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Presale:

SolarCity FTE Series 1 LLC (Series 2015-A)

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Presale:

SolarCity FTE Series 1 LLC (Series 2015-A)

$151.55 Million Solar Loan-Backed Notes Series 2015-A

This presale report is based on information as of Dec. 15, 2015. The ratings shown are preliminary. This report does not constitute a recommendation to buy, hold, or sell securities. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings.

Preliminary Rating As Of Dec. 15, 2015

Class	Preliminary rating(i)(ii)	Preliminary amount (mil. $)
Class A	BBB (sf)	151.55
Class B(iii)	NR	33.45

(i)The ratings on this series are preliminary and subject to change at any time. (ii)The ratings do not address post-ARD additional note interest. (iii)Interest on the class B notes is deferrable if certain triggers are breached. ARD--Anticipated repayment date. NR--Not rated.

Profile

Expected closing date	December 2015.
Collateral	The trust estate will consist primarily of all rights, title, and interest of the issuer in a portfolio of solar loans, obligor note and security agreements, other various transaction agreements, amounts on deposit in various transaction accounts, rights from certain insurance policies covering PV systems financed by the solar loans, and associated proceeds.
Issuer	SolarCity FTE Series 1 LLC, an indirect subsidiary of SolarCity Corp.
Originator and servicer	SolarCity Finance Co. LLC.
Performance guarantor and manager	SolarCity Corp.
Transition service provider and indenture trustee	U.S. Bank N.A.
Custodian	Deutsche Bank National Trust Co.
Sole bookrunner and structuring agent	Credit Suisse Securities (USA) LLC.

PV--Photovoltaic.

Rationale

The 'BBB (sf)' preliminary rating assigned to SolarCity FTE Series 1 LLC's $151.55 million solar loan backed notes series 2015-A class A notes reflect our view of:

- The credit enhancement available in the form of overcollateralization and subordination;
- The manager's and the servicer's operational, management, and servicing abilities;
- The customer base's initial credit quality underlying the portfolio;
- The projected cash flows supporting the notes; and
- The transaction's structure.

Because this asset class has a limited operating history, we expect the rating on the senior-most class to be constrained to the low investment-grade range for the near future.

Transaction Strengths

The transaction's strengths, in our opinion, include the following:

- The relatively low leverage (approximately 62% and 49%) of the initial outstanding class A note balance compared with the aggregate discounted solar loan balance and the aggregate customer loan balance respectively;
- The interest reserve equal to six months of note interest, which can be used to cover inverter replacement costs;
- The relatively young age (approximately two months, on average) of the photovoltaic (PV) systems financed by the solar loans;
- The securitization structure, with U.S. Bank N.A. acting as the transition service provider; and
- The performance tests, such as early amortization, sequential interest amortization, and a debt service coverage ratio (DSCR) sweep.

Transaction Weaknesses

In our opinion, the transaction's weaknesses include the following:

- The asset and underlying customer performance histories are limited.
- Potential legislative pressure continues to bring uncertainty to the cost savings associated with solar loans.
- The long maturities of the solar loans, when compared with lease and power purchase agreements (PPAs), may introduce additional uncertainty and potential for event risk in later years.
- SolarCity Corp. (SolarCity) operates in a highly competitive industry and competes with traditional utilities as well as other solar developers.
- Solar energy production can be unpredictable, resulting in variability in cash flows.
- The variability in costs and expenses associated with managing and servicing the portfolio might be hard to predict over time.
- Solar panel quality could vary across different manufacturers.
- Alternative sources of renewable energy could affect the popularity and competitiveness of solar assets.
- The top three states (California, Colorado, and Arizona) account for approximately 95% of the total portfolio.
- Contract start dates are concentrated, with an average seasoning of two months, which might suggest that inverter replacements and associated expenses could fall into a short time window, creating liquidity stress on the transaction cash flows.
- Renegotiating customer agreements before the contract term ends might reduce cash flows to the transaction.

Mitigating Factors

The following factors, in our opinion, partly mitigate the transaction's weaknesses:

- Most customers have high FICO scores, with the weighted average being 734.
- Since 2008, SolarCity has completed more than 6,000 contract reassignments, with the overwhelming majority experiencing full recoveries and only a handful of the installed systems being removed.

