Criteria | Financial Institutions | General:

Issue Credit Rating Methodology For Nonbank Financial Services Companies

December 9, 2014

*(**Editor's Note:** On Dec. 9, 2021, we republished this criteria article to make nonmaterial changes. See the "Revisions And Updates" section for details.)*

1. These criteria explain how we rate obligations issued by nonbank financial services companies (FSCs), including nonoperating holding companies (NOHCs) of such groups. These criteria should be read in conjunction with the criteria listed in the Related Criteria And Research section. The approaches differentiate by sector (see table 1) and primarily reflect the following factors:

- For hybrid capital instruments, the hybrid capital criteria ("Hybrid Capital: Methodology And Assumptions," published July 1, 2019) applies to all FSCs.
- For senior obligations, we derive issue credit ratings from the issuer credit rating (ICR) of the issuer or guarantor, as determined under "Corporate Methodology" and "Guidance: Corporate Methodology."
- Specifically, we rate senior secured, senior unsecured, and conventional nondeferrable subordinated debt (NDSD; see the glossary for more details) for FSC finance companies (FSFCs) and FSC asset managers and financial market infrastructure companies (FMIs) according to "Reflecting Subordination Risk In Corporate Issue Ratings," published March 28, 2018. We rate debt issues by notching the issue credit rating up or down from the level of the ICR, group credit profile, or stand-alone credit profile (SACP) of the issuer. When recovery ratings are applicable, we rate debt issues according to "Recovery Rating Criteria For Speculative-Grade Corporate Issuers," published Dec. 7, 2016.

2. These criteria are related to "Principles Of Credit Ratings," published Feb. 16, 2011.

Table 1

Applicable Criteria (With Adjustments Where Noted) For Issue Credit Ratings For FSCs

Sector	Senior secured and senior unsecured debt obligations	Nondeferrable subordinated debt (NDSD)*	Hybrid capital
FSC finance companies (FSFC)	Reflecting Subordination Risk criteria and apply recovery ratings	Reflecting Subordination Risk criteria and apply recovery ratings	Hybrid capital criteria
FSC asset managers (AM)	Reflecting Subordination Risk criteria and apply recovery ratings	Reflecting Subordination Risk criteria and apply recovery ratings	Hybrid capital criteria

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Table 1

Applicable Criteria (With Adjustments Where Noted) For Issue Credit Ratings For FSCs (cont.)

Sector	Senior secured and senior unsecured debt obligations	Nondeferrable subordinated debt (NDSD)*	Hybrid capital
FSC financial market infrastructure companies (FMI)	Reflecting Subordination Risk criteria	Reflecting Subordination Risk criteria	Hybrid capital criteria

*This refers to conventional nondeferrable subordinated debt that is not classified as hybrid capital under our criteria.

SCOPE OF THE CRITERIA

3. The criteria apply to all long-term obligations of globally rated FSCs (as defined in the criteria in the Related Criteria And Research section).

4. We rate short-term obligations at the same level as the short-term ICR (unless, potentially, the ICR is 'D' or 'SD' [selective default]), and do not notch short-term issue credit ratings to reflect recovery prospects or subordination.

SUMMARY OF THE CRITERIA

5. To rate senior and NDSD obligations of FSCs:

- For FSC finance companies and asset managers. Apply the Reflecting Subordination Risk criteria and apply our recovery ratings framework. In the U.S. and other countries where we assign recovery ratings, we apply "Recovery Rating Criteria For Speculative-Grade Corporate Issuers."
- For FMIs. Apply the Reflecting Subordination Risk criteria, with no recovery ratings.

6. This paragraph has been deleted.

7. This paragraph has been deleted.

8. This paragraph has been deleted.

9. We derive issue credit ratings from the ICR for senior debt obligations. To rate hybrid capital instruments of FSCs, we apply the hybrid capital criteria.

10. For FSC issue credit ratings, unless a 'D' rating applies, we do not rate senior debt obligations below 'CC' or subordinated instruments below 'C'. For how we assign 'CCC+' issue credit ratings and below to subordinated instruments, see "Credit FAQ: Applying "Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings" To Subordinated And Hybrid Capital Instruments," published on July 16, 2014.

11. This paragraph has been deleted.

12. This paragraph has been deleted.

METHODOLOGY

13. For FSC issue credit ratings, unless a 'D' rating applies, we do not rate senior debt obligations or subordinated instruments below 'C'. For how we assign 'CCC+' issue credit ratings and below to subordinated instruments, see "Credit FAQ: Applying "Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings To Subordinated And Hybrid Capital Instruments," published on July 16, 2014.

