, their use is to support the liability ratings on structured transactions such as CDOs (including collateralized bond obligations and collateralized loan obligations (CLO)) or similar investment vehicles. CDOs may be structured either as a cash flow transaction in which an investment vehicle holds the underlying asset

or as a synthetic transaction, where the underlying asset is referenced using a derivative instrument (i.e., a credit default swap).

The most widespread use of credit estimates in Europe is for cash flow CLOs of LBOs. There is currently relatively low public ratings penetration across this asset class, so estimates are used widely, despite the preference of many market participants for a more transparent and independent view on the underlying companies' credit quality. As credit estimates are based on private and confidential information that can sometimes be price sensitive, and since they are not published, they themselves remain private and confidential and only available to those private investors who can provide the information.

The recent introduction of a noncancellable loan credit default swap contract in Europe has created significant interest in structuring synthetic CLOs where the underlying reference assets are private leveraged loans. Although some transactions of this type have been rated in Europe with the support of credit estimates, the private nature of the credit estimate product means there are strict provisions relating to the supply of information that need to be satisfied at origination and on an ongoing basis.

Frequently Asked Questions

The assigned credit estimate is substantially lower than the actual rating by another rating agency. Why is there a large discrepancy?

The meanings of the ratings scale of Standard & Poor's and the other rating agency may be different. Aside from this, the credit estimate analysis is different than a ratings analysis. The abbreviated nature of the process to assign a credit estimate means that compared with a formal rating certain information gaps may result in a slightly more conservative assessment being factored into the credit estimate.

Are credit estimates derived in the same way as confidential ratings?

No, they are very different. A confidential rating is the result of a full, detailed rating analysis. It requires the same depth of work as a public rating. A credit estimate, as detailed above, is the result of a much more abbreviated analysis.

I would like a credit estimate performed on a CDO tranche. Can I give you my cash flow model for review as part of your analysis?

The nature of the credit estimate process as an abbreviated process does not permit us to perform the same depth of analysis as when we perform a ratings review. Therefore, we will not be able to review cash flow models for a credit estimate of a CDO tranche.

Does Standard & Poor's maintain surveillance on credit estimates?

In Europe, Standard & Poor's does regularly update credit estimates, although this is distinct from the ongoing surveillance applied to public ratings. Updates are periodic and it is the responsibility of the requesting party to

provide the information necessary to maintain the credit estimate, and to inform Standard & Poor's if they believe there has been a substantial deterioration or improvement in credit quality.

Are there any situations when a credit estimate may not be available?

Standard & Poor's reserves the right to decline a credit estimate request at its sole discretion. The reason that an estimate request may be declined varies, but can range from insufficient information, to potential breaches of confidentiality (i.e., where the request is on the unrated part of a rated group) and situations where a public rating has been withdrawn. ●