MOODY'S INVESTORS SERVICE

This methodology is no longer in effect. For information on rating methodologies currently in use by Moody's Investors Service, visit ratings.moodys.com/rating-methodologies

RATING METHODOLOGY

Insurance Premium Finance-Backed Securitizations Methodology

OUTDATED METHODOLOGY

Table of Contents:

Analyst Contacts:

NEW YORK +1.212.553.1653

Inga Smolyar +1.212.553.8955
Vice President – Senior Credit Officer
inga.smolyar@moodys.com

Giyora Eiger +1.212.553.4379
Vice President – Senior Credit Officer
giyora.eiger@moodys.com

FRANKFURT +49.69.70730.700

Armin Krapf +49.69.70730.726
Vice President – Senior Credit Officer
armin.krapf@moodys.com

CLIENT SERVICES:
New York: +1.212.553.1653
Tokyo: +81.3.5408.4100
London: +44.20.7772.5454
Hong Kong: +852.3551.3077
Sydney: +612.9270.8100
Singapore: +65.6398.8308

This rating methodology replaces *Insurance Premium Finance-Backed Securitizations Methodology* published in April 2020. We edited "Appendix D: Modeling Approach for Portfolios with Varied Credit Risk Profiles" to provide more information on our modeling approach, and we added a section that mentions our approach to evaluating the risk from environmental, social and governance considerations. We also made editorial updates to enhance readability. These updates do not change our methodological approach.

Scope

This rating methodology applies to securities backed by insurance premium finance loans.

In this methodology, we explain our approach to assessing credit risks for securities backed by insurance premium finance loans, including quantitative and qualitative factors that are likely to affect rating outcomes in this sector. While this is based on our US experience, we may apply the approach, when relevant, to other transactions outside of the US.

Rating Approach

In this section, we summarize our approach to assessing credit risks for securities backed by insurance premium finance loans, including quantitative and qualitative factors that are likely to affect rating outcomes in this sector.

Asset Overview

Small and medium-sized businesses may use a loan to fund a portion of the insurance premium on a newly issued property and casualty insurance policy. These loans are the collateral for asset-backed securities (ABS) issued by insurance premium finance-backed transactions. In addition, the ABS transactions have an assigned claim on the unearned premium held by the insurer that writes the policy.

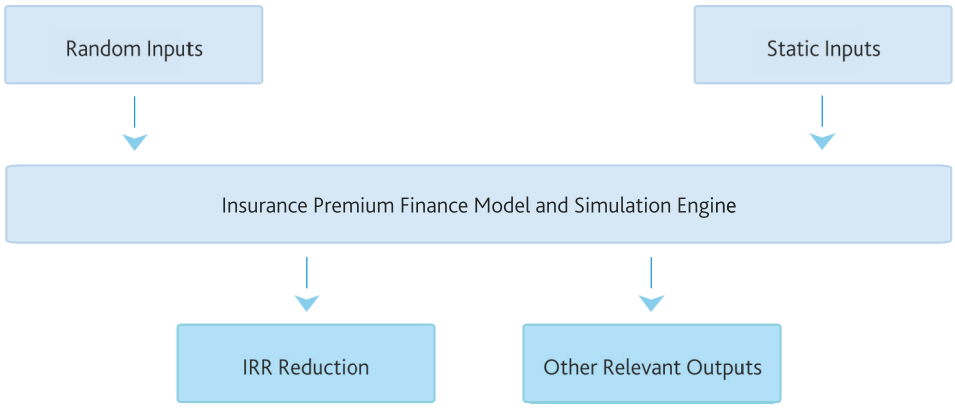
Analysis Framework

Our methodology for rating securities backed by insurance premium finance loans entails several steps. For US portfolios of insurance premium finance loans, we simulate the transaction performance during the amortization period only. Given pool characteristics that shift during the revolving period and trigger levels for early amortization payout events, we expect that risks to the ABS we rate stem primarily from the amortization period.

We use a Monte Carlo simulation for our insurance premium finance simulation model, which generates asset cash flows that are applied to pay down the securities in accordance with the priority of payments. We run the model for at least 10,000 iterations, and measure the resulting frequency and severity of default for the different classes of securities. For each security and each simulation scenario, we calculate the internal rate of return (IRR) and compare it with the expected IRR to obtain the IRR reduction. We then average the IRR reduction for each security over all the simulations and compare this average to our benchmarks for each rating level to determine the model output for the security.[1] We also qualitatively assess several factors, including operational risk, counterparty risk, and the transaction's legal structure.

EXHIBIT 1

Monte Carlo Simulation



Source: Moody's Investors Service

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

OUTDATED METHODOLOGY

[1] For more information, see the discussion of Internal Rate of Return (IRR) Reduction in *Ratings Symbols and Definitions* (a link can be found in the "Moody's Related Publications" section) and in the "Loss Benchmarks" section.

Alternatively, for portfolios with varied credit risk profiles, we use an approach similar to the one applied to very granular loan portfolios with private and commercial exposure in Europe.[2] In this case, we derive an asset default distribution of the loan portfolio and then use a cash flow model to derive the expected loss for the security. We review the results of a variety of modeled scenarios, and we then compare the security's expected loss to our benchmarks for each rating level to determine the model output for the security.[3] We determine the assigned rating as part of a rating committee process. Rating committees will, where appropriate, consider additional quantitative and qualitative factors they deem relevant which could lead a committee to assign a rating that may differ from the model output.

Borrower default rates have been moderate but realized losses in these types of ABS transactions have historically been low because a borrower default leads to the de facto cancellation of the insurance policy. The insurer must then refund the unearned premium. Unearned premiums are contingent obligations of the insurance companies providing coverage. Typically, highly rated insurers issue the policies in the transactions we analyze. Securitized loan pools are also diversified, with any single individual loan constituting only a small fraction of the pool balance.

A key driver of risk in these transactions is the amount of time it may take the servicer to cancel a policy following a borrower payment default. Any delay in recognizing a defaulted loan results in a lower recovery rate for such a loan because the unearned premium refund due upon policy cancellation declines over time. Given that a cancellation constitutes an ordinary action a servicer takes whenever a loan defaults, we expect that delays would most likely occur in the event of a servicer disruption, especially a servicer event of default that requires the transfer of the servicing to another party. Apart from this situation, the high quality of the collateral in this asset class attenuates the usual risks of loss stemming from borrower default.

Asset-level Analysis and Related Modeling

In this section, we explain how we analyze the underlying assets in insurance premium finance-backed securitizations and how we estimate potential losses on those assets.

Historical Data Analysis

In our transaction analysis, we review historical data on portfolio composition and performance. Securitizations of insurance premium finance loans typically have a master trust structure with a revolving period during which the trust uses the loan principal payments to acquire new loans, sustaining the borrowing base, rather than to repay ABS investors. Thus, we consider in our analysis the risk associated with changes to pool characteristics during a revolving period and its impact on performance. Specifically, we evaluate how an originator's portfolio composition has changed over time and assess the stability of its underwriting criteria and origination strategies.

The review has both loan-level and pool-level aspects. We consider the different types of loan products the originator offers. In reviewing the pool's performance, we consider the historical composition of the pool by product type and take into account the possibility that the compositions will change over time. The change in the pool composition can be mitigated by concentration limits for different product types.

Our analysis of historical performance data focuses on three main aspects: (i) losses occurring at origination (mainly fraud); (ii) the performance of the receivables and the pool; and (iii) losses arising from collections of the unearned premiums. Losses at origination are typically the result of payments the originator makes to a broker that claims the funds for a non-existing insurance policy or that does not advance the loan

[2] For more information, see Appendix D.

[3] For more information, see the discussion of Idealized Probabilities of Default and Expected Losses in *Rating Symbols and Definitions* (a link can be found in the "Moody's Related Publications" section) and in the "Loss Benchmarks" section.