- Customers will likely continue to make payments on their solar agreements as long as there is meaningful value proposition and cost savings.
- Recent legislation appears to suggest some balancing of the utilities' and solar developers' needs, including potential transition periods to modified rates for existing solar customers.
- SolarCity differentiates itself by taking an integrated approach through diverse energy-related products and services.
- Under our rating scenarios, we assumed a one-year P90 production volume (the level of annual energy production volume that is expected to be exceeded 90% of the time) with a stressed annual degradation rate for each year of the transaction.
- PV solar panel technology has existed for many years and viable replacement technology will likely take a long time to develop.
- An independent engineer (IE) assessed the portfolio's solar energy production estimates and overall installed PV system quality.
- The top three states are among the sunniest states in the U.S. with a higher percentage of sunny days per year than other states.
- If a customer agreement was renegotiated to a lower rate, a payment facilitation amount may be assessed per the transaction documents, resulting in an unscheduled note principal payment.
- The systems in the portfolio have completed installation, and the average system has been installed for approximately two months.
- Based on our useful life assumptions for inverters and information provided to us by the IE, our cash flow analysis accounted for the tight grouping of contract start dates by applying specific assumptions for inverter replacement timing.
- Our stress analysis assumes additional reduction to cash flow after 20 years.
- Under our rating scenarios, timely interest and ultimate principal payments are paid on the class A notes by the legal final maturity (referred to as the rated final maturity per the transaction documents).

Business Description: SolarCity

SolarCity, headquartered in San Mateo, Calif., was incorporated in 2006. As of September 2015, the company had more than 14,000 employees. It sells renewable energy and serves customers in 19 states and the District of Columbia. The company's customer base is a mix of residential, commercial, and government entities, and it provides or contracts systems or services to approximately 300,000 customers.

SolarCity structures the vast majority of its customer agreements as leases, PPAs, or, in the case of residential customers, consumer loans. For the quarter ended Sept. 30, 2015, approximately 98% of new customers chose to enter into leases, PPAs, or consumer loans rather than buying a solar energy system for cash. Lease customers pay a fixed monthly fee with an electricity production guarantee. PPA customers pay a fee based on the amount of electricity the solar energy system produces. SolarCity's consumer loan product, MyPower, offers the benefits of customer-owned systems through a loan provided by SolarCity Finance Co. LLC for the entire purchase price of the solar energy system. These long-term leases, PPAs and MyPower consumer loan agreements create recurring customer payments.

MyPower Loan

Launched in October 2014, SolarCity's MyPower loan offers customers the ability to pay their monthly payment obligations based on the energy production of the financed PV systems, similar to a PPA. As part of the customer's system purchase, SolarCity also provides operations and maintenance (O&M) services associated with the PV systems, similar to the services provided in lease and PPA products. Unlike the traditional lease or PPA product, the PV systems financed by the MyPower loans are owned by the customer, who would also be entitled to the investment tax credit (ITC) associated with the ownership of the system. The typical MyPower loan has a 30-year maturity while the traditional lease or PPA generally includes a 20-year contract term.

Origination Of Customer Agreements

In determining whether to enter into a MyPower solar loan agreement with a potential customer, SolarCity:

- Determines the suitability of a potential customer's rooftop or other designated site for a solar energy system;
- Examines the proposed site's structural integrity;
- Analyzes the potential customer's historical utility bill and energy consumption;
- Evaluates the potential customer's credit quality; and
- Considers any available federal, state, or local incentives.

Credit Underwriting

For residential customers, the current credit underwriting policy requires a FICO score of at least 650, that the FICO scores are valid within 90 days before the related customer agreement is signed, and that at least one person party to each customer agreement or a separate guarantor is approved under the credit underwriting policy.

Industry Characteristics: Distributed Solar Generation Sector Outlook

Standard & Poor's Ratings Services segments the solar industry into three sectors: utility scale, commercial and industrial, and residential. The latter two sectors are referred to as "distributed solar generation" or "rooftop solar."

Residential rooftop solar continues to grow strongly. According to the "Third-Quarter 2015 GTM Research/SEIA U.S. Solar Market Insight®" residential PV grew 69% year-over-year. Share of market is still relatively small, for example California has the largest installed base of rooftop solar and is at about 2% penetration in the three largest utility areas.

From now through the end of 2016, we expect distributed solar generation to continue to grow rapidly, albeit from a small base, fueled by:

- Declining PV system installed and related costs, such as customer acquisition and financing and system component costs;
- Policies aiming to increase the use of distributed solar generation. However, the outlook for sustained, long-term growth is tempered as the new industry faces specific challenges relating to possible policy changes.

