Methodology for Financial Assets

Debt backed by a Set of Financial Assets

Financial Institutions
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HR Ratings publishes its update to the Methodology for Financial Assets. Additionally, it reports on the impact to the ratings it maintains for assets under this methodology.

HR Ratings communicates to the market that, as of today, January 23rd, 2023, ratings issued by HR Ratings for debt backed by a set of financial assets will be evaluated according to the update of its new Methodology for Financial Assets. Additionally, HR Ratings informs the market of the impact on its current ratings. The methodology can be consulted at the following link: https://www.hrratings.com/methodology/.

The New Methodology

The methodology describes the process that HR Ratings uses to assess the credit quality of any form of structured financing that is backed by cash flow or the guarantee generated by a set of financial assets. The assets represent a right of collection that has been given and whose cash flow used for debt servicing. The analysis process of HR Ratings includes three elements: (1) the quantitative analysis; (2) the operational assessment of the structure; and (3), the adjustment considerations, which incorporate qualitative factors.

The main changes made in this update are the following:

1. The relationship between the methodology and the process established in HR Ratings General Methodological Criteria for the legal analysis of structured transactions is clarified.

2. The process used for the quantitative analysis of structures backed by rated debt instruments is established.

3. A procedure is integrated to deal with cases where there is a dependence of the structure on the trustee.

4. The treatment to be given to due diligence reports generated by an independent third party on the rated transaction is established for the applicable jurisdictions.

Impact of the implementation of the new methodology on current ratings

Due to the incorporation of this methodology into the analysis process, HR Ratings carried out a review of each of its ratings for debt backed by a set of financial assets to determine their possible impact, concluding that none of the ratings are affected by this methodological change.

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