OUTDATED METHODOLOGY

proceeds to the insurance company; both are instances of fraud and result in a loss. Repeated losses at origination could indicate weak origination governance and result in regulatory risk.

Our review of the historical pool performance takes into account the payment rate (i.e., the percentage of the pool paid down every month) and the yield, both gross and net. The historical payment rate is driven by both down payments and loan maturities in the portfolio. The payment rate determines how quickly the rated securities will pay down once the revolving period ends, which in turn determines the length of the exposure to interest rate mismatch. A higher payment rate reduces the transaction's exposure, and vice versa.

The yield analysis tracks the gross and net yield over time. Gross yield reflects a portfolio's actual coupon rates while net yield subtracts the interest rate on the securities, servicing fees, and losses. In practice, the net yield serves as a form of credit enhancement against both losses and interest rate mismatch risk. However, in our analysis, we typically give no credit to net yield for either purpose. The actual amount of net yield in an unhedged structure is typically in the mid-to-high single-digit percentage points but cannot be predicted with much certainty given its historical volatility. Net yield depends on a pool's average yield and the securities' interest rates, both of which can change over time; a pool's average yield migrates with the interest rate environment, while the securities may be fixed rate or have a floating rate tied to an interest rate benchmark. Qualitatively, we view the originator's ability to change the rate it charges borrowers for new loans in response to changes in its funding costs as a positive because it reduces the risk of breaching the minimum net yield requirement and triggering early amortization.

The focal point of the historical performance analysis is the net losses that arise from the collections of the unearned premium. Insurance premium finance loans are structured in such a way that in most cases, if the servicer terminates the policy promptly, the loan will not realize any loss. Reviewing the historical losses attributable to servicing allows us to assess the effectiveness of the servicer's practices and procedures, which is a key component in determining the credit enhancement.

Quantitative Analysis

In the following sections, we describe certain aspects of our Monte Carlo simulation model. We use this modeling approach for portfolios of standard insurance premium finance receivables of the type described above, as typically seen in the US market. Appendix D describes an alternative modeling approach for portfolios containing a greater variety of insurance premium finance receivables with contrasting credit risk profiles, as typically seen outside of the US.

Our Monte Carlo simulation model assesses different scenarios during amortization. From these scenarios, we obtain several thousand sets of monthly asset cash flows, which we then apply to pay down the proposed ABS issuance.

This Monte Carlo simulation relies on key variables we identify as important to the performance of the assets and assigns probability distributions for these variables. The diagram in Appendix C lays out the decision tree we apply for each iteration of the simulation model. The key variables include the probability of default by the servicer, the probability of default by the insurance companies in the pool, and recoveries of unearned premiums. In defining the parameters for the variables, we rely on historical data, our knowledge of the insurance industry, current and potential industry trends, and the servicer's experience in servicing these assets.

OUTDATED METHODOLOGY

The parameters that have the biggest impact on our model results are the assumed servicer default frequency, which is driven by the servicer's rating or credit estimate,[4] and the loss upon servicer default, which is driven in part by the length of the transition period to a successor servicer. We typically develop internal credit estimates for unrated servicers, which we treat as a single obligor exposure in our model input, based on our criteria for the use of credit estimates.

Model Inputs

SERVICER PROBABILITY OF DEFAULT

We simulate the default of the servicer based on a probability of default assumption for the company. The probability of default assumption is generally based on the servicer's rating or its credit estimate if the servicer has no rating.[5] However, we can also take into account other factors, such as the size of the company and its competitive position, which could result in an assumed probability of default lower or higher than the servicer's rating or credit estimate. We simulate defaults using a random number that references our Idealized Expected Default Rates table.[6] We also test the sensitivity of the model output to the credit quality of the servicer by running multiple scenarios with different servicer default probabilities. For the servicers we rate, we test the sensitivity of the proposed securities rating to changes in the servicer's rating to avoid excessive transition risk to the securities rating. For servicers we do not rate, we obtain credit estimates and test the sensitivity of the proposed securities rating to changes in the servicer's credit estimate. Doing so provides more insulation to offset the higher risk of servicer credit migration, given the lack of a rating.

LOSS ASSUMPTIONS UPON SERVICER DEFAULT

Cancellations are vital to maximizing the refund of unearned premiums on defaulted loans. To simulate disruption during a servicer transition, we model a servicer default by applying an assumed loss to all incoming principal payments over an assumed transition period with respect to the back-up servicing arrangement in place for the transaction. We assume a three-month transition period for our base case. We assume a loss of 17% for each month's principal collected during this period reflects the complete loss of unearned premium refunds due based on typical delinquency rates of 3% to 4% and payment rates of 20% to 25%. We might run other stress cases to simulate higher delinquency rates or longer transition periods specific to a certain sponsor, transaction structure or the economic environment.

INSURANCE CARRIER PROBABILITY OF DEFAULT

Regardless of whether specific static pool information is available, insurance carrier concentrations could drift over time because of the revolving nature of the assets. Therefore, we create a hypothetical pool of carriers that we assume will be the least diversified by carrier, with the weakest carrier credit quality mix allowed by the transaction terms because of applicable insurance carrier concentration limits. For instance, a specific transaction might allow only a small percentage of the portfolio to have policies issued by non-investment-grade-rated insurance companies. In this case, we assume that the percentage is issued by a single carrier with a default risk consistent with a mid-to-high speculative-grade probability of default, generally Ba2-Ba3. This assumption reflects the nature of the insurance industry, which is subject to a substantial regulatory framework and oversight. Although it will vary based on the specific transaction terms, in a given transaction the hypothetical pool will typically consist of 15 to 20 hypothetical carriers. We

OUTDATED METHODOLOGY

[4] For more information, see our cross-sector methodology that discusses credit estimates. A link to a list of our sector and cross-sector methodologies can be found in the "Moody's Related Publications" section.

[5] For more information, see our cross-sector methodology that discusses credit estimates. A link to a list of our sector and cross-sector methodologies can be found in the "Moody's Related Publications" section.

[6] For more information, see the discussion of Idealized Probabilities of Default and Expected Losses in *Rating Symbols and Definitions.* A link can be found in the "Moody's Related Publications" section.

then simulate carrier default scenarios based on our Idealized Expected Default Rates table.[7] In practice, securitized pools have far more than 15 to 20 carrier exposures.

BORROWER PROBABILITY OF DEFAULT

Irrespective of whether individual policy-level data is available, the revolving nature of the pool could allow for aggregate loan characteristics to drift over time. Furthermore, a default by both the borrower and the insurance carrier is what exposes a transaction to significant losses. Thus, in our simulation, we group policies to model borrower defaults by pairing each carrier group to one hypothetical borrower. In other words, for a given transaction, we model a hypothetical pool of 15 to 20 hypothetical carriers, each of which we assume has extended a policy to one borrower. Borrowers are generally unrated. Available information suggests that borrower default rates range from 5% to 10% per annum. The majority of these defaults result in no loss to the originator because of timely policy cancellations and refunds of unearned premiums. These default rates are consistent with small businesses with low speculative-grade default risk, so we model idealized borrower defaults consistent with low speculative-grade ratings. In practice, securitized pools have much more than 15 to 20 borrowers.

RECOVERY OF UNEARNED PREMIUMS

Upon a borrower default (in the absence of an insurance carrier default), the servicer recovers unearned premiums from the insurance carrier, usually after a time lag. Though historical experience indicates unearned premiums on defaulted loans are recouped within three months, our base case assumption is that a lag in recovering unearned premiums will be uniformly distributed from three to seven months. This assumption allows us to reflect factors that could delay payment (administrative error, carrier bureaucracy, personnel disruptions during a servicer bankruptcy, etc.).

