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Credit FAQ:

Private Loan Ratings For European Leveraged Finance

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In July 2008, Standard & Poor's Ratings Services announced new procedures relating to the provision of ratings in the European leveraged finance market. As of Dec. 1, 2008, this framework is now in place for newly underwritten transactions where total debt (funded and unfunded) is greater than €500 million.

To recap, the main changes in our approach to ratings for this market are that:

- Only public ratings will be offered for those transactions with total debt facilities of more than €1 billion;
- For transactions where total debt facilities are less than €1 billion, at the request of the company we will provide public or private ratings, including loan and recovery ratings, on any associated debt instruments; and
- Credit estimates will be restricted to new transactions where total debt facilities are less than €500 million.

For more details of our European leveraged finance ratings framework, see article titled "Final Planned Changes To The Provision Of Ratings And Credit Estimates In Europe's Leveraged Finance Market," published July 16, 2008, on RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis.

In response to many questions that have been raised in the course of our discussions with market participants we have prepared the following FAQ in order to clarify certain aspects of the practical application of our new approach toward private loan ratings.

Frequently Asked Questions

What is a private rating?

The analysis and output of private ratings is the same as that of public ratings. The crucial difference is that private ratings will not be disclosed publicly or on RatingsDirect. These ratings will only be provided to the private lender group.

As with a public rating, we would be engaged by the borrower to undertake private ratings. In terms of scope, we will provide a corporate credit rating, as well as loan and recovery ratings on the supporting debt instruments. The methodology and analytical process employed in determining a private rating is identical to that supporting a public rating. We meet with management prior to holding a committee to assign the relevant ratings. Research reports will be produced in the same way as for public ratings, the only difference being that there should be less sensitivity to the private information disclosed in those reports. Surveillance will be ongoing.

Why is Standard & Poor's offering to provide private ratings?

The overriding objective of this initiative is to improve the quality and depth of ratings support for leveraged loans that are marketed to institutional investors. Our initial proposal centered on the provision of public loan and recovery ratings. However, following extensive market consultation last year, it became clear that the option of private ratings for mid-market transactions would address certain key concerns. These concerns included the potential impact of public disclosure of the ratings on the private equity business model, as well as the more widely shared concern that the provision of public ratings could lead to a reduction in the quantity and quality of

information provided to the lender group.

What is the difference between a confidential rating and a private rating?

A confidential rating is a full interactive, issuer-specific rating. When a company engages Standard & Poor's to assign a corporate credit rating, it is at its discretion if it decides to maintain it confidentially. Under such circumstances, the rating is not disclosed to the market until the company decides to publish it, usually to support a capital or debt market funding exercise. At that point, public issue and recovery ratings (if appropriate) are also assigned.

Private ratings, by contrast, support syndication of purely loan-funded transactions in the European leveraged loan market and are issuer-, issue-, and recovery-specific.

How will Standard & Poor's approach situations where existing unrated transactions are refinanced or upsized?

We intend to assess each transaction individually, recognizing that it will be difficult to envisage all potential situations.

Where a transaction is refinanced and/or upsized above €500 million, and the ownership structure has not changed and a credit estimate has been provided in the past, we will continue to provide a credit estimate if a rating is not requested to support the refinancing. (Acquisitions could be accommodated under this arrangement as long as the additional debt was not more than €500 million.) This would reflect the probability that most of the lender group would recommit or upsize their existing commitments.

When refinancing occurs as a result of a change of ownership, we will treat it as a new transaction.

Are there circumstances in which Standard & Poor's would not be able to provide a private loan rating opinion or, for deals under €500 million total debt, a credit estimate?

In addition to newly underwritten transactions where the total debt exceeds €1 billion, we will not offer private ratings where the borrower is issuing in public markets. Specifically, this refers to transactions where an issuer seeks to distribute loan tranches to institutional investors in the U.S. or where there is a speculative-grade bond component in the capital structure.

Where the quantum of debt is less than €500 million, there may be certain situations where we will not provide a credit estimate. One of these situations arises when a public or private rating is withdrawn (for more information, see article titled "Guidance On Providing Credit Estimates After Public Ratings Are Withdrawn," published Oct. 25, 2007, on RatingsDirect).

Restrictions are also invoked when a credit estimate request is made for an unrated entity that is part of a rated group. On such occasions, we will require authorisation from our rated client, without which we will not proceed.

Finally, in situations where a credit estimate is requested to support synthetic transactions and the analysis can only be undertaken based on private information, then sufficient private information will need to be provided both upfront and on an ongoing basis.

How will private ratings and associated research be distributed to the lender group?

By contractual agreement with the borrower, ratings letters and associated research reports will be channeled through the facility agent or, where appropriate, published directly through a private third-party document exchange such as IntraLinks. Publication needs to be on a timely basis and provided simultaneously to all lenders,

subject to compliance with our standard procedures. This includes providing notice to the borrower in the same way as would occur for public ratings.

Why has Standard & Poor's selected a threshold of €1 billion of total debt (funded and unfunded), above which only public ratings will be offered?

There is general agreement in the European leveraged finance market that even in more normal market conditions than exist in the current climate, transactions above €1 billion have to be syndicated very broadly; participants require liquidity in the secondary market and the ability to hedge in any instruments that may be available (including loan credit default swaps). We believe that the number of deals of this size will be limited and that these transactions are essentially public in nature.

What information will Standard & Poor's require, both upfront and ongoing, in relation to the initial private ratings and ongoing surveillance?

A key guiding principle is that there should be a level playing field with respect to the provision of information. Consequently, our expectation is that Standard & Poor's will have access to the same information, at the same time, as that provided to participant banks and institutional investors as part of our credit assessment and that this will include full details of the security package and loan and intercreditor agreements. However, while certain information may only be available initially in draft form, or may become available at a later stage in syndication, we do not anticipate that precluding us from providing preliminary ratings on a timely basis.

Will Standard & Poor's require all debt instruments in the capital structure to be rated?

As announced in July 2008, for new clients from Dec. 1, 2008, we will be assigning loan and recovery ratings to all debt instruments issued by the rated entity. The benefit of providing post-default recovery prospects for the various instruments in the capital structure eliminates the need to second guess or infer what the unpublished recovery ratings might be.

How early can Standard & Poor's be engaged in a transaction in order to achieve a viable early-stage rating opinion?

Where there is a ratings requirement for an early-stage rating opinion, for instance in a takeover situation, then it is important to engage with us as soon as is practicable. This is something we encourage and there are various types of ratings assessment that can be undertaken to ease the process, depending on the quality of the information provided and the degree of ratings certainty required.

Will Standard & Poor's grandfather existing transactions where credit estimates are provided?

We are not changing the framework that will apply to unrated obligors that currently benefit from the provision of credit estimates. These estimates will continue to be updated on a periodic basis. However, that is not to say that certain existing issuers may not benefit from requesting public or private ratings, to obtain a clear view of recovery prospects for their senior and mezzanine debt, for instance; or to provide lenders with greater clarity on the key drivers of rating changes.

Why will loan and recovery ratings be required for new transactions if the collateralized loan obligation (CLO) market remains quiet?

Our view is that loan and recovery ratings can support the re-establishment of market activity by providing credit benchmarks when structuring and pricing new leveraged loan transactions. They can also help to attract new investors into the asset class by tracking the performance of these credits over time, much needed in the absence of more traditional leveraged loan market participants.

How will private loan ratings be treated in CLOs?

No differently to public ratings. CLO managers have the option to use asset-specific recovery ratings assigned to both public and private loan ratings.

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