

# BANK LOAN & RECOVERY RATINGS

## What's the Advantage of Ratings on Bank Loans?

Bank loans are often more complex debt instruments than public debt issues. They frequently include collateral security, restrictive covenants, borrowing bases, and other structural features that provide protection to the holders of the loan. Bank loan investors require more sophisticated and detailed information and analysis than the holders of traditional public debt. The banks and institutional investors that hold loans often have complex risk-adjusted capital allocation models that depend on consistent evaluations of both the *default likelihood* and the likely *recovery in the event of default* of every loan in their portfolio.

**Standard & Poor's Bank Loan & Recovery Ratings** provide the benchmarks and the analysis that sophisticated bank lenders need to help them make well-informed financial decisions with confidence. For every loan it rates, Standard & Poor's provides:

- **Corporate Credit Rating** – the traditional Standard & Poor's entity credit rating focuses on the creditworthiness of a company – the likelihood of a company meeting its financial obligations in accordance with their terms. Investors can use the Corporate Credit Rating to derive the expected likelihood of default for any issuer, which is particularly useful to banks and other investors that require a default likelihood estimate for the individual loans in their portfolios.
- **Bank Loan Rating** – is on the same familiar “AAA” through “D” scale as the Corporate Credit Rating, but factors in all of default risk, ultimate loss and recovery. The analysis takes into account covenants, collateral and other protective features that may impact post-default repayment, and may be *notched up* from (i.e. assigned a higher rating than) the Corporate Credit Rating. Bankers and investors can use the Bank Loan Rating in cases where collateral and other protective features are considered relevant to their decision.
- **Recovery Rating** – Separate scale (1+ to 5) focuses exclusively on expected loss and recovery in the event of default, with no relationship to the underlying default likelihood of a given loan. Each recovery rating level is defined in terms of an expected recovery range.

### **Added Value for Issuers, Bankers and Investors**

Standard & Poor's has been rating loans since 1995 and rates some 1,200 companies' loan facilities, with a total value of more than \$900 billion. A primary purpose of Bank Loan and Recovery Ratings is to provide the analysis that helps bankers and investors to differentiate the more effectively secured loans from those that may be “secured” in name only. Bank Loan and Recovery Ratings can help a borrower or a borrower's banker with an independent opinion of the degree of protection that they have provided to senior lenders. This information and opinion may help expand a loan's initial investor base, improve its secondary-market liquidity and otherwise increase the comfort level of investors — especially institutional investors, specialized loan-fund managers, and other buyers who may not be traditional lenders or have large internal credit staffs.

### **Making the Most of the Standard & Poor's Rating Process**

Ratings are most useful if obtained *before* the loan is syndicated, so bankers and potential investors can use Standard & Poor's rating and analytical write-up in their analysis. Bank Loan and Recovery Ratings are done by the same analyst who rates the company's other debt issues.

Bank Loan and Recovery Ratings and reports can be delivered to the entity to be distributed by them through the normal syndication channels (direct and web-based), in addition to being published in Standard & Poor's electronic and print publications and the financial press.

Standard & Poor's is the world's foremost provider of independent credit ratings, indices, risk evaluations, investment research, data and valuations. An essential part of the world's financial infrastructure, Standard & Poor's has played a leading role for more than 140 years in providing investors with the independent benchmarks they need to feel more confident about their investment and financial decisions.

*To learn more about how you can benefit from a Standard & Poor's Bank Loan Rating, please contact:*

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