If both the borrower and carrier default, the situation is more complex. Although in theory state guaranty funds could provide for eventual recovery of the unearned premium, the amount and timing of such recovery would be highly uncertain. We expect that any recovery will occur after the legal final maturity of the rated securities, and therefore we give no credit to recoveries in such circumstances.

EXCESS SPREAD

In our simulation analysis, we give no credit for excess spread because of the revolving nature of the pool, which could cause a drift in excess spread over time and the lack of hedges in the typical transaction. However, we do use the excess spread input to model interest rate risk for unhedged transactions. During a transaction's amortization period, the interest rate on the pool of loans will be a static fixed rate, but the interest rate on the rated securities will be a floating rate. To model this risk, we run scenarios with negative excess spread with a magnitude commensurate with the targeted rating level for each. For instance, we would simulate a Class A security targeting a Aaa rating with a much larger negative excess spread than we would a Class B security at a lower target rating. The static inputs for negative excess spread can range from -1% to -10%, depending primarily on the target rating. For instance, for Aaa ratings, we stress the values at or near the lower end of the indicated range, and for Baa ratings, at the upper end of the range.

FRAUD AND ERROR

Other factors we simulate are charge-offs resulting from fraud or error. Historically, these events have been very rare and the amount of data available is limited. Therefore, in our base case, we normally assume that 0.5% of the pool is lost due to fraud and might run other scenarios for a sensitivity analysis. We adjust these inputs based on the underwriting criteria specific to each originator.

OUTDATED METHODOLOGY

[7] For more information, see the discussion of Idealized Probabilities of Default and Expected Losses in *Rating Symbols and Definitions.* A link can be found in the "Moody's Related Publications" section.

Structural Analysis and Liability Modeling

In this section, we explain how we analyze the structural features of an insurance premium finance securitization, including how we model and allocate cash flows to different classes of securities, taking into account asset cash flows and available credit support.

Overview

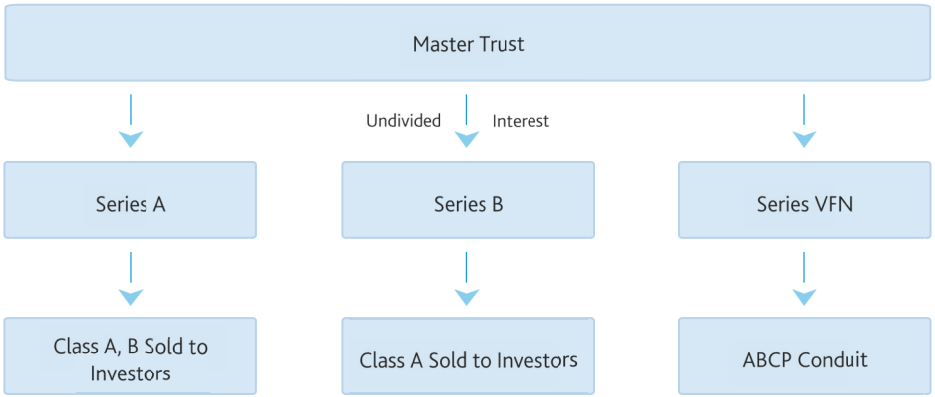
We take into account in our simulation analysis deal-specific features such as the levels of credit enhancement and reserve accounts. For each security, we calculate the average internal rate of return (IRR) reduction of the simulated cash flows for all scenarios.

Master Trust Structure with Revolving Period

Insurance premium finance providers typically issue through a master trust rated term securities with a fixed revolving period. The master trusts also generally issue variable funding notes (VFNs) funded through asset-backed commercial paper conduits. The revolving nature of the VFNs has provided short-term flexibility for originations and acquisitions as needed, while term securities issuance has helped maintain the lowest cost of funds for issuers.

As Exhibit 2 shows, all of the series of securities have undivided interests in the receivables, which means that series share the losses, expenses and fees pro rata based on the series' size, while each series of securities maintains a specific level of credit enhancement.

EXHIBIT 2
Master Trust Structure



Source: Moody's Investors Service

Payout (Early Amortization) Events

A revolving period ends early and the trust uses the loan principal payments to repay ABS securities when certain payout or early amortization events occur. These are specific to an individual series but certain events described below could apply to all series of a particular issuer:

» Collateral performance triggers: net yield falls below a certain minimum (0.75% or 1.00% is typical); monthly payment rate below 15%; default rate rises above 1.5% (often measured as a three-month average); over-collateralization below the required minimum.

MOODY'S UPDATED METHODOLOGY

» Servicer financial profile triggers: applicable in some instances, including liabilities to net worth measure and total net worth measure relating to the servicer.

» Performance covenants: failure of issuer, seller or servicer to comply with other covenants/agreements.

» Miscellaneous: occurrence of payout events for other series of the issuer; originator unable to provide sufficient quantity of eligible loans to sell to the issuer; a loss of security interest in the loan collateral; change in control of the servicer.

Priority of Payment

At the commencement of each payment period, funds are allocated to each series of securities based on the "investor interest" for such series. "Investor interest" is a measure of each series' proportional claim on the asset pool. In each series, during the revolving period, the priority of payment will typically be (1) fees and expenses and (2) interest on the securities sequentially. During the revolving period, the trust uses principal payments to purchase newly originated receivables. The share of principal the trust receives from the investor interest and that it uses to purchase new receivables ensures that the proportion of the investor interest is constant over time.

After the end of the revolving period, the priority of payment for each series will typically be (1) fees and expenses, (2) interest on the securities sequentially, and (3) principal payments on the securities sequentially.

Interest Rate Risk

ABS securities typically have variable yields tied to an interest rate benchmark, while the loans serving as collateral have mostly fixed interest rates. Hedges are not typical. Instead, interest rate mismatch is mitigated by the short average life of the collateral (four to five months) and early amortization triggers that will begin early repayment if the net yield breaches a trigger threshold. Also, the originator can price new originations at higher rates as interest rates rise. Our quantitative analysis addresses this risk by applying interest rate stresses consistent with the assigned ratings. In doing so, we give no credit to the potential benefit of new, higher-priced originations added to the pool; the risk we model starts from the point of early amortization once the pool stops revolving. At that point, the trust can no longer add newly originated loans to the pool.

Loss Benchmarks

In rating insurance premium finance-backed securities originated in the US, we use an Internal Rate of Return (IRR) benchmark when assessing the model output. Modeled IRR reductions are associated with benchmark ratings in Moody's IRR Reduction Rates table,[8] which indicates the internal rate of return reduction interval associated with each given rating level.

In evaluating the model output for other insurance premium finance-backed securities,[9] we select loss benchmarks referencing the Idealized Expected Loss table[10] using the Standard Asymmetric Range, in which the lower-bound of loss consistent with a given rating category is computed as an 80/20 weighted average on a logarithmic scale of the Idealized Expected Loss of the next higher rating category and the Idealized Expected Loss of the given rating category, respectively. For initial ratings and upgrade rating actions, the upper-bound of loss consistent with a given rating category is computed as an 80/20 weighted average on a

[8] For more information, see the discussion of Internal Rate of Return (IRR) Reduction in *Rating Symbols and Definitions.* A link can be found in the "Moody's Related Publications" section.

[9] For example, see Appendix D.

[10] For more information, see the discussion of Idealized Probabilities of Default and Expected Losses in *Rating Symbols and Definitions.* A link can be found in the "Moody's Related Publications" section.

