Credit Rating Agency

*A NRSRO Rating**

Partial Guarantees for Structured and Unsecured Debt Issues

Debt Methodology

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Methodology to incorporate Partial Guarantees into the credit analysis process for different types of assets.

This methodology is applicable to all credits or issues of structured or unsecured debt rated by HR Ratings and which have a Partial Guarantee (PG). This document discusses the concepts and outlines the methods for incorporating these PGs into the different types of assets. The incorporation method must be followed in any rating process relevant to the instrument under analysis; starting, in most cases, with the assumption that the partial guarantee represents a credit enhancement.

In general terms, HR Ratings considers a partial guarantee a mechanism whose purpose is to improve the credit quality of a credit or issue, whether they are structured or un secured products, through the commitment of a third party to unconditionally and irrevocably cover a portion of the debt placed. In practice, this portion is generally determined as a fixed percentage of the outstanding balance on the debt, which is backed by an agreement signed between the issuer/borrower and the guarantor (third parties may be included as necessary).

Therefore, HR Ratings does not consider as partial guarantee any pledge included in the flows to be securitized or which is explicitly pledged as part of the source of payment for the debt. This methodology addresses only the following: (i) partial guarantees determined as a fixed percentage of the outstanding balance, (ii) reserves set up through a trust, and (iii) guarantees that represent a percentage of the amount placed.

For HR Ratings to incorporate this credit enhancement in the evaluation of a loan or issuance, it is necessary that the guarantees be unconditional and irrevocable, as well as that the funds be exclusively destined for the service of debt. Reference will be made to the General Methodological Criteria and its Legal Analysis section to determine the mentioned characteristics. Nevertheless, our institution may assign a rating without this, in jurisdictions or under legislations that do not necessarily require, according to the applicable law, a legal analysis.

It’s important to note that effect of a guarantee is only considered when the credit quality of the guarantor is better or equal than the credit quality of the issue or credit it is intended to back.

The different sections of this document offer, first, a general framework that defines the concepts necessary to understand how partial guarantees operate, considering the differences between each class of asset and their application according to the criteria of each methodology. The following three sections discuss the method for assessing partial guarantees applied on i) non-structured unsecured debt, ii) structured bank credits and securities issued by Mexican states and municipalities (revenue sharing obligations, RSO), iii) debt for projects that are rated through the infrastructure and project finance methodology, and iv) debt of financial assets and debt backed by mortgage credits.

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Characteristics of a partial guarantee and its legal analysis

This section discusses the general characteristics of partial guarantees as well as those that must be satisfied to be considered as such and to be assessed according the methods outlined in this document. In addition, details are offered for the elements to be analyzed in a legal opinion, which should be satisfactory so that HR Ratings can incorporate the guarantee into the rating process for the credit or issue. In the case of issues or credits carried out according to legislations outside of Mexico, the Analysis Committee may proceed with the assessment without a legal opinion, provided the law does not expressly require a legal opinion from an independent law firm. The decision of the committee will be reflected in the minutes and/or corresponding report.

This section details the general characteristics of partial guarantees, as well as those that must be met in order for them to be considered as such and be evaluated under the methods described in this document. The elements to be analyzed for the legal analysis that will follow the procedure described in the *General Methodological Criteria* will be analyzed. In the case of issues or credits carried out according to legislations outside of Mexico, the evaluation may proceed without legal analysis provided that the applicable legislation does not expressly and obligatorily require legal analysis by an external office. The decision reached by the committee must be reflected in the corresponding minutes and/or report.

HR Ratings defines partial guarantee as any instrument granted by a third party (guarantor), by which they commit to partially covering the financial obligations of a issue or credit. This is based on a percentage determined on the outstanding balance on the debt or a guaranteed amount.

The debt may be structured or unsecured, and this will determine the method used to assess the guarantee. The guarantor, meanwhile, may be a financial or a non-financial entity, provided they have a credit rating higher or equal than that for the debt the guarantee is intended to back.