For example:

- The distributed solar industry needs to continue to drive down both installed and operating costs to ensure competitiveness with conventional power sources post-2016 when the ITC decreases to 10% from 30%.
- According to Lawrence Berkeley National Laboratory (LBNL)'s Tracking the Sun August 2015 report, state and utility incentives have significantly declined or been phased out in many key markets.
- Ongoing regulatory changes to net metering or retail rate structures, or both, could also occur--possibly spearheaded by recent legislation in the industry's largest market, California--that might reduce the economic allure of PV systems for residential customers.

Decline of PV prices and technological developments

One of the main reasons the U.S. historically hasn't used more renewable energy is that renewable energy technologies were more expensive to build than conventional natural gas or coal plants. Also, the competitive pressure among power producers has intensified because of persistently low gas prices sustained by Shale gas discoveries. The growth of distributed solar generation shows how this particular barrier has been steadily eroded by a sustained rapid fall in PV system-installed pricing.

Through third-quarter 2015, the national average residential PV system-installed cost dropped to just above $3.50/Watt direct current (DC) with nearly 60% of costs coming from soft costs. Although residential hardware costs fell by more than 14% in the past year, soft costs have actually risen by about 6%. This reflects the challenges in lowering permitting costs and rising expenditures in customer acquisition that have not yet yielded additional installed capacity (source: Third-Quarter 2015 GTM Research/SEIA U.S. Solar Market Insight®).

Standard & Poor's believes that installed system costs will further decrease in the near term, benefitting growth in the distributed solar generation industry. Certainly there is potential headroom as indicated in the LBNL Tracking the Sun August 2015 report that highlights the median U.S. prices are higher than those found in other key international solar markets with pricing disparities largely due to differences in soft costs.

As installed costs continue to fall, we expect increasing competition in the rooftop solar sector particularly post 2020 (which assumes the ongoing cost decline is able to offset the reduction in ITC). Increased competition and lower rates could increase pressure to renegotiate rates on existing arrangements.

Recent developments in the industry and at SolarCity

We believe that the industry will continue to innovate and mature, leading to enhanced technology and improved energy efficiencies that could give the industry a boost by reducing cost per watt installed. Developments in PV panel material sourcing, battery technology, or other future breakthroughs could further the industry's development.

We now consider the median life of string inverters to be about 12 years as compared with our previous assumption of 10 years, which we incorporated into our analysis of this transaction as a credit positive. This is supported by an opinion from DNV GL, the IE. based on their assessment of key factors such as:

- Design for reliability;
- Greater use of accelerated life testing for reliability and qualification testing; and
- Field data.

Another credit positive update in our assumptions is the change in degradation stress to 1.2% from 1.3% per year for this particular portfolio. We and DNV GL reached this conclusion given a large majority of the module types to be used in the FTE1 Portfolio are subject to higher standards of quality assurance/quality control (QA/QC) used by Solar City that include increased use of third-party laboratory testing and factory audits.

Given there are no consensus views from industry experts for PV panel life greater than 25 years, we continue to assume the PV panels' useful life to be 25 years at this time.

Government policies continue to evolve with continued litigation

The other key driver of distributed solar generation growth has been government policies including favorable tax credits, state rebates, and net metering policies. As such, we believe the industry is exposed to regulatory risk because these policies are subject to political shifts.

Recent developments that in our opinion are supportive of continued expansion of solar deployment are

- Paris Agreement on Climate Change; and
- The U.S. government's Clean Power Plan.

The Paris Agreement on Climate Change was adopted by the U.N. on Dec. 12, 2015. Firm commitments were made with respect to reporting but the actual reduction goals were more conditional.

The cornerstone of the Obama Administration's environmental program is the Clean Power Plan (CPP) rules for reducing power plants' carbon emissions, which was finalized by the U.S. Environmental Protection Agency (EPA) in August 2015. We believe that this plan will broaden the appetite for states to consider solar energy as a solution to meeting the CPP. However, the CPP is facing a high level of scrutiny and judicial challenges.

The extension of the solar ITC is being debated by congress at the time of this report. The ITC is a tax credit for 30% of a PV system's cost and this benefit currently only applies to systems placed into service before Dec. 31, 2016. Thereafter, the tax credit will decrease to 10% starting in 2017 excluding homeowners, who will get no tax benefit.