OUTDATED METHODOLOGY

logarithmic scale of the Idealized Expected Loss of the given rating category and the Idealized Expected Loss of the next lower rating category, respectively. When monitoring a rating for downgrade, the upper-bound of loss is computed as a 50/50 weighted average on a logarithmic scale. That is, the benchmark boundaries of loss appropriate for evaluating rating category *R* are given by:

FORMULA 1

$$[1]\ Rating\ Lower\ Bound_R = exp\{0.8 \cdot log(Idealized\ Expected\ Loss_{R-1}) + 0.2 \cdot log(Idealized\ Expected\ Loss_R)\}$$

$$[2]\ Initial\ Rating\ Upper\ Bound_R = exp\{0.8 \cdot log(Idealized\ Expected\ Loss_R) + 0.2 \cdot log(Idealized\ Expected\ Loss_{R+1})\}$$

$$[3]\ Current\ Rating\ Upper\ Bound_R = exp\{0.5 \cdot log(Idealized\ Expected\ Loss_R) + 0.5 \cdot log(Idealized\ Expected\ Loss_{R+1})\}$$

Where:

» Rating Lower BoundR means the lowest Idealized Expected Loss associated with rating R and the expected loss range of rating R is inclusive of the Rating Lower BoundR.

» Initial Rating Upper BoundR means the highest Idealized Expected Loss associated with rating R that is either initially assigned or upgraded and the expected loss range of rating R is exclusive of the Rating Upper BoundR.

» Current Rating Upper BoundR means the highest Idealized Expected Loss associated with rating R that is currently outstanding and the expected loss range of rating R is exclusive of the Rating Upper BoundR.

» R-1 means the rating just above R.

» R+1 means the rating just below R.

» The Rating Lower Bound for Aaa is 0% and the Rating Upper Bound for C is 100%. These are not derived using the formula.

Source: Moody's Investors Service

Other Considerations

Along with our asset, structural and liability analysis, we consider other quantitative and qualitative factors in our credit analysis such as transaction counterparties and legal risks.

Counterparty Risks

We consider and integrate various counterparty-related risks at different stages throughout our credit analysis. More specifically, the risks we consider include operational risks.[11] Based on our review, we may adjust our assumptions, inputs or model results. If information is limited, we may also adjust the rating level.

Operational Risk

Operational risks can arise from various potential sources, including disruption to cash flows caused by the financial distress of a service provider to the insurance premium finance-backed transaction. As part of our

[11] For more information, see our methodology for assessing counterparty risks in structured finance transactions. A link to a list of our sector and cross-sector methodologies can be found in the "Moody's Related Publications" section.

OUTDATED METHODOLOGY

analysis, we consider the financial disruption risk and the roles of servicers, cash managers, calculations agents, trustees and similar parties.

Servicing and Liquidity

The servicing fees on the ABS transactions we have rated ranged from 0.50% to 2.00% per annum. In our view, these servicing fees are sufficient to attract a third-party servicer if it became necessary. The universe of potential successor servicers is limited mainly to the major industry players because of the securitized portfolios size as well as the need for appropriate experience and licensing. However, the risk that servicing expenses could increase dramatically (for instance, in a consumer loan portfolio with high delinquencies) is low, given the consistently stable history and the essential nature of the product being financed. The potential for repeat business with borrowers as they renew their policies annually also generates interest in the successor servicer role should the need arise. This potential income compares favorably to the short remaining life of a securitized pool in wind-down mode after a payout event. Finally, given the short remaining life, the potential impact on a transaction from a servicing fee increase is low.

In this asset class, servicing plays a vital role in mitigating loss given default because of the unearned premium's time sensitivity. As we have shown, a policy cancellation and the claim for a refund of the unearned premium must take place in a very timely manner once the borrower reaches a certain stage of delinquency. Therefore, an assessment of the servicer and/or servicing arrangement is vital to assure us that the servicer will properly meet its responsibilities. Replacing a servicer can take time. Additional credit enhancement to cover additional losses associated with a servicer disruption could be necessary. Finally, servicer disruption risk also carries with it the risk of a disruption to the flow of funds, which in turn could diminish the ability to pay timely interest on the rated securities. Therefore, we consider the flow of funds from borrower to issuer-owned accounts and assess whether additional sources of liquidity, other than the loan payments themselves, are necessary.

Thus, addressing servicer disruption risk has three dimensions – back-up servicing, credit enhancement, and liquidity – which are not mutually exclusive. We assess the need for a back-up servicer or other practical arrangement to address servicer disruption risk independently of the need for additional credit enhancement. Unless the servicer's rating is as high as the highest requested rating, additional credit enhancement to address servicer disruption risk will generally be necessary (which we describe further in the section on modeling). Assessing the need for liquidity is specific to the arrangements in place in a particular transaction to facilitate the flow of funds from borrower to issuer.

Back-up Servicer and Back-up Servicing Arrangement

For servicers that we rate below investment grade or assess as non-investment grade (based on credit estimates[12]), we also evaluate how investors are protected against servicing disruption and how quickly the servicing can be transferred. In these cases, an additional arrangement, such as a back-up servicer, might be necessary if the requested ABS rating is high investment grade. Such additional protection might also be necessary for other ratings depending on the target rating and the servicer's rating or credit estimate. An effective back-up servicer would have all the relevant state licenses and experience complying with the various regulations. Finally, given that time is of the essence, an effective back-up servicing arrangement would be readily actionable. Therefore, the back-up servicer could load all of the relevant loan information onto its systems shortly after it receives the notice, and would at all times have up-to-date pool and transaction information. The primary role of a back-up servicing arrangement is to minimize any losses resulting from servicing disruptions.

[12] For more information, see our cross-sector methodology that discusses credit estimates. A link to a list of our sector and cross-sector methodologies can be found in the "Moody's Related Publications" section.

OUTDATED METHODOLOGY

Additional Credit Enhancement

We expect losses to rise during the transition period from the original servicer to the back-up servicer. Thus, the servicer's credit quality is a factor we consider in determining potential losses. The increase in losses would typically be addressed by additional credit enhancement, typically in the form of over-collateralization. By explicitly modeling the frequency and impact of servicer defaults, the model can specify the appropriate amount of additional credit enhancement necessary to address this risk.

Liquidity

Servicer default could also result in a disruption in collections and the flow of funds to the transaction. Because of their short terms, insurance premium finance loans benefit from relatively high payment rates, typically 15% to 25% of the balance per month – far more than the amount needed to cover monthly accrued interest. Nevertheless, in the event of servicer default, particularly if due to servicer bankruptcy, the payments due from the loans could be temporarily caught up in the servicer's bankruptcy proceedings or otherwise not be immediately available for distribution, which could expose the securitization to a shortfall in funds to pay current interest. The risk can be mitigated by directing borrowers to make payments directly into a lockbox owned by the issuer and pledged to the trustee. The risk can also be (further) mitigated by sizing a reserve account to cover all fees, expenses and interest payments due investors during such period.

Perfection of Security Interest

The loan originator transfers to the issuing entity its entire beneficial interest in the receivables and the associated rights to the unearned premium due upon the policy cancellation. The issuer in turn assigns these interests to the trustee for the benefit of the investors. However, payments on the rated securities could still be delayed or reduced if an issuer or trustee's interest in the receivables and associated rights are not secured by a first priority perfected security interest.

Two main rights need to be perfected: the security interest in the premium finance contract itself, and the right to receive the unearned premium upon policy cancellation, which is unique to this class of receivables. Perfection of the former is straightforward, via appropriate filings under the Uniform Commercial Code (UCC) in the US, while perfection of the latter is more complex.

The perfection of an originator's security interest in an unearned premium is typically not governed by the UCC, but by a mix of specific state statutes and case law. Perfection of such a security interest is usually obtained by providing a notice informing the applicable insurance company of the originator's security interest in the unearned premium. Originators typically send such notices at or around the time they finance the insurance policy premium. In some states, there is no case law or statute governing the perfection of security interests in the unearned premiums, and although the perfection opinion covers these states as well, the method of perfecting is not free from doubt.

