

STANDARD
& POOR'S

Role of the Rating Agency

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Presentation Outline

- What is a Nationally Recognized Statistical Rating Organization (“NRSRO”)
- The role of a rating agency in a bond deal and the value-added
- What do the ratings mean?
- Types of deals rated through conduit issuers
- A Case Study: Rating Non-Profit Organizations
- Questions & Answers

Investment Grade and Speculative Grade Ratings by Agency

S & P		Moody's		Fitch	
LTD	C/P	LTD	C/P	LTD	C/P
Investment Grade					
AAA	A-1+	Aaa	Prime-1	AAA	F-1+
AA+		AA		AA+	
AA		AA2		AA	
AA-	A-1	Aa3	Prime-2	AA-	F 1
A+		A1		A+	
A	A-2	A2	Prime-3	A	F 2
A-		A3		A-	
BBB+	A-3	Baa1	Prime-3	BBB+	F 3
BBB		Baa2		BBB	
BBB-		Baa3		BBB-	
Speculative Grade					
BB+	B	Ba1	Not Prime	BB+	F S
BB		Ba2			
BB-		Ba3			
B+	B1				
B	B2				
B-	B3				
CCC+	C	Caa	D for Default	CCC+	D for Default
CCC		Ca			
CCC-		C			
D for Default	D	D for Default	D	D for Default	D



Types of Deals Rated Through Conduit Issuers

- Tax-exempt bonds supported by a Letter of Credit
- Bond Insured
- Tax Increment Finance Bonds
- Pool programs
- Tax-exempt bonds where rating is dependent upon obligor's rating



A Case Study: Rating Non-Profit Organizations

- Background
- Types of Organizations & Ratings
- Process
- Criteria
- Example
- Contacts



Background

- Higher Ed and Non-profit Ratings
- 100 Non-profit ratings
- First rating in 1978
- Mostly higher ratings (self-selection)
- Many different industries
- Unifying factor is tax-exemption



Types of Organizations

Cultural Institutions

Public Ratings range from “BB” to “AAA”

- Amer. Museum of Natural History AA-
- Wildlife Conservation Society AA-

Membership Organizations

Public ratings range from “BB” to “AA”

- American Bar Assoc. AA
- YMCA’s Var.



Types of Organizations

Research Institutions

Public Ratings from “BB” to “A+”

- National Ctr for Atmospheric Research A+
- Battelle Memorial Institute A+

Endowed Foundations and Charitable Giving-Based Corporations

Public Ratings Range from “BB” to “AAA”

- The California Endowment AAA
- The Nature Conservancy AA-



Types of Ratings

Credit Assessments

- Private
- Sometimes needed for insurance

Full ratings

- Mostly securities ratings, but Issuer Credit Ratings are increasing, because of demand for counterparty ratings
- Private or Public



The Rating Process at Standard & Poor's

- Rating only upon request
 - usually a call from a financial advisor or investment banker
- Focus is on the Obligor or Credit Provider – NOT the Issuer
- Receive documents, assign a team
- Depending on type of deal, a meeting with management may be required
- Rating Committee
- Rating release if public, with regular surveillance, and report



Criteria

Demand for

- Products/services offered
- Visitors
- Competition

Financial performance and resources

- Revenue diversity
- Balance sheet resources
- Policies
- Investment performance
- Fundraising



Criteria

Management and Governance

- Stability
- Vacancies
- Board

Debt and Capital Structure

- Direct Debt
- Off balance sheet debt
- Measuring debt burden:
 - Maximum annual debt service (MADS) as a percentage of operating budget,
 - debt service coverage and;
 - debt relative to liquid resources



Example:

Wildlife Conservation Society

Mission

- Save wildlife and habitats with animal conservation programs worldwide
- Manage world's largest system of urban wildlife parks
 - Bronx Zoo, NY Aquarium, Central Park Zoo, Prospect Park Zoo & Queens Zoo

Demand

- Annual attendance of 4 million+
- Attendance is very seasonal: 63,000 in January to 726,000 in July



Example:

Wildlife Conservation Society

Financial

- A diverse revenue stream
- Good liquidity with a \$415 million endowment
- Broad levels of annual giving
- Reduced, but still measurable, dependence on operating and capital funding from New York City;
- History of deficit operations that has only recently been addressed; and
- Significant long-term capital plan that totals \$254 million through 2009; much of it to address deferred maintenance.

Management

- Good financial monitoring and controls
- Impressive team that has strengthened organization

Debt

- Manageable debt burden



Contacts for Structured Finance Ratings

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