The characteristics the legal review looks at, for the purposes of this methodology include:

- The legal documentation for the guarantee should clearly state that the resources from the guarantee will be used solely to service the debt;
- The guarantee agreement should specify the times and conditions necessary for the activation and execution of the payment in full of the guaranteed debt, considering the percentages and/or amounts specified;
- The guarantee must be irrevocable, meaning there are no clauses that would permit the guarantee to be cancelled before the total repayment of the rated debt, or if such clauses were to exist, they would only be effective in certain circumstances;
- The guarantee must be unconditional. The payment will not be subject to any additional condition, beyond the availability of funds from the debtor to cover its payment obligations and compliance with the process for notifying the guarantor, so that they may fund the payments in a timely manner;

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- In the case of guarantees on structured debt, the repayment of the amounts drawn from the guarantee must be subordinate to the debt service in the debt's payment waterfall. This repayment may be made with the structure´s remaining resources after debt service;

- In the case of guarantees on unsecured debt, the obligations for the repayment of the guarantee, within the analysis, should not jeopardize the capacity of the issuer to satisfy their payment obligations on the rated debt.

In addition to the characteristics that have been described, the HR Ratings will review the additional attributes of these types of contracts, to appropriately incorporate the benefits of the guarantee into the analysis. However, if because of its complexity, any characteristic cannot be incorporated into the HR Ratings financial model, the analysis committee may assign a qualitative adjustment, which will be detailed in the analysis report and/or the committee's minutes. Some of the most common characteristics include the following:

A) Revolvency: Guarantees may be revolving or not revolving. A revolving guarantee will consider in the available total any amount that has been drawn in previous periods and paid to the guarantor as established in the respective agreement. On the other hand, a non-revolving guarantee will not consider amounts drawn and repaid as available.

B) Draw and Amortization (or repayment) Periods: Guarantee agreements should clearly specify the draw and repayment periods. The draw date should cover the full term on the debt, while the amortization period will usually start after the draw period has ended. During this last period, the flows generated by the asset that backs the debt should be used to amortize the whole of the amount drawn on the guarantee, as well as the interests that may have been capitalized, as laid out in the agreement. However, both the guarantee agreement and the debt documents may permit early payments on the guarantee if there are remnant flows. When this is the case, it will be important that any payment of principal or interest on the guarantee is completely subordinated to the payment of the debt and, insofar as possible, incorporated into the financial model.

C) Guaranteed Amount: In general, the guaranteed amount will be defined in each period based on the outstanding balance and percentage guaranteed, and sometimes may correspond to a percentage of the amount placed. It may also be limited to a fixed amount determined in the guarantee agreement.

D) Amount Available: The amount available will, in addition to the amounts drawn in previous periods, depend on the characteristics established in the guarantee including its revolvency. HR Ratings defines a guarantee as frozen when the percentage it covers, and therefore the amount available, is fixed for a specific period once it is utilized. Meanwhile a non-frozen guarantee refers to that where the available amount is not fixed despite having been used.

E) Amount Drawn: Amounts that have been used from the guarantee to cover debt obligations.

F) Consideration: Defined as the payment the party contracting the guarantee makes to the guarantor from time to time, for the guarantee to remain effective.

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G) Conditions for default and early termination: HR Ratings will determine whether the conditions stipulated represent a credit enhancement or risk to the structuring.

H) Guarantor's Rating: HR Ratings will consider the rating of the guarantor to assess the quality of the guarantee. When the guarantee is a liquid reserve fund, already set up and available through a trust, the equivalent rating will be considered as HR AAA.

It's important to note that the characteristics detailed here are only the most common that exist in guarantee agreements. Additionally, the potential impact of a partial guarantee will be assessed during the annual review of the instrument for which it was established.

Partial guarantees on unsecured debt[1]

The different HR Ratings methodologies provide the process and the metrics considered to assign a rating to the unsecured debt (non-structured) of an entity, whether it be a state or municipality, a corporation, bank or a non-bank financial institution, etc. As the source of payment is not isolated in these cases, and it may also serve more than one debt instrument at a time, the rating for the non-structured debt is linked to the rating for the issuer or borrower. To improve this rating, the issuer or borrower may contract a third-party guarantee, or establish a reserve in a separate trust that would provide liquidity to the non-structured debt in stress situations.[2]

In general terms, HR Ratings will increase the debt rating one notch for every 15% that is guaranteed. This is subject to the guarantor having the maximum credit quality on the local Mexican scale. When the guarantor does not have an HR AAA or equivalent rating, the guaranteed amount will be reduced as noted in Figure 1.