As a matter of industry practice, in those states, originators use the same perfection method as in the regulated jurisdictions, by notifying the applicable insurance company. Uncertainty is typically mitigated by over-collateralization, because a typical transaction contains a large number of loans, with no loan accounting for more than 1% of the pool. Finally, the transfer of the premium finance contract and the right to unearned premium refunds from the originator to the issuer and the assignment to the trustee for the rated securities are governed by the UCC and executed according to the statute. For the transactions we rate, we typically review a legal opinion that the interest in the receivables and the associated rights to the unearned premium is a first priority perfected security interest.

OUTDATED METHODOLOGY

Legal Risks

We assess legal risks that may affect the expected losses posed to investors. We consider the potential legal consequences of whether the issuer is bankruptcy remote. We review legal opinions at closing to inform our views on the key legal risks identified in a transaction.

We also assess any legal and regulatory issues affecting the insurance premium finance loans. In the US, the degree of regulatory oversight in insurance premium finance is greater than in most other commercial lending sectors. The origination and servicing of insurance premium finance loans are subject to laws and regulations in most US states. Insurance premium finance regulations are typically enforced by either the state's insurance commissioner or its department of financial institutions and banking. The regulations impose requirements on the making, acquiring, transferring, servicing, enforcement and collection of insurance premium finance loans and the marketing activities of originators. Many states require that companies originating or servicing premium finance loans be licensed. A small number of states lack an explicit licensing requirement, but statutes could reasonably be interpreted to require entities that acquire premium finance loans to be licensed. In some cases, the originator must obtain a license on its own initiative; in other cases, the regulator has indicated that no license is necessary.

Regulations provide some assurance on the quality of the origination process; an originator who violates these laws and regulations could be subject to fines, penalties or litigation. Additionally, non-conforming origination practices could put the receivables in a transaction at risk because a borrower, aware that their loan was non-conforming, might use this as an excuse for relief from the obligation. The risk can be mitigated through origination governance. We review the procedures and oversight implemented by originators. Strong governance practices include regular internal reviews and third-party audits for compliance with regulatory requirements.

Environmental, Social and Governance Considerations

Environmental, social and governance (ESG) considerations may affect the ratings of securities backed by insurance premium finance loans. We evaluate the risk following our cross-sector methodology that describes our general principles for assessing ESG issues[13] and may incorporate it in our analysis.

Monitoring

In this section, we describe our approach when monitoring transactions. We generally apply the same key components as we apply when assigning ratings, except for those elements of the methodology that could be less relevant over time.

We generally apply the key components of the approach described in this report when monitoring transactions, except in some cases those elements of the methodology that could be less relevant over time, such as origination and underwriting standards or review of the legal structure. We also typically receive periodical data on transaction-specific performance which we use to monitor transactions. We may give more weight to performance information for seasoned transactions in particular when defaults and losses are higher or lower than expected.

When monitoring the performance, we track the performance of the underlying collateral, any material developments regarding the originator, servicer and other relevant transaction participants, the amount and form of credit enhancement and factors that may significantly affect the integrity of the legal structure. The starting point is typically the monitoring of the collateral performance relative to our initial expectations.

[13] A link to a list of our sector and cross-sector methodologies can be found in the "Moody's Related Publications" section.

OUTDATED METHODOLOGY

The key performance metrics we track, as well as any triggers relating to these metrics, are the net yield, payment rate, loss rate/charge-off rate, default rate (as applicable), and delinquencies. Breach of the triggers typically results in an early amortization payout event. Additionally, we review the creditworthiness of key transaction parties. For example, we check the credit quality of the largest insurance carriers to which the transaction has exposure. We identify these exposures from information in the periodic report or, if not reported, by reference to the concentrations at closing.

Additionally, we monitor servicer stability periodically by looking at its creditworthiness, or by reviewing available information from reports or other related sources of information. A change in performance metrics beyond expected levels or sudden deterioration of the creditworthiness may prompt a more detailed reassessment, which may include a full quantitative model analysis and rating committee review of the outstanding transaction ratings.[14]

OUTDATED METHODOLOGY

[14] For example, in methodologies where models are used, modeling is not relevant when it is determined that (1) a transaction is still revolving and performance has not changed from expectations, or (2) all tranches are at the highest achievable ratings and performance is at or better than expected performance, or (3) key model inputs are viewed as not having materially changed to the extent it would change outputs since the previous time a model was run, or (4) no new relevant information is available such that a model cannot be run in order to inform the rating, or (5) our analysis is limited to asset coverage ratios for transactions with undercollateralized tranches, or (6) a transaction has few remaining performing assets.

Appendix A: Insurance Premium Finance Overview

The description and examples described in this appendix are based on our US experience. However, we also apply the approach, when relevant, to other transactions outside of the US.

Nature of Loans

The typical premium financing arrangement is for a commercial insurance buyer (the borrower) of a one-year property/casualty insurance policy. The borrower uses the loan proceeds, plus its own funds (i.e., down payment), to make an upfront payment for the premium due to the insurance company. The originator typically requires a down payment of 10% to 25% of the premium; borrowers pay down the loan balance in monthly installments. Originators base the down payment, maturity and interest rate on factors such as the assessed credit risk of the borrower, the nature of the policy, and the laws of the state governing the individual loan transaction.

The loan is secured by an assignment to the originator of the borrower's right to cancel the policy and receive a refund from the insurance carrier of the unearned policy premium. The insurance carrier receives notification of the assignment from the originator. The balance of the unearned premium declines over time, as does the loan balance. Because these loans amortize more quickly than the unearned premium, the value of the collateral decreases more slowly than the loan balance.

However, several factors can lead to loan losses. The rate at which the insurance carrier earns the premium is not level over the policy's term but is normally faster in the early months. Further, the lag between borrower default and the policy cancellation following the default could result in the loss of a month's unearned premium. A sufficiently large down payment could eliminate this risk, but, given industry practice and competitive factors, originators typically accept some risk of loss. One minor reason for a loss is foregone interest income due to the length of time until the originator receives the unearned premium refund from the carrier. This can vary from weeks to months, but it is typically shorter than 90 days, given that carriers often pay the refund on the latest date possible under applicable regulations.

The originator exercises the right of cancellation if a borrower fails to repay the amounts due under the premium financing loan. If the borrower defaults, the insurance company, at the originator's request, will cancel the policy. The originator then takes steps to collect the unearned premium from the insurance company. The borrower remains obligated only for any deficiency in the loan balance; any such amount is an unsecured claim the originator can pursue. Originators typically charge off uncollected delinquent balances a year after the first anniversary of a cancellation.

Because the unearned premium steadily diminishes, how quickly the servicer is able to cancel an insurance policy after loan default affects the level of protection the unearned premium provides. State laws generally prohibit cancellation of the policy until the loan payment is 24 to 30 days past due. In the past, servicers have usually been able to cancel a policy promptly after the statutory waiting period has expired. This period reflects the nature of the business, given that a large percentage of delinquent loans are subsequently cured, with insurance reinstated. Moreover, a borrower under distress is likely to want to maintain insurance unless it is truly going out of business.

Given the reliance on unearned premium refunds to collateralize the insurance premium loans, the credit risk of an insurance premium finance receivables pool resides primarily with the insurers. If properly serviced, premium finance loans typically incur losses after the first several months only if both the borrower and the insurer, rather than just the borrower, default.

OUTDATED METHODOLOGY

Loan Terms vs. Loss Exposure

A key element of the originator's underwriting criteria is determining the contract terms based on the borrower's creditworthiness. The most important contract terms are the required down payment, the number of payments and the appropriate interest rate. Premium finance loans are typically structured as level-payment fixed-rate loans, so that monthly installments consist of accrued interest plus a principal amount.