The prevalent business model of PV developers is capital-intensive. Almost all PV developers attract consumers by bearing the upfront development costs, which are typically financed by debt, equity, state rebates, and the ITC (at 30%, usually the largest portion of the financing). Typically, developers must partner with tax equity investors to finance themselves because they do not have sufficient taxable income to benefit directly from the ITC. If the ITC is reduced, large institutions that are typical tax equity investors will have less incentive to continue financing the industry. The industry is actively exploring other sources of capital that will be critical for any PV developer to sustain its business after 2016.

Net metering has caused tension between the PV developer industry and the utilities. From the consumers' perspective, the current net metering regime creates an economic incentive to install a PV system. This is more so for residential customers than for commercial entities because of their different consumption profiles. Under net metered billing, customers receive credit on their bills for any generation that is sent back to the utility's grid (typically when the residential customer is not using electricity). The credit on the bill is usually applied at a retail rate, i.e., what the customer would have paid for that generation had it been transmitted from the utility's grid. Given that the average

residential consumer uses more electricity in the evening when the PV system generation is zero to low and the majority of the day's generation would be exported to the grid at the retail rate, this credit generally reduces the consumer's monthly bill.

The largest residential PV market, California, adopted legislation (AB 327) on Oct. 7, 2013, that created a timeline for the California Public Utilities Commission (CPUC) to reformulate the net energy metering (NEM) rates specific to PV consumers by end of 2015. In March 2014, CPUC decided (D. 04-03-041) to establish a 20-year transition period, beginning the year the system was interconnected, during which the systems already enrolled in NEM tariffs on the earlier of July 1, 2017, or the date when the utility achieves its statutorily required 5% NEM cap, may continue to operate under the NEM. Through March 2014, the CPUC reported that San Diego Gas & Electric (SDG&E) at 2.23%, made the most progress towards the 5% cap.

Although we expect grandfathering provisions to protect existing PV customers to a certain extent, we continue to monitor details of changes to NEM rates as they become available in California and other states.

There are mounting arguments from utilities that residential customers should receive rates for energy sold back to the grid that are closer to their avoided costs. The credit risk is that the value proposition to homeowners will be likely eroded if rates fall to avoided costs (there is also a range of views on reasonable transmission and distribution charges). Given the duration of this transaction, this is a potential issue even for those states with grandfathering arrangements.

Transaction Structure

The issuer is a special-purpose, bankruptcy-remote, Delaware limited-liability company. It is a wholly owned, direct subsidiary of the originator, SolarCity Finance Co. LLC, and a wholly owned, indirect subsidiary of SolarCity. On the closing date, pursuant to a sale and contribution agreement, the issuer will acquire from the originator all the originator's rights, title, and interest in the portfolio of solar loans and obligor note and security agreement, including the right to receive all payments, security interests, liens and assignments securing the payment agreement. Pursuant to the indenture, the issuer will pledge the trust estate to the indenture trustee for the noteholders' benefit to secure the notes.

Governance

The transaction includes a transition service provider who, upon a manager or servicer termination event, will analyze the impact and recommend whether to terminate the manager or servicer, coordinate information flow among potential replacement managers or servicers, review potential candidates for a replacement manager or servicer, recommend a replacement manager or servicer, if necessary, negotiate the replacement management or servicing agreement's terms (with the approval by the controlling class' majority noteholders), and assist in the replacement manager's or servicer's transition. The transition service provider may, at its sole option, bill and collect customer payments until a replacement servicer is appointed.

Pool Characteristics and Transaction Comparison

The pool characteristics for the SolarCity FTE Series 1 LLC are as of the statistical cutoff date on Sept. 30, 2015. We have also included several recent transactions in the solar securitization sector that we have rated for comparison. The customer agreements underlying the three SolarCity LMC transactions were mainly leases and PPAs whereas this transaction comprises solar loans.