Figure 1: Guarantors' Rating Factor

HR AAA	100%	HR A+	80%
HR AA+	95%	HR A	75%
HR AA-	85%	HR A-	70%

Source: HR Ratings

This figure shows that if the guarantee covers, for example, 20% of the outstanding balance on the guaranteed issue, but the guarantor has a rating of HR A-, only 14% of the outstanding balance will be taken as guaranteed. It's important to note that if the guarantor's rating is less than the issuer's rating, HR Ratings will not incorporate this instrument into the analysis.

Liquid funds offered as a credit enhancement for this type of debt, and which preferably are constituted through a management trust, will add one notch to the rating for secured

[1] This section refers primarily to unsecured guarantees for corporations and financial institutions, although they may also apply to states and municipalities.

[2] HR Ratings will identify the execution mechanism to ensure the liquidity the guarantee is intended to provide is immediate and unconditional. When the guarantee is offered through a third party, the credit rating will be monitored.

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debt for every 15% these resources represent in the current outstanding balance. This is because a liquid fund is considered to hold a credit rating equal to HR AAA. In case the fund is made up of non-cash assets, HR Ratings may use its financial assets methodology to determine an approximate credit rating for the fund. HR Ratings may qualitatively assign one notch if they identify a credit enhancement that cannot be incorporated quantitatively, or only under specific conditions.

Partial guarantees on structured bank credits and debt issues of public entities (Revenue Sharing Obligations)

General Characteristics and Concepts

This section considers partial guarantees that are contracted to cover the structured debt obligations of both Mexican states, municipalities, and of decentralized government agencies that may contract debt whose source of payment is found in federal revenue or some type of self-generated revenue.

The credit rating of the guarantor is a relevant factor that will look at to determine the credit enhancement the guarantee gives to the bank credit or debt issue. If the characteristics of the guarantee agreement cannot be incorporated into the flow estimates, HR Ratings may consider the guarantor's credit rating as an Extraordinary Adjustment Consideration.

If the guarantee can be incorporated into the financial model, the guarantee amount will be the result of multiplying the percentage guaranteed by the factor associated with the guarantor's rating, as shown in Figure 1. The resulting amount will be that considered in the analysis process and in the calculation of the Target Stress Rate (*TSR*).

It's important to note that if the credit rating for the guarantor is lower than the rating given to the structure without guarantee, then HR Ratings will not consider that instrument in the analysis.

General rating process for structured products for States and Municipalities

The HR Ratings "Federal Transfers Backed Debt Methodology (States)" outlines the process for assessing state and municipal structures. This process is based on the calculation of the *TSR*, which is described in general terms following:

1. HR Ratings stresses the pledged revenues in its projections, cyclically. This revenue usually refers to *Ramo 28* Federal Transfers.[3] The methodology details the process for stressing *Ramo 28*.

2. HR Ratings determines, according to the projection of the stressed revenue and the structured debt servicing, the point at which the structure will show the minimum coverage t_m. The Critical Stress Period is built considering six periods before and six periods after.

[3] According to the HR Ratings methodology, and corresponding addenda, the pledged revenue may also refer to self-generated revenue.

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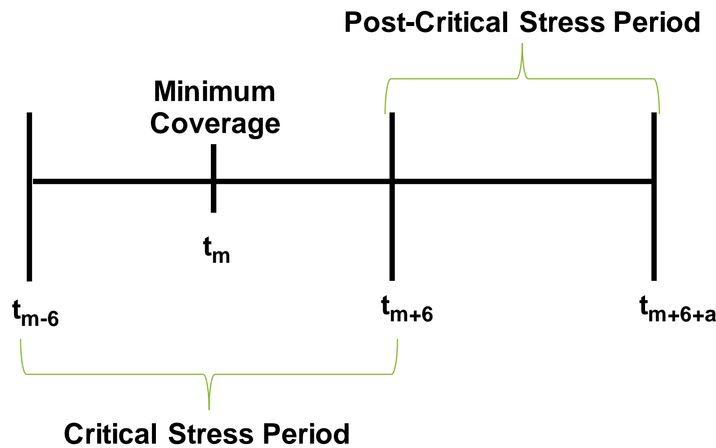
3. In the Critical Stress Period, income will be stressed through the *TSR*, to the point where the lowest secondary debt coverage falls precisely to one. So that the income must be such that the structure can restore the reserve fund, using its reserves, in a Post-Critical Stress Period.