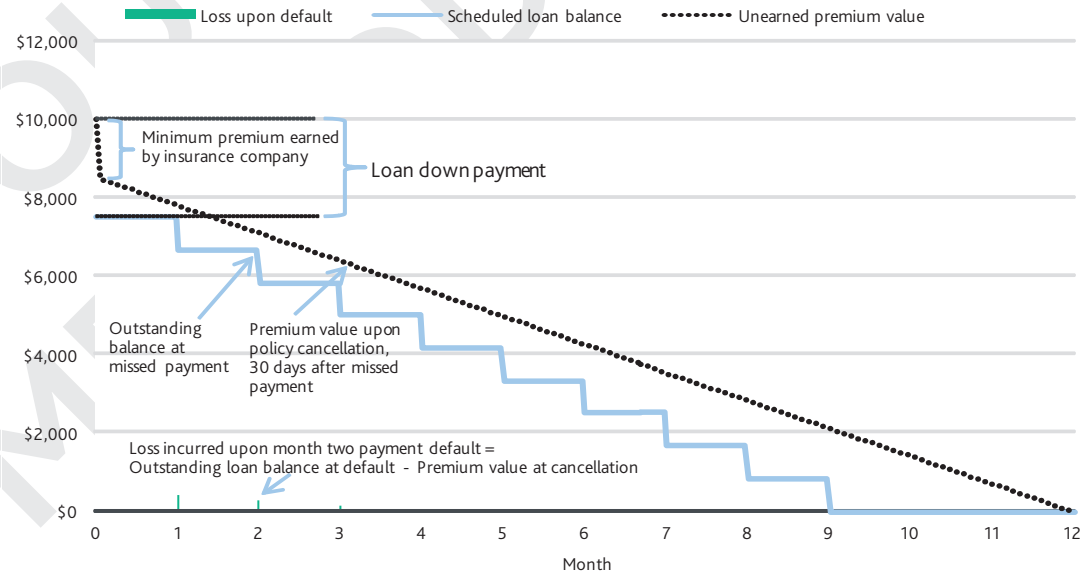
For a typical insurance policy, insurance companies earn a pro-rated (i.e., commensurate with the passage of time) premium or a minimum portion (the minimum earned) upfront, with the remainder earned over a 12-month period pro rata. State laws govern these terms.

The originator typically matches an insurance company's minimum earned portion by requiring a down payment of 20% to 25%. Exhibit 3 shows an example of an insurance policy that requires a $10,000 premium payment for a one-year policy. The originator might require a down payment of $2,500 (25%) from the borrower, thus allowing for a $7,500 loan amount from the insurance premium finance provider. In this example, we assume that the insurance company's minimum earned premium is 15% of the total premium, and thus, the value of the unearned premium decreases on a straight-line basis over the 12-month period, from $8,500 at inception to zero.

The number of payments is equally important for maintaining a collateral value higher than the outstanding loan amount. This number determines the speed of amortization given that the loan principal pays down in installments. Because policies are typically for one year, the premium amortizes daily over that period. If the number of loan payments is fewer than 12, the loan balance will generally amortize more quickly than the unearned premium and the loan balance will remain lower than the collateral value.

EXHIBIT 3

Example of Losses on an Insurance Premium Finance Loan



Source: Moody's Investors Service

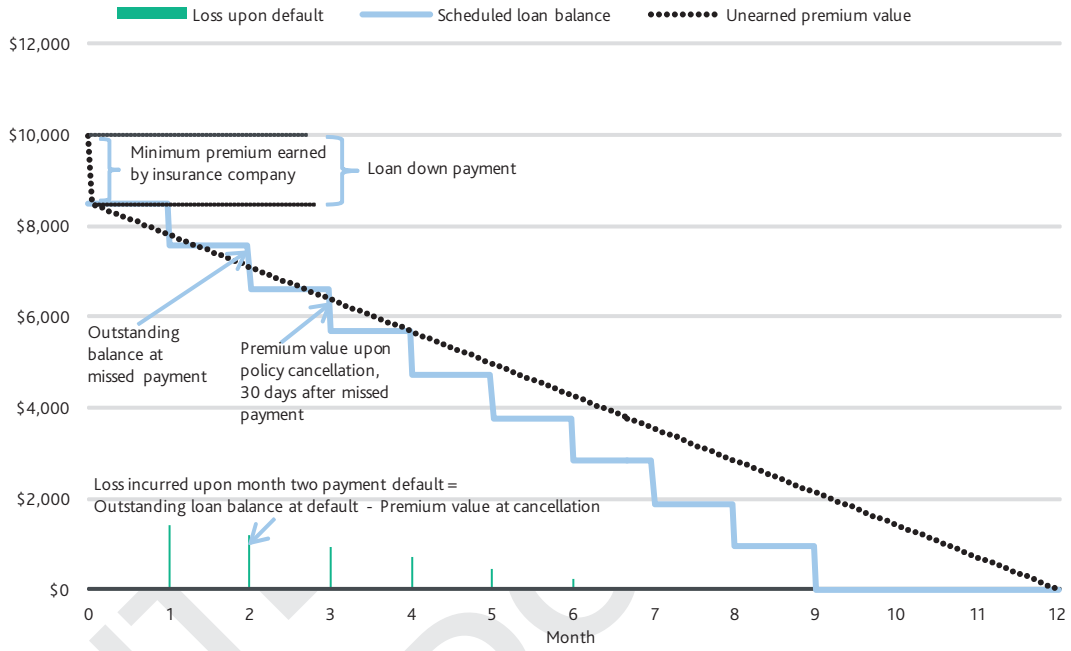
As this example also shows, small losses can still occur, particularly early on, because of the lag in canceling a policy. Typically, an originator can cancel a policy 30 days after a missed payment, which could result in a loss if the loan balance at the missed payment is higher than the unearned premium value upon cancellation. The servicer's expertise is vital to minimizing the risk of loss.

OUTDATED METHODOLOGY

For competitive reasons, an originator can allow a borrower to make a smaller down payment, which results in a larger risk of loss upon default, as Exhibit 4 shows, in which we assume a smaller down payment of 15%. The unearned premium declines steadily, but the remaining loan balance declines monthly if the borrower makes the payments. The risk of a loss on a delinquent loan in the early months of the loan in Exhibit 4 is substantially higher than in Exhibit 3.

EXHIBIT 4

Losses on an Insurance Premium Finance Loan with a Smaller Down Payment



Source: Moody's Investors Service

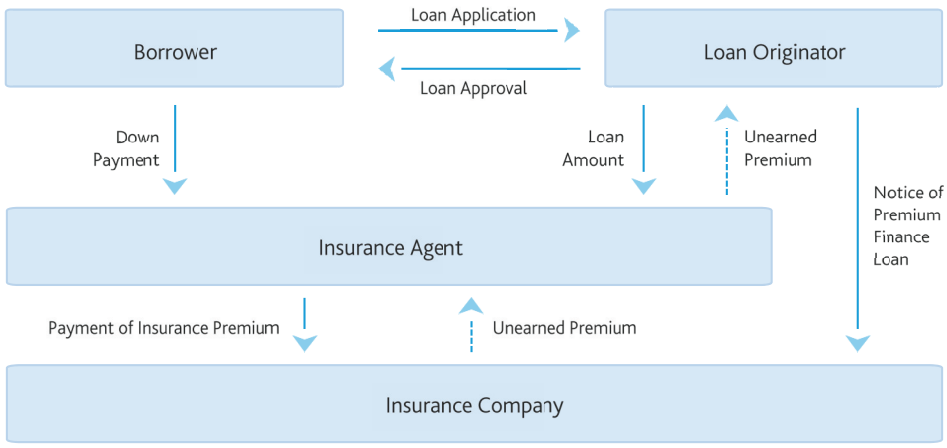
Originations and Agent/Broker Exposure

Generally, an insurance agent[15] is the primary contact for both the borrower and the insurance company, as Exhibit 5 shows. The originator generally makes the premium payment to the insurance agent. The insurance company refunds the unearned premium to the insurance agent, who then forwards it to the originator. The flow of funds through an insurance agent poses unique risks for the loan originators.

