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WHY ARE CREDIT RATINGS USEFUL?

- Ratings are an independent and objective assessment of an individual entity's credit worthiness
- Ratings provide insight to credit risk in unfamiliar markets
- Ratings support the credit information needs of borrowers and lenders
- Ratings provide an efficient, widely recognized, and long-standing measure of relative credit risk

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WHY ARE CREDIT RATINGS USEFUL?

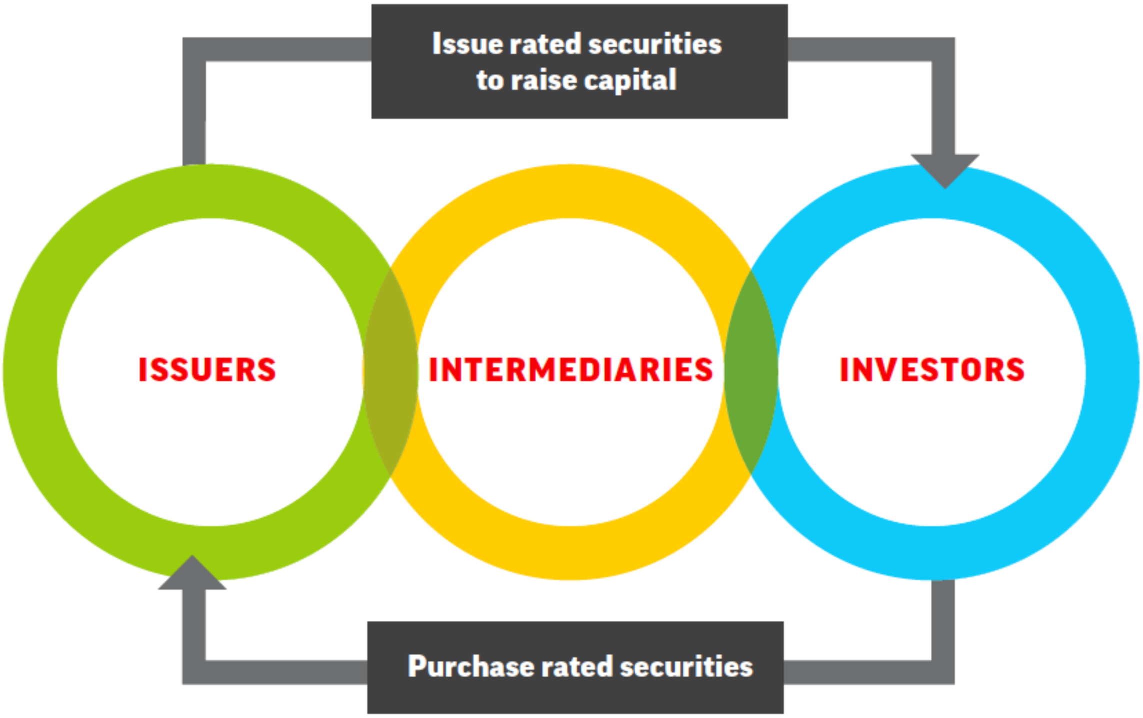
As the world economy grows, investment opportunities are becoming increasingly available and diverse both locally and globally. Given this environment of choice, it can be a difficult task to determine the risk of each investment opportunity. For example, there are often higher returns available by investing in foreign markets, but the risks associated with sending money abroad are considerably higher than those associated with investing in your own domestic market where your familiarity is greatest. That's why it is highly important to learn from independent and objective insight into different investment instruments and to understand the risks and advantages they possess.

Credit ratings help to full this information void by offering an independent and objective assessment of the credit worthiness of companies, government entities, and countries, which can ultimately help investors to decide how risky it is to invest money in a certain country or security by offering an important insight into relative credit risk, a key part of investment risk. Essentially, a credit rating reflects a ratings agency's opinion of the ability and willingness of an entity to meet its financial commitments or its debt. It is important to remember, however, that credit ratings are not a recommendation to buy, sell or hold an investment.

Therefore, a single rating can have many uses. Ratings can help to increase knowledge of, and access to new markets. They can also help enhance transparency by providing a demonstration or allowing an assessment of creditworthiness. Ratings provide a benchmark for the assessment of a credit’s strengths and weaknesses; they support an enhanced investment decision-making process, and allow borrowers to gain insight into the overall borrowing costs.

From the borrower's perspective, credit ratings may play a useful role in enabling corporations and governments to raise money in the capital markets. Instead of taking a loan from a bank, these entities sometimes borrow money directly from investors by issuing bonds or notes. Investors purchase these debt securities, such as municipal bonds, expecting to receive interest plus the return of their principal.

Credit ratings may facilitate the process of issuing and purchasing bonds and other debt issues by providing an efficient, widely recognized, and long-standing measure of relative credit risk. Credit ratings are assigned to issuers and debt securities as well as bank loans. Investors and other market participants may use the ratings as a screening device to match the relative credit risk of an issuer or individual debt issue with their own risk tolerance or credit risk guidelines in making investment and business decisions.



For instance, in considering the purchase of a municipal bond, an investor may check to see whether the bond's credit rating is in keeping with the level of credit risk he or she is willing to assume. At the same time, credit ratings may be used by corporations to help them raise money for expansion and/or research and development, as well as help states, cities, and other municipalities to fund public projects.

[Editor's note: The contents of this article are based on the publication "GUIDE TO CREDIT RATING ESSENTIALS," published on **www.standardandpoors.com**, Copyright © 2014 by Standard & Poor's Financial Services LLC.]