4. The Post-Critical Stress Period starts when the Critical Stress Period ends, and its length is determined according to the target balance amount of the reserve. For example, if the reserve represents three debt servicing periods, the Post-Critical Stress Period will be three periods.

In summary, the critical stress period is t_{m-6} to t_{m+6} during which the TSR penalizes the stressed revenue until the secondary coverage reaches 1.0x, meaning the reserve is fully depleted, considering the restriction discussed in point 4. Figure 2 shows the rating process.

Figure 2: Structured Products



Source: HR Ratings

The Post-Critical stress period starts at t_{m+6} and continues until t_{m+6+a}, with *a* being a whole number defined according to the following:

$$a = \begin{cases} 1 \; if \; the \; reserve \; is \; equal \; to \; one \; debt \; servicing \\ \vdots \\ i \; if \; the \; reserve \; is \; equal \; to \; i \; debt \; servicings \end{cases}$$

Where *i*, and therefore *a*, is a whole number and could be zero if the structuring does not have a reserve to cover the debt servicing.

The TSR is the unique solution to the process of optimization which uses the following conditions:

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Calculate the TSR

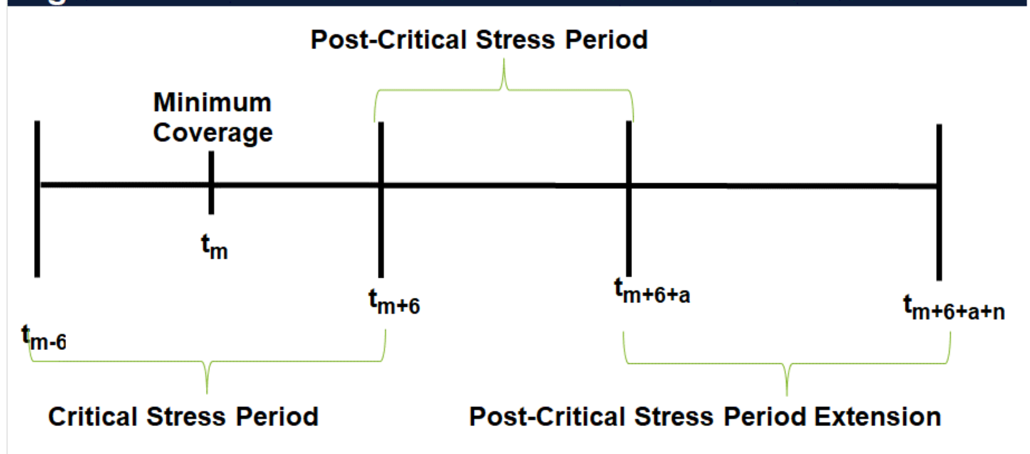
Subject to:
1) $(1-TSR)\sum_{t=1}^{13} FGP_t + (1-Z)\sum_{t=1}^{13} FEFOM_t + FR_{t=1} \geq \sum_{t=1}^{13} SD_t$
2) $Y = f(TSR)$
3) $Z = TSR + Y$
4) $FR_{T+n} = SO_{T+n}$

Where:
TSR: Percentage of reduction applicable to PPS (Primary Payment Source).
Y: Additional stress factor of FEFOM (Subsidiary Payment Source).
Z: Percentage of reduction applicable to FEFOM (Subsidiary Payment Source).
FGP_t: Pledged Revenue of PPS in month t.
$FEFOM_t$: Pledged Revenue of FEFOM in month t.
T: Number of months of Critical Stress Period (13 months).
FR_t: Reserve fund in month t.
SD_t: Debt service in month t.
SO_T: Target Balance of Reserve Fund in month T.
n: Number of months of Post-Critical Stress Period.