[15] We use agent/agency interchangeably to refer to any insurance brokerage firm, ranging from a sole agent to a large corporation.

EXHIBIT 5

Origination of an Insurance Premium Finance Loan



Source: Moody's Investors Service

As part of their underwriting criteria, originators include extensive screening and monitoring of insurance agents. Generally, when working with less established agents, the originators tend to submit the loan amount directly to the insurance company. Further verification would be necessary for any exceptions. As an agent builds history and good standing with insurance companies, the originator may allow the agent to underwrite higher-premium policies without additional verification. Originators continuously monitor agents on metrics such as cancellation rates, refunds of premiums, and delinquent loans. They also track the agent's screening process and make improvements as necessary to minimize the risk of agent fraud and error. Insurance agents can lose their licenses in the event of fraudulent activity, as stipulated by state regulations, which is a significant deterrent for the vast majority of agents.

The insurance premium finance-backed securities that we rate typically place limits on individual agent exposures in the collateral pool. Policies originated through specifically identified major agencies could be limited to a high single-digit percentage of the pool. Policies originated through any other single agency are typically limited to a low single-digit percentage of the pool.

Insurance Carriers

Maintaining a diversified pool of highly rated insurance carriers that must refund unearned premiums on delinquent loans is a credit positive. As we discussed above, an experienced servicer can mitigate risks relating to the borrower and insurance agents through strict underwriting criteria, detailed screening and monitoring, and timely notices of cancellation to the insurance companies. Thus, the risk of insurance carrier default is the main risk for loss that an originator cannot control directly. As requirements for the issuing master trust, transactions incorporate concentration limits and minimum rating requirements for insurance carrier exposure to maintain a certain level of credit quality and diversity for the carriers in the portfolio.

The insurance premium finance-backed securities that we rate have historically limited the aggregate exposure to non-investment-grade and non-rated insurance companies to approximately one-third of the pool by outstanding balance. Concentration limits for individual insurance companies typically range from low single-digit to high single-digit percentage points depending on the rating category. For instance, transactions could allow high single-digit percentage-point concentrations for individual insurance companies with high investment-grade ratings, and low single-digit percentage-point concentrations for those with low investment-grade ratings.

OUTDATED METHODOLOGY

Loan Origination and Servicing

The collateral in these transactions has several unique qualities that could adversely affect the securitized pool's performance. We factor this risk into the ratings. For example, the value of the unearned premiums that serve as collateral in the event of a borrower default depreciates continuously over time, necessitating the presence of an active, vigilant and experienced servicer. Also, weaker loan underwriting terms (e.g., lower minimum down payment requirements) can compound the risk of loss, which is relevant because most of the insurance premium finance securitizations that we rate have a substantial revolving period. The servicer's expertise and experience are important mitigants to these risks.

The loan origination process typically includes a credit review process for the borrowers. For larger borrowers, review of financial statements, operating history and payment history is necessary. This information, along with the acceptable loan terms (e.g., down payment, number of payments and interest rate), allows the carrier to approve the loan. Because the master trust issues notes with a revolving period, the quality of new loan originations is important. Also, as we describe in "Originations and Agent/Broker Exposure," there is a separate approval process for the referring insurance agent.

Servicers must also have efficient cancellation procedures. Under state requirements for cancellation notification, insurance policies are generally canceled within one month following a missed payment. Cancellations are automatic: After a grace period of five to ten days, the servicer sends a "Notice of Intent to Cancel" to both the borrower and the broker. Then the servicer can issue a final "Notice of Cancellation" to the insurance carrier, generally 24 to 30 days after the missed payment.

Upon receiving a cancellation notice, the carrier stops earning the premium on the policy and is required to refund unearned premiums within 90 days on average. These notices are generated automatically by the loan servicing software platforms. The stability and scalability of the system to automate this process, with few exceptions, limits the risk of loss stemming from borrower default. For workers' compensation policy cancellations, the refund of unearned premiums could take additional time because insurance carriers must conduct an additional audit of payroll to determine the exact unearned premium. Therefore, for portfolios with above-average concentrations of workers' compensation, we would assume a longer time to obtain the unearned premium refund on defaulted loans.

The key credit protection for a premium finance transaction is the refund of the unearned premium by the insurance carriers providing the policies, hence our stresses focus mainly on the probability of default of the insurance carrier and on the ability of the servicer to promptly cancel the insurance policies. However, most actual losses are not due to insurance carrier defaults but to borrower defaults if the unearned premium refund was insufficient to cover the defaulted loan balance plus accrued interest (e.g., because of a small down payment, late cancellation, or a delayed refund).

OUTDATED METHODOLOGY

Appendix B: Monte Carlo Model Input Parameters and Outputs for US Insurance Premium Finance Transactions

EXHIBIT 6

Summary of Typical Insurance Premium Finance Modeling Parameters

Loan Pool Assumptions

We obtain a stratification of the collateral loan pool based on remaining loan maturity. We then group these replines into three or four remaining maturity buckets (e.g., 3, 6, 9 or 12 months). We assume the loans in each bucket have an average term equal to the bucket's term and an average yield equal to the overall weighted average yield of the pool. Since loan repayment is based on the level payment of principal, the remaining maturity assumption alone suffices to determine principal amortization cash flow.

Random Input Assumptions		Static Input Assumptions	
Parameter	**Base Assumption**	**Parameter**	**Base Assumption**
Servicer probability of default	Cumulative default distribution* consistent with low speculative-grade for unrated servicers.	Loss of incoming principal during servicer transition	17% of all incoming principal for each month in the transition period
Insurance carrier probability of default	Cumulative default distribution* based on minimum ratings levels allowed by transaction's concentration limits, non-rated carriers consistent with high speculative-grade	Servicer transition time to employ back-up servicer	Three months
Borrower probability of default**	Cumulative default distribution* consistent with low speculative-grade	Excess spread***	0% if transaction is hedged, otherwise negative. If transaction is not hedged, magnitude varies with rating.
Lag in recovery of unearned premiums	Uniform distribution with range of three to seven months	Charge-offs as a result of fraud or error	0.5% of principal collections in each month

* Cumulative probability of default distributions are used from Moody's Idealized Default tables.[16]

** Borrower probability of default is run in groups of loans and not on an individual borrower basis; i.e., if random sampling of a group of loans yields a default, all loans within that group are assumed to default simultaneously.

*** To simulate fixed-to-floating interest rate risk during the amortization period, certain scenarios will be simulated at negative excess spread. The negative spread will be determined qualitatively to model interest rate stresses appropriate with the targeted rating level.

Source: Moody's Investors Service

EXHIBIT 7

Insurance Premium Finance Model Outputs

Output	Description and Relevance
IRR Reduction	For each rated security we compare the IRR with the expected IRR to calculate the corresponding IRR Reduction.
Model output based on IRR Reduction	We take the average of IRR Reductions for all scenarios, then determine a model output by comparing the average IRR Reduction to the "benchmark" IRR Reduction for each rating category.

