MOODY'S
INVESTORS SERVICE

Rating Action: Moody's has downgraded Buckeye Tobacco Settlement Financing Authority Tobacco Settlement Asset-Backed Bonds

04 Oct 2018

$2.168 billion of asset-backed securities affected

New York, October 04, 2018 -- Moody's Investors Service has downgraded four tranches of bonds issued by Buckeye Tobacco Settlement Financing Authority, Tobacco Settlement Asset-Backed Bonds, Series 2007 (State of Ohio) ("the Issuer").

The complete rating actions are as follow:

Issuer: Buckeye Tobacco Settlement Financing Authority, Tobacco Settlement Asset-Backed Bonds, Series 2007 (State of Ohio)

Series 2007A-2-1 Senior Current Interest Turbo Term Bonds, Downgraded to Caa3 (sf); previously on Jul 6, 2015 Downgraded to Caa1 (sf)

Series 2007A-2-2 Senior Current Interest Turbo Term Bonds, Downgraded to Caa3 (sf); previously on Jul 6, 2015 Downgraded to Caa1 (sf)

Series 2007A-2-3 Senior Current Interest Turbo Term Bonds, Downgraded to Caa3 (sf); previously on Jul 6, 2015 Downgraded to Caa1 (sf)

Series 2007A-2-4 Senior Current Interest Turbo Term Bonds, Downgraded to Caa3 (sf); previously on Jul 6, 2015 Downgraded to Caa1 (sf)

RATINGS RATIONALE

The transaction is backed by future payments that certain tobacco manufacturers owe to the State of Ohio pursuant to the 1998 Master Settlement Agreement ("the MSA"). The transaction has a senior liquidity reserve requirement of about $389 million. As of June 2018, there was $233 million in the reserve account, which is equal to around 60% of the required amount.

The downgrade actions are primarily a result of our future projections of cigarette shipment volume declines, as well as the amount available in the reserve account. An Event of Default ("EOD") is likely to occur for these bonds due to failure to pay principal of any of the bonds in full by its legal final maturity; the next legal final maturity is June 2024 and applies to the Series 2007A-2-1 and Series 2007A-2-2 bonds. The bonds are paid down in the order of bond maturity until the occurrence of an EOD, at which time the cash allocation will switch to pro-rata causing bonds with nearer legal final maturity dates to be at a relative disadvantage.

Moody's currently expects that US cigarette shipment volumes will fall at a long-term average rate of 3% to 4% per year, and the actual decline for the 2017 sale year was 4.47%.

METHODOLOGY

The principal methodology used in these ratings was "Moody's Approach to Rating Tobacco Settlement Revenue Securitizations" published in January 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Factors that would lead to an upgrade or downgrade of the ratings:

Up

Moody's could upgrade the ratings if the annual rate of decline in the volume of domestic cigarette shipments falls below our 3-4% long term expectation.

Down

Moody's could downgrade the ratings if the annual rate of decline in the volume of domestic cigarette shipments increases above our 3-4% long term expectation.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions of the disclosure form.

The analysis relies on a Monte Carlo simulation that generates a large number of collateral loss or cash flow scenarios, which on average meet key metrics Moody's determines based on its assessment of the collateral characteristics. Moody's then evaluates each simulated scenario using model that replicates the relevant structural features and payment allocation rules of the transaction, to derive losses or payments for each rated instrument. The average loss a rated instrument incurs in all of the simulated collateral loss or cash flow scenarios, which Moody's weights based on its assumptions about the likelihood of events in such scenarios actually occurring, results in the expected loss of the rated instrument.

Moody's did not use any stress scenario simulations in its analysis.

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