Process for modeling the partial guarantee

When there is a guarantee, the model allows for the resources available under the guarantee to be used during the Critical Stress Period, in addition to the reserve. The Post-Critical Stress Period will need to be modified to also replenish the partial guarantee, considering the payment of the interest accrued. Figure 3 shows the rating process incorporating a partial guarantee.

Figure 3: Partial Guarantee for a Structured Product



Source: HR Ratings

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When there is a guarantee and its resources are used, the Post-Critical stress is extended *n* additional periods starting t_{m+6+a}, where *n* is the maximum whole resulting from dividing the percentage guaranteed by 5. This means that one additional period is added for every five percent (5%) guaranteed. For example, a guarantee that covers 25% of the outstanding balance will imply an extension of five periods, during which the amount used will be paid along with the corresponding interest. This process is summarized as:

$$n = \left\lfloor \frac{Percentage\ Guaranteed}{5} \right\rfloor$$

The *TSR* should be such that the whole of the reserve can be used and only the amount that can be repaid at the end of the extended Post-Critical stress period is drawn from the guarantee, considering the interests this draw would accrue, when this is the case. With the aim of incorporating the credit strength that a partial guarantee represents in a debt structure, HR Ratings will consider in all cases that the payment of the guarantee is made in the periods corresponding to the previously described mechanism, meaning the extended post-critical stress period. So, as long as the validity of the debt structure allows it, the total of the resources available for the payment of the debt service corresponding to the use of the partial guarantee must be considered for the determination of the critical stress period.

Development of the Model

As a rule, the guarantee is incorporated into the rating process through the projection of future payments the guarantor would make, according to the terms and conditions of the corresponding agreement and the payment waterfall of the structure.

By consequence, the analysis would assume that, under certain conditions and according to that stipulated in the guarantee agreement, the source of payment for the debt will be complemented with the additional resources from the guarantee. This could aid the borrower to cover the debt servicing payments. Regardless, the effect of this additional source of resources on the credit rating for the structure will be reflected in the calculation of the *TSR* and, by consequence, in the credit rating given.

It's important to mention that the support the guarantee provides, in terms of resources, will be considered an additional flow to the source of payment and to all the other resources available within the structuring.[4] Therefore, this will not have a direct impact on the calculation of the primary or secondary debt service coverage ratio.

Technically there are two possible cases where the guarantee would be involved, which will depend on the average primary debt service coverage during the Post-Critical Stress Period. These cases are described following:

[4] The existing resources in a reserve consider available resources within the structuring to pay the debt servicing.

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Case 1

- When the average primary debt service coverage is equal to or greater than 2.0 times (x) in the Post-Critical Stress Period, without extending the period for the repayment of the guarantee. The remnants accumulated during the Post-Critical Stress Period, without extending, generally exceed what is needed to replenish the reserve to its target amount.

Since the average primary coverage in this case is equal to or greater than 2.0x during the Post-Critical Stress Period, the reserve fund would be fully depleted during the Critical Stress Period, the target amount could be replenished with the remnants, and the *TSR* would benefit from the use of the guarantee.

Conceptually, this is the simplest case. The structure may use the guarantee on the condition that the projected remnants, during the extension on the Post-Critical Stress Period, can replenish the resources used from the guarantee, including the interests accrued and, as applicable, capitalized.

When the average primary coverage is strictly greater than 2.0x during the Post-Critical Stress Period, there is an additional restriction as the structure will use its remnants to cover the servicing of the guarantee prior to the end of the Post-Critical Stress Period. This means that for a guarantee that covers 25% of the outstanding balance, the structure will have more than five periods to cover the amount borrowed from the guarantee and the accrued interest. Therefore, HR Ratings will only consider the remnants available for the repayment of the servicing on the guarantee at an amount equal to the sum of those accumulated during the Post-Critical Stress Period.

Case 2

- When the average primary coverage is strictly below 2.0x in the Post-Critical Stress Period, without extending to the guarantee repayment period. The remnants are not enough in the Post-Critical Stress Period, without extending, to fully replenish the target balance of the reserve.

