

RatingsDirect®

General Criteria:

Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings

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Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings

(Editor's Note: We originally published this criteria article on Oct. 1, 2012. We're republishing it following our periodic review completed on Oct. 2, 2013.)

1. Standard & Poor's Ratings Services is updating its criteria for assigning 'CCC+', 'CCC', 'CCC-', and 'CC' ratings. This article is related to our criteria article "Principles Of Credit Ratings", which we published on Feb. 16, 2011.

SUMMARY OF THE CRITERIA

2. The article updates our criteria for assigning 'CCC+', 'CCC', 'CCC-', and 'CC' ratings. We associate each rating level with a distinct scenario or set of scenarios. The criteria supersede the article "How Standard & Poor's Uses Its 'CCC' Rating," published Dec. 12, 2008.

SCOPE OF THE CRITERIA

3. This methodology applies to issuer credit ratings and issue ratings. However, corporate and government issue ratings may be notched up or down from the issuer credit rating based on post-default recovery considerations, or relative position in the event of bankruptcy, and such notching adjustments are outside the scope of this criteria. Please refer to the following criteria: "Hybrid Capital Handbook: September 2008 Edition," published Sept. 15, 2008, "Bank Hybrid Capital Methodology And Assumptions," published Nov. 1, 2011, and "Criteria Guidelines For Recovery Ratings On Global Industrial Issuers' Speculative-Grade Debt," published Aug. 10, 2009.

IMPACT ON OUTSTANDING RATINGS

4. We expect a limited number of rating changes with most rating changes to occur within the 'CCC' category. We expect a minimal number of ratings to move to the 'CCC' category from the 'B' category.

EFFECTIVE DATE AND TRANSITION

5. These criteria are effective immediately for all new and outstanding issuer and issue ratings. We intend to complete our review of issuers and issues affected within the next six months.

METHODOLOGY

6. The criteria are designed to provide clarity for assigning 'CCC+', 'CCC', 'CCC-', and 'CC' ratings. The number of ratings at these levels has grown substantially in recent years as a result of the financial crisis and subsequent recession. In

addition, in certain sectors, such as corporate ratings, the increased use of these ratings reflects greater investor acceptance of more speculative credits. In order to provide additional clarity for assigning these ratings, we associate each rating level with a distinct scenario or set of scenarios (see "Understanding Standard & Poor's Ratings Definitions," published June 3, 2009). These criteria have priority over other sector specific criteria when assigning these ratings to issues and issuers.

Criteria For 'CCC' Category Ratings

7. Standard & Poor's defines the 'CCC' issue credit rating as follows: "An obligation rated 'CCC' is currently vulnerable to nonpayment, and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation."
8. As a general rule, issuers and issues that face at least a one-in-two likelihood of default will be rated in the 'CCC' category. The 'CCC' category may also be appropriate--even at a lower likelihood of default threshold of approximately one-in-three--if we expect a default within the next 12 months.

Criteria For 'CC' Category Ratings

9. Standard & Poor's defines the 'CC' issue credit rating as follows: "An obligation rated 'CC' is currently highly vulnerable to nonpayment."
10. We rate an issuer or issue 'CC' when we expect default to be a virtual certainty, regardless of the time to default. We use the 'CC' rating when, for example:
 - An entity has announced that it will miss its next interest or principal payment, but is still current on these payments.
 - An entity has announced its intention to file a bankruptcy petition or take similar action and payments on an obligation are jeopardized, but the entity has not yet entered into receivership protection.
 - An entity has announced its intention to undertake an exchange offer or similar restructuring that we classify as distressed, but has not yet completed the transaction (see "Rating Implications Of Exchange Offers And Similar Restructurings, Update," published May 12, 2009).
 - We expect the default of an issue to be a virtual certainty based on either: the specific default scenarios that are envisioned over the next 12 months, or the expectation of default even under the most optimistic collateral performance scenario over a longer period of time.
11. In addition, we assign a 'cc' SACP (stand-alone credit profile) to an issuer when we expect default to be a virtual certainty, unless it receives extraordinary support from a parent or government.

Primary Differentiating Factor--Likelihood Of Default

12. In our view, likelihood of default is the centerpiece of creditworthiness. That means likelihood of default--encompassing both capacity and willingness to pay--is the single most important factor in our assessment of

the creditworthiness of an issuer or an obligation. Therefore, consistent with our goal of achieving a rank ordering of creditworthiness, higher ratings on issuers and obligations reflect our expectation that the rated issuer or obligation should default less frequently than issuers and obligations with lower ratings, all other things being equal.

