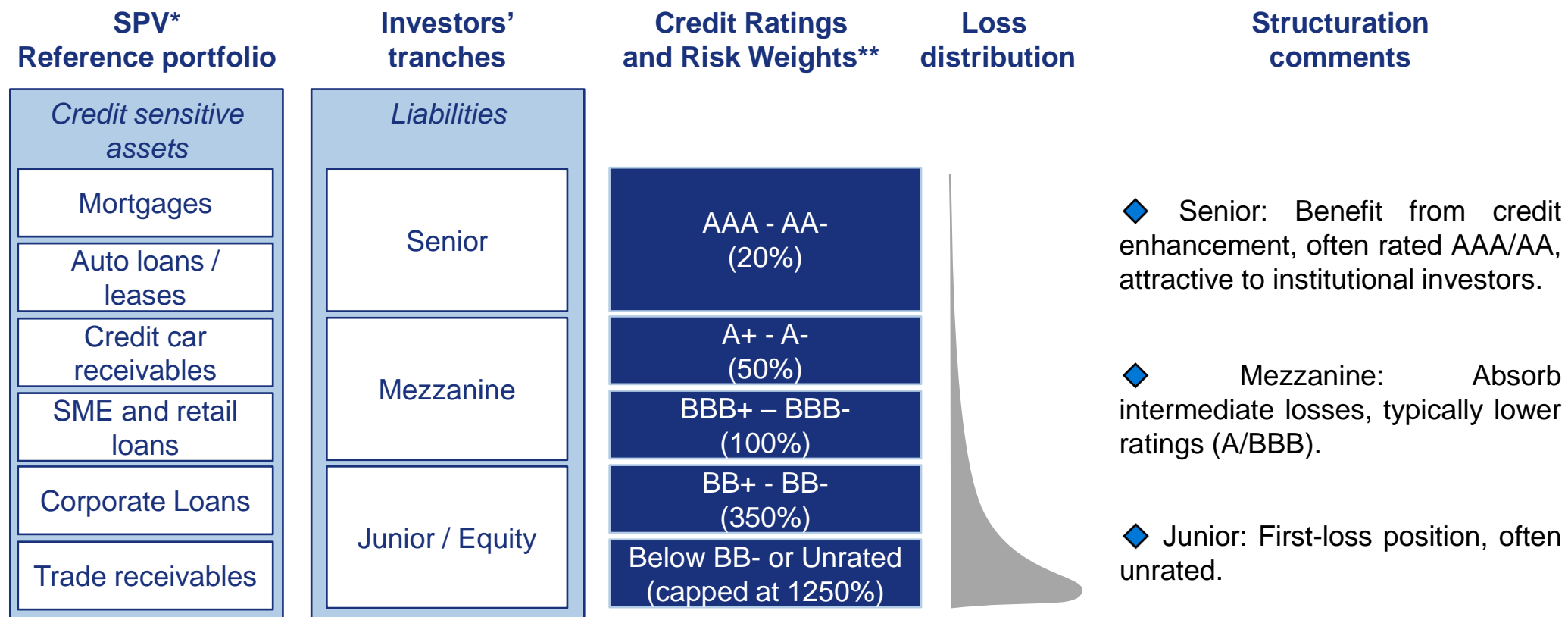


Credit Ratings in Structured Finance

Educational Series #12

Structured finance refers to transactions where financial assets (like loans, mortgages, or leases) are pooled together and repackaged into tradable securities - typically in the form of **Asset-Backed Securities (ABS)**, **Mortgage-Backed Securities (MBS)**, or **Collateralized Loan Obligations (CLOs)**. These securities rely on tranching risks into different layers - **senior, mezzanine, and junior**. Each tranche absorbs losses in a waterfall structure. Credit ratings are the backbone of this system as many investors require a minimum credit rating to invest. Ratings are therefore key to marketability.



* Special Purpose Vehicle

** Under the CRR Standardised Approach (source: CRR Art. 251 - 258)

Agencies assess asset quality, defaults' history, protections, legal risks, and counterparties to assign ratings (e.g., AAA senior, BBB mezzanine, unrated junior). The more protection a tranche has, the higher its credit rating.

Disclaimer

This presentation is intended solely for informational and educational purposes. It does not constitute investment advice, credit advice, or any other form of recommendation. While efforts have been made to ensure the accuracy of the information, neither EACRA nor the authors accept any liability for errors, omissions, or actions taken based on this material.

About EACRA: The European Association of Credit Rating Agencies (EACRA) is a platform for cooperation among EU-based Credit Rating Agencies (CRAs). Our mission is to support CRAs in meeting regulatory requirements through effective communication, cross-border knowledge sharing, and the promotion of best practices. EACRA also seeks to advance the understanding and value of Credit Ratings within the financial community and among the general public, while advocating for the interests of CRAs across Europe. Established in November 2009 and registered in Paris, EACRA is listed in the French Association Directory (N° W751202513) and the EU Transparency Register (ID 24205924101-57).