As the average primary coverage in this case is strictly less than 2.0x during the Post-Critical Stress Period, the reserve cannot be replenished with the remnants and the *TSR* will not permit the use of the guarantee.

To incorporate the effect of the guarantee on the structuring, an adjustment to the Post-Critical Stress Period is needed. Therefore, HR Ratings will allow the reserve to be replenished in the Post-Critical Stress Period considering both the periods for the reserve to be replenished and those corresponding to the payment of capital and interest for the use of the guarantee. This would allow the whole of the reserve to be used and the credit benefits of the guarantee to be partially applied.

Partial guarantees on debt for infrastructure projects

The guarantees contracted to support the debt servicing on infrastructure projects will be incorporated into the model so that their effect on the flow of resources is considered in the

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base and stressed scenarios.[5] Generally speaking, the credit rating assigned to the debt structure will depend on its financial strength, which is measured through the difference between the real cumulative revenue in both scenarios. This will also consider the characteristics of each debt structure and the asset whose flows will back the debt payment.

However, as guarantees are the last resort the structure has for covering the debt servicing, their potential benefit may be underestimated in the quantitative analysis. Hence, in addition to the scenario analysis, the coverage the guarantee would give the structure is independently assessed from the debt´s payment waterfall and the project´s capacity to generate flows. This manner of conducting the analysis allows HR Ratings to compare guarantees with different characteristics on an issue or credit, as well as credits or issues with different characteristics on the same guarantee.[6]

The Guaranteed Debt Service Ratio (GDSCR) or "guaranteed coverage" is defined as the number of times (x) the amount available on a guarantee would cover the debt servicing (interest and principal) in a given period. Considering that the debt servicing in each period will rarely remain constant and that in most cases, the amount available on the guarantee, even when this has not been used, will decrease over time, the GDSCR will show a downward trend throughout the life of the debt. Therefore, the average of the guaranteed coverage is calculated to determine the benefit of the guarantee, considering the remaining term on the structure, and based on this, the adjustment is determined in number of notches applied to the credit rating for the structuring.

$$GDSCR_t = \frac{Amount\ Available_t}{Debt\ Servicing_t}$$

$$GDSCR\ av_t = \frac{\sum_{n=t}^{T} RCGSD_n}{T - t}$$

Where "T" refers to the periods that constitute the structure and "t" the period analyzed.

Considering the frequency of payment on the principal and interest may vary between debt structures, the average guaranteed coverage is standardized to reflect the number of months of debt servicing that the guarantee could cover if needed. This takes into consideration that, as the guarantee represents the last liquid resource for a structure, the fact that it is used would reflect a weakness in the asset or project to generate flows, the recovery of which will depend on external variables and would be beyond the scope of this analysis.
Based on the above, we consider that the guarantee provides enough of a credit enhancement in terms of notches, provided it can cover nine or more months of debt servicing, regardless of the payment frequency. In this regard:

[5] For more details on the process of rating debt backed by cash flows generated by large-scale infrastructure projects, see "Rating Methodology for Infrastructure and Project Financing".

[6] Although this analysis does not consider the project flows, if the debt is denominated in UDIs or has a variable interest rate, the projections for the stressed scenario will be used to assess the guarantee as discussed in this section.

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1) If the average guaranteed coverage represents between 9 and 18 months of debt servicing, the guarantee could represent an additional level in the credit rating for the structure without analyzing this benefit.

2) If the average guaranteed coverage represents 18 or more months of debt servicing, the rating may be improved by two or more levels.

Lastly, considering the guarantor's rating, the concept shown in Figure 1 also applies to the partial guarantees on infrastructure projects.

Partial Guarantees for other Structures or Debt Structures Backed by Financial Assets or Debt Structures backed by Mortgages

In the case of partial guarantees on debt structures backed by financial assets, the effect of the guarantee is incorporated directly into the transaction flow depending on the activation clauses (triggers). Guarantees that do not have these triggers cannot be considered. These triggers will depend on each contract and each guarantee analyzed, therefore the assessment and evaluation of the triggers is conducted on a case-by-case basis. In the HR Ratings model, the amount of the guarantee directly influences the flow available for the debt servicing and, therefore, the estimation of the Maximum Default the structuring supports. This process has a direct impact on the calculation of the Times Default Rate (TDR) that HR Ratings uses to assign the credit rating.

$$TDR_t = \frac{MDR_t}{HDR}$$

Where "*MDR*" refers to the Maximum Default, "*HDR*" the historic default rate calculated through the vintage analysis of the asset, and "*t*" the current period.