FSC Finance Companies And Asset Managers--Senior Obligations And Conventional NDSD Obligations With The Same Likelihood Of Default

14. We apply the Reflecting Subordination Risk criteria and recovery ratings.

FSC Finance Companies And Asset Managers--Hybrid Capital Instruments

15. We apply the hybrid capital criteria.

FSC FMIs--Senior Obligations And Conventional NDSD Obligations With The Same Likelihood Of Default

16. We apply the Reflecting Subordination Risk criteria.
17. This paragraph has been deleted.
18. This paragraph has been deleted.
19. This paragraph has been deleted.

FMI Debt Obligations--Hybrid Capital Instruments

20. We apply the hybrid capital criteria.
21. Paragraphs 21-31 have been deleted.

GLOSSARY

Hybrid capital instrument. A hybrid capital instrument is an obligation that displays features of both debt and equity, as defined in "Hybrid Capital: Methodology And Assumptions," published July 1, 2019.

Conventional nondeferrable subordinated debt (NDSD). Nondeferrable subordinated debt obligation that has the same default risk as senior debt issued by the same issuer.

REVISIONS AND UPDATES

This article was originally published on Dec. 9, 2014. These criteria became effective on Dec. 9, 2014.

Changes introduced after original publication:

- Following our periodic review completed on Dec. 9, 2015, we updated our author contact information, made adjustments for superseded criteria, and updated "Related Criteria And Research." We also edited paragraphs 1 and 12 to improve readability.
- Following our periodic review completed on Dec. 9, 2016, we updated the author contact information and made updates and corrections to "Related Criteria And Research." We added an appendix, where we included "History Of Changes" and "Effective Date" sections.
- On Sept. 21, 2017, we updated references to include "Reflecting Subordination Risk In Corporate Issue Ratings," published on Sept. 21, 2017. The "Reflecting Subordination Risk" criteria replace the "Rating Each Issue" criteria for financial services finance companies and asset managers. We also included "Reflecting Subordination Risk In Corporate Issue Ratings" in the list of related criteria.
- On Sept. 28, 2017, we added "Methodology And Assumptions: Assigning Equity Content To Corporate Entity And North American Insurance Holding Company Hybrid Capital Instruments," published April 1, 2013, to the list of related criteria.
- Following our periodic review completed on Dec. 4, 2017, we updated our contact information and the "Related Criteria" section. We replaced the appendix with the "Revisions And Updates" section.
- Following the update to our "Reflecting Subordination Risk in Corporate Issue Ratings" criteria to include financial market infrastructure companies on March 28, 2018, we updated paragraphs 1 and 5 and table 1 to reflect their partial superseding now that we apply the RSR criteria to FMIs. In addition, we updated paragraph 16 and deleted paragraphs 17–19 to reflect application of the RSR criteria on FMIs. We also updated the contacts list.
- On Jan. 16, 2019, we republished this criteria article to make nonmaterial changes. We updated the contact information and criteria references.
- On July 1, 2019, we republished this criteria article to make nonmaterial changes in connection with the publication of "Hybrid Capital: Methodology And Assumptions." Specifically, we updated criteria references throughout the article and revised the glossary's definition of "hybrid capital instruments" to cross-reference "Hybrid Capital: Methodology And Assumptions." We also deleted paragraphs 6 and 8 and updated the section "FMI Debt Obligations--Hybrid Capital Instruments" because these topics are now addressed within "Hybrid Capital: Methodology And Assumptions." We also updated the "Related Criteria" section.
- On Jan. 21, 2020, we republished this criteria article to make nonmaterial changes to update criteria references.
- On Jan. 11, 2021, we republished this criteria article to make nonmaterial changes to update criteria references and the contact list.
- On Dec. 9, 2021, we republished this criteria article to make nonmaterial changes in connection with the publication of "Financial Institutions Rating Methodology," which contains the criteria for assigning NBFI issue credit ratings. We therefore deleted all references to NBFI issue credit ratings (from paragraphs 1, 3, 7, 9, 10, 13, and 21-31, as well as from table 1 and the glossary) and removed the reference to NBFIs in the title of this criteria article. We also updated criteria references and the contact list.

RELATED PUBLICATIONS

Superseded Criteria

- Criteria Guidelines For Recovery Ratings On Global Industrials Issuers' Speculative-Grade Debt, Aug. 10, 2009
- Finance Companies: Recovery Ratings For U.S. Finance Companies, June 19, 2008

Related Criteria

- Group Rating Methodology, July 1, 2019
- Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities, April 29, 2014
- Corporate Methodology, Nov. 19, 2013
- Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Credit FAQ: Applying "Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings" To Subordinated And Hybrid Capital Instruments, July 16, 2014

Related Guidance

- Guidance: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Guidance: Corporate Methodology, July 1, 2019

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