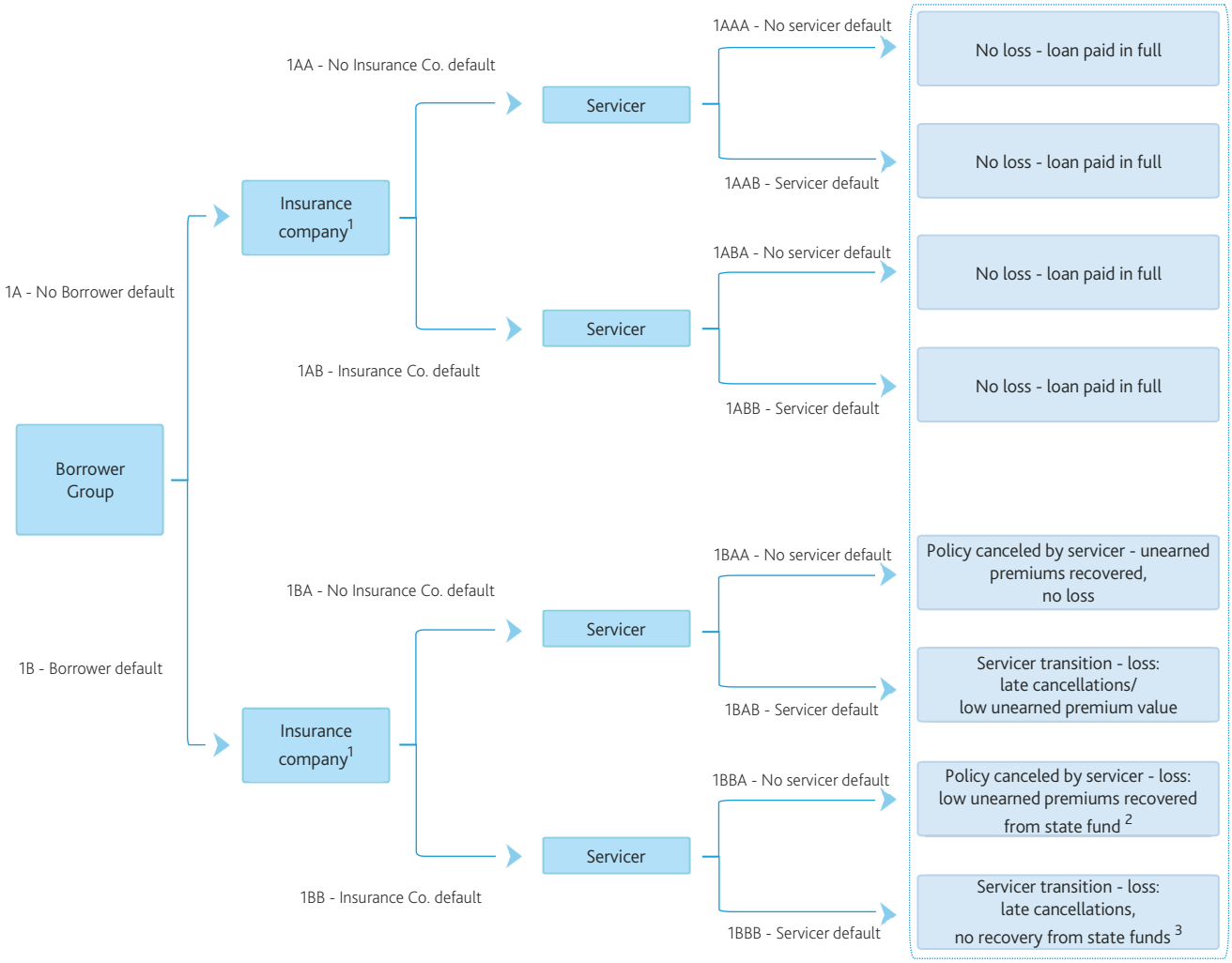
Source: Moody's Investors Service

OUTDATED METHODOLOGY

[16] For more information, see the discussion of Idealized Probabilities of Default and Expected Losses in *Rating Symbols and* Definitions. A link can be found in the "Moody's Related Publications" section.

Appendix C: Monte Carlo Simulation Decision Tree for US Insurance Premium Finance Transactions

EXHIBIT 8



(1) We simulate borrower default in borrower groups. For each group, we assume a probability of default consistent with low speculative-grade entities and assume that, upon default, all borrowers in the group have defaulted. The borrower groups are based on the exposure to the insurance companies in the transaction. Because premium finance transactions have revolving periods, the insurance carrier concentrations can drift over time. Thus, we simulate the exposure to the insurance companies based on the least diversified and weakest credit quality a transaction's concentration limits allows, which generally creates 15 to 20 groups of borrowers for each insurance company exposure limit.

(2) If a borrower defaults on a payment and the insurance company has also defaulted, the servicer will still cancel the policy to retain the value of the unearned premium. The servicer can recover the unearned premium through state insurance funds, but we assume the recovery to be minimal in our analysis because of the potential for a long lag in recovery.

(3) If the borrower, insurance company and servicer have all defaulted, we assume a zero recovery. In this case, we assume that the carrier has not canceled the policy in a timely manner, resulting in a loss of the entire unearned premium regardless of any state funds that might have been available had the carrier canceled the policy in a timely manner.

Source: Moody's Investors Service

Appendix D: Modeling Approach for Portfolios with Varied Credit Risk Profiles

For portfolios comprised of insurance premium finance receivables with contrasting credit risk profiles, as seen outside of the US, we use an approach similar to that applied to very granular loan portfolios with private and commercial client exposure in Europe. We first derive an asset default distribution of the portfolio of loans. We then use a comprehensive cash flow model, ABSROM™, which enables us to model transaction cash flows derived from portfolios of insurance premium finance loans and the associated liability structure. The model produces a series of loss scenarios, with outputs for each security that include the expected loss, weighted average life and default probability.

Default Distribution

The first step in the analysis is to define a portfolio default distribution. Due to the large number of loans, we use a continuous distribution to approximate the default distribution – the lognormal distribution.

To determine the shape of the distribution, two parameters are needed – the mean default and the volatility around this value. These parameters are generally derived from the historical data; adjustments may be made based on further analytical elements such as originator internal scores.

Default Rate Assumption

We base our analysis on the historical cohort performance data provided by the originator for the different sub-portfolios that is representative of the portfolios being securitized. The historical analysis is complemented with the evaluation of (1) the general market trend, (2) benchmark transactions, (3) replenishment criteria, and (4) other qualitative considerations. Specifically, we may stress the results obtained from the historical data analysis to account for (1) the period covered by the performance data, (2) the volatility in the economic environment during the period covered, and (3) other qualitative considerations, such as the ability to claim recoveries, operational risk considerations and the correlation between different third parties (insurance companies, insurance brokers, other service providers).

The standard deviation of the default distribution is defined following analysis of the historical data, as well as by benchmarking the portfolio with similar transactions.

Timing of Default

We typically assume the timing of defaults curve follows a sine distribution. We test different timings for the default curve to assess the robustness of the ratings.

Recovery Rate Assumption

We consider the historic recovery data provided by the originator. We may stress the historic observations to account for the same considerations described above under default rate derivation.

OUTDATED METHODOLOGY

Moody's Related Publications

Credit ratings are primarily determined through the application of sector credit rating methodologies. Certain broad methodological considerations (described in one or more cross-sector rating methodologies) may also be relevant to the determination of credit ratings of issuers and instruments. A list of sector and cross-sector credit rating methodologies can be found here.

For data summarizing the historical robustness and predictive power of credit ratings, please click here.

For further information, please refer to *Rating Symbols and Definitions*, which includes a discussion of Moody's Idealized Probabilities of Default and Expected Losses and Internal Rate of Return (IRR) Reduction, and which is available here.

OUTDATED METHODOLOGY

Author
John Shipman

Production Associate
Martin Thomas

Report Number: 1264387

ADDITIONAL CONTACTS:
Frankfurt: +49.69.2222.7847
Madrid: +34.91.414.3161
Milan: +39.02.3600.6333
Paris: +33.1.7070.2229

© 2021 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from $1,000 to approximately $5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

MOODY'S INVESTORS SERVICE