Table 1

Pool Characteristics

	SolarCity LMC Series I LLC(i)	SolarCity LMC Series II LLC(i)	SolarCity LMC Series III LLC(i)	SolarCity FTE Series 1 LLC(i)
No. of PV systems	5,033	6,596	15,915	11,293
ADSAB or ADSLB (mil. $)	88	106	276	244
Aggregate PV system size (MW DC)	44	47	118	64
Weighted avg. customer agreement initial term (months)	223	237	240	360
Weighted avg. customer agreement remaining initial term (months)	201	225	233	358
Weighted avg. customer agreement seasoning (months)	22	12	7	2
Weighted avg. price per kWh ($)	0.15	0.15	0.15	0.16
Weighted avg. customer agreement price per kWh fee escalator (%)	2.07	1.58	1.61	2.75
Percentage of ADSAB related to residential customers (%)	71	87	86	100
Weighted avg. FICO score (residential customer)	762	767	763	734
Percentage of ADSAB related to non-residential customers (%)	29	13	14	0

(i)Per each transaction's respective offering memorandum. ADSAB--Aggregate discounted solar asset balance. ADSLB—Aggregate discounted solar loan Balance. PV--Photovoltaic. MW--Megawatt. DC--Direct current. kWh--Kilowatt hour.

Cash Flow Assumptions

The transaction's cash flows depend on a number of key inputs, some of which we derived from contractual terms or modeled based on historical performance, rating-dependent economic scenarios, and our expectations of market dynamics. We incorporated a variety of stresses by periodically reducing solar energy production estimates, customer agreement reassignments and renegotiations, and increases in operating and capital expenditures. Our internal cash flow model includes input assumptions for the following:

- Solar energy production estimates;
- Customer agreement reassignments and renegotiations; and
- Operating and capital expenditures.

Solar energy production estimates

Our assumptions for solar energy production estimates consider studies from the IE, which incorporate various factors, including solar resource variability, portfolio geographic distribution, system performance, and degradation.

Customer agreement reassignments and renegotiations

Our assumptions for customer agreement reassignment include the customer moving, customer home sales, customer defaults, and the potential for subsequent renegotiations. Factors that may influence the new renegotiated rate include the:

- Prevailing utility rate;
- Prevailing market solar contract rate (including those offered by competitors);
- Rate paid by the previous customer;
- Value proposition for using the solar system; and
- Competitive pressures from potential alternatives to solar technology.

Based on SolarCity's Sept. 2015 reassignment data, more than 6,000 cases completed reassignments, constituting approximately 2% of the customers that the company has provided or contracted to provide systems or services to. Of those cases, more than 92% were because of a normal sale of a customer's home (i.e. not associated with foreclosure, short sale, death, or divorce). The remaining cases were because of various other reasons. A handful of the solar systems were removed, accounting for less than 2% of the total number of completed reassignments. The weighted average recovery rate for contract reassignments related to normal sale is over 99%, while the weighted average recovery rate for all other types of contract reassignments is approximately 95%. Of the total amount of completed contract reassignments, approximately 95% resulted in a full recovery, with the remainder resulting in a weighted average recovery of approximately 84% (see tables 2 and 3).

Table 2

Customer Contract Reassignments

Reason for completed contract reassignment	% of completed contract reassignments	Completed contract reassignment as a % of customers SolarCity provided systems/services to	Recovery (%)(ii)
Normal sale	92.5	1.9	99
All other(i)	7.5	0.1	95
Total	100.0	2.0	99

(i)Includes short sale, foreclosure, death, divorce, etc. (ii)Recovery is based on the present value of customer agreement cash flows before and after the contract reassignment. PV--Photovoltaic.

Table 3

Customer Contract Reassignment Results

Result of reassignment	% of completed contract reassignments	Recovery (%)(i)
Full recovery	95	100
Less than full recovery	5	84
Total	100	99

(i)Recovery is based on the present value of customer agreement cash flows before and after the contract reassignment.

Operating and capital expenditures

The largest component of the transaction expenses is the manager/servicer fee. The transaction documents specify that the manager's responsibility includes providing all operations, maintenance, and management services with respect to the PV systems financed by the solar loans. The transaction documents specify that the servicer's responsibility includes providing all administrative, processing, and collection services with respect to the solar loans. According to the transaction documents, the manager fee base rate is $19 per kilowatt per year and the servicer fee base rate is $5 per kilowatt per year, both subject to a 2% annual increase.

Cash Flow Results

Because this asset class has a relatively limited operating history, we used related asset classes as a basis for our analysis of the distributed solar generation business model that underlies the transaction's cash flows. Solar technology has been around for decades; assumptions regarding production variance, system performance, and degradation have been used in Standard & Poor's-rated solar-related project finance transactions for years. Similarly, we examined residential mortgage customer defaults as a potential proxy for default risk, given similarities in customer credit profiles and duration of cash flow.

We believe the primary drivers for determining the cash flows generated by the transaction are the production of solar energy estimates, the level of contract reassignment and renegotiation, and potential variations in operating