13. More specifically, the degree of financial stress on the issuer or issue and the time frame for anticipated default are primary factors in our assessment of the likelihood of default for issuers and issues rated in the 'CCC' and 'CC' categories.
14. For corporate and government issuers, the time frame to anticipated default is generally the dominant factor when assigning a plus (+) or minus (-) sign modifier to show relative standing within the 'CCC' rating category. This is because, as a corporate and government issuer approaches an anticipated default date the likelihood of a favorable change in business, financial, or economic conditions that would be sufficient to avoid a default generally declines and the level of certainty that the issuer will default generally increases. In order to provide greater clarity about the usage of ratings ranging from 'CCC+' to 'CCC-' (and from 'ccc+' to 'ccc-' SACPs for issuers, unless they receive extraordinary support from a parent or government), the following are scenarios that would generally be associated with each rating level:
 - 'CCC+': The issuer is currently vulnerable and is dependent upon favorable business, financial, and economic conditions to meet its financial commitments. The issuer's financial commitments appear to be unsustainable in the long term, although the issuer may not face a near term (within 12 months) credit or payment crisis.
 - 'CCC': It is likely that the issuer will default without an unforeseen positive development. In contrast to the 'CCC+' rating, specific default scenarios are envisioned over the next 12 months. These scenarios include, but are not limited to, a near-term liquidity crisis, violation of financial covenants, or an issuer is likely to consider a distressed exchange offer or redemption in the next 12 months.
 - 'CCC-': A default, distressed exchange, or redemption appears to be inevitable within six months, absent unanticipated significantly favorable changes in the issuer's circumstances.
15. Similarly, for structured finance issues, the 'CCC' category is used if the payment of principal or interest when due is dependent upon favorable business, financial, or economic conditions. The degree of financial stress is generally the dominant factor and the time frame for anticipated default is generally a secondary consideration when assigning a plus (+) or minus (-) sign modifier to the 'CCC' rating. Expected collateral performance and the level of available enhancement (credit and/or cash flow) are generally the primary factors in our assessment of the degree of financial stress and likelihood of default. Time frame for anticipated default is generally a secondary consideration because structured finance issuers are typically special purpose entities, which by definition have limited ability to raise additional capital or pursue strategic alternatives that could improve their business or financial conditions—irrespective of the time horizon.

Frequently Asked Questions

Q1: What scenarios are associated with corporate issuers for 'CCC+' and 'CCC' ratings?

16. A: Corporate issuers rated 'CCC+' typically have a combination of "vulnerable" business risk and a "highly leveraged" financial profile, but a specific default scenario is not yet envisioned. However, in some cases very high leverage could place an issuer with a "weak" business profile in this rating (as our criteria define the terms). The issuer's leverage is

"unsustainable". (For example, debt is a very high multiple of EBITDA and a successful refinancing is unlikely, absent financial improvement.)

17. When specific default scenarios are envisioned over the next 12 months, the corporate issuer is rated 'CCC'. (For example: the issuer has breached covenants, unless we have reason to think creditors will waive their remedies or the related facilities are of limited size; the issuer's operating cash is dwindling; or a large maturity or other liquidity crisis for the issuer looms.)

Q2: What are the most common factors that lead to upgrades out of the 'CCC' category for issuers?

18. A: Generally, 'CCC' rated companies often default without a material positive development, such as a change to their capital structure or business model, as the definition of this category suggests. But we have observed that many struggling companies can and do endeavor to make such positive developments materialize. If this occurs, some may subsequently be upgraded to reflect the improved situation--but a good percentage of these slip back into distress and ultimately default. Upgrades out of the 'CCC' category can be due to the following reasons:

- Improved business, financial, or economic conditions;
- Purchase by a stronger entity;
- Refinancing;
- Debt repayment;
- Waiver and amendment of covenants;
- Market factors, e.g., higher commodity prices; and
- Asset sales.

Q3: What about cases, like banks and insurance, where the holding company's issuer credit rating is typically derived by notching down from the Group Credit Profile (GCP)?

19. A: Typically, an insurance holding company is rated one to three notches below the GCP of its operating subsidiaries to reflect structural subordination. So for operating companies rated in the 'B' category or lower, standard notching could imply a holding company rating in the 'CCC' or 'CC' categories. However, in some cases the holding company may have no liabilities of significance that could lead to default. In those cases, if the holding company does not meet the criteria in paragraphs 7-14 for the 'CCC' or 'CC' ratings, its issuer credit rating would generally be no lower than 'B-', even though this might result in compression between the operating company and holding company ratings.
20. We do not expect such an issue to arise for banks where the maximum notching down of the holding company rating is one from the GCP.

RELATED CRITERIA AND RESEARCH

- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Principles Of Credit Ratings, Feb. 16, 2011
- Criteria Guidelines For Recovery Ratings On Global Industrial Issuers' Speculative-Grade Debt, Aug. 10, 2009
- Understanding Standard & Poor's Ratings Definitions, June 3, 2009
- Rating Implications Of Exchange Offers And Similar Restructurings, Update, May 12, 2009
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings

These criteria represent the specific application of fundamental principles that define credit risk and ratings opinions. Their use is determined by issuer- or issue-specific attributes as well as Standard & Poor's Ratings Services' assessment of the credit and, if applicable, structural risks for a given issuer or issue rating. Methodology and assumptions may change from time to time as a result of market and economic conditions, issuer- or issue-specific factors, or new empirical evidence that would affect our credit judgment.

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