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HR Ratings updates its Rating Methodology for Mortgage-Backed Securities. Additionally, HR Ratings reports about the effect of this update on its outstanding ratings.

HR Ratings informs that starting today, January 23rd, 2023, the rating actions determined by HR Ratings for debt instruments backed by residential or commercial mortgages will be produced in accordance with the updated version of its Rating Methodology for Mortgage-Backed Securities. Additionally, HR Ratings informs that there are no effects on the outstanding ratings derived from this update. The methodology can be consulted at the following link: <https://www.hrratings.com/methodology/>.

Updated Methodology

The methodology describes the process used by HR Ratings to evaluate the credit quality of any type of structured product backed with the cashflow generated by a pool of mortgages. HR Ratings' analysis is based on three main components: (1) A quantitative analysis, which considers an evaluation of the mortgages and the generation of projections of future cash flows in distinct scenarios; (2) an evaluation focusing on the structure's proper operation; and (3) adjustments, which consider qualitative factors.

The following are the main changes introduced in this update:

1. The document clarifies the relationship between this methodology and the legal analysis process established in HR Ratings' General Methodological Criteria.
2. The methodology establishes the quantitative analysis applied to residential mortgage-backed securities and multi-borrower mortgage-backed securities. This process concludes with the construction of the Times Default Rate (TDR) metric, which is used as one of the main components to determine a credit rating.
3. The methodology establishes the quantitative analysis applied to single asset single borrower mortgage-backed securities. This process concludes with the construction of the Annualized Stressed Rate (ASR) metric, which is used as one of the main components to determine a credit rating.
4. The methodology establishes an evaluation of the transactions' main operational and financial concepts that could influence the construction of the financial model or result in a qualitative adjustment.
5. A procedure is integrated to deal with cases where there is a dependence of the structure on the trustee or any counterparty.
6. 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.



Credit
Rating
Agency

Rating Methodology for Mortgage-Backed Securities

January 23rd, 2023

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 residential or commercial mortgages to determine their possible impact, concluding that none of the ratings are affected by this methodological change.

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Rating Methodology for Mortgage-Backed Securities

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