The HR Ratings methodology for the evaluation of financial assets details the necessary TDR values to assign the rating for the structure.

Under this scheme, in general, any partial guarantee will represent a credit enhancement and the amount HR Ratings will consider in its analysis will be dependent on the rating of the guarantor, as shown in Figure 1. In the case of liquid guarantees, constituted through a trust, it is assumed the guarantee has a credit quality equal to HR AAA.

Partial guarantees applied to residential mortgage-backed securities or multi-borrower commercial mortgage-backed securities will follow the same process described in this section for partial guarantees applied to debt structures backed by financial assets. Partial guarantees applied to single asset single borrower commercial mortgage-backed securities will follow the process described for partial guarantees applicable to unsecured debt.

For other structures not mentioned in this document, HR Ratings will include the partial guarantee in the flow projection to assess the scope of the credit enhancement.

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Glossary

1. **Partial Guarantee:** This guarantee, which is typically considered a credit enhancement, refers to a contract by which a third party commits to servicing a part of a certain debt issue in the event the issuer is unable to cover the servicing.

2. **Structured Debt:** Refers to a debt mechanism that isolates, through a trust, the cash flow earmarked to service a debt issue.

3. **Unsecured Debt:** Refers to debt issues where the servicing depends on the capacity of the entity to generate enough cash flow. In this case, consideration is given to whether the issuer needs to cover various costs and expenses in addition to debt servicing.

4. **Outstanding Balance:** Refers to the amount of debt placed and pending amortization.

5. **Issuer / Borrower:** The entity that has issued the structured or unsecured debt.

6. **Guarantor:** The entity that offers cash to service a percentage of the debt issued by the issuer / borrower.

7. **Reserve:** In terms of this methodology, refers to an asset, constituted of cash that is earmarked for debt servicing in the event the free cash flow is insufficient.

8. **Debt Servicing:** Refers to the payment of interest and the amortization set by contract for each period.

9. **Remnants:** In terms of this methodology, refers to the amount of free cash flow remaining after servicing the debt.

10. **Target Stress Rate (*TSR*):** HR Ratings applies this rate to assess the credit quality of Sub-Sovereign debt structures. The rate penalizes the revenue the Sub-Sovereign may receive from *Ramo 28* transfers, and in specific cases, *Ramo 33* or self-generated revenue.

11. **Critical Stress Period:** Refers to a timeframe where HR Ratings stresses the income, through the *TSR*, for *Ramo 28* debt structures issued by Sub-Sovereigns.

12. **Post-Critical Stress Period:** Refers to the timeframe, following the Critical Stress Period, when the structuring should replenish the reserve to its target balance, and as applicable, pay the interest and the amount used from the Partial Guarantee.

13. **Coverage:** The ratio that measures the capacity of the free cash flow to service the debt, typically considering amortization and interest.

14. **Primary Coverage:** The available flows include the income generated by the assets; in the case of Sub-Sovereign debt structures, this refers to the *Ramo 28* transfers; in the case of highways, it refers to the income generated by tolls. The expenses that may be considered include, among others, administrative and operating expenses, etc.

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15. **Secondary Coverage:** In addition to the income generated by an asset, sources of cash include reserves that may, or must, be used to service the debt.
16. **Guaranteed Debt Service Coverage Ratio (GDSCR) or "guaranteed coverage":** The number of times (x) the amount available on a guarantee covers the debt servicing (interest and principal) in a given period.

17. **Times Default Rate (TDR):** The number of times the pledged assets can be stressed in terms of the most common default rate for the type of asset rated, taking into consideration timely and full payment of obligations.

18. **Maximum Default Rate (MDR):** Refers to the maximum default rate the assets supporting a structuring can withstand while still satisfying the debt servicing.

19. **Historic Default Rate (HDR):** Refers to the most common default rate presented by similar assets to those pledged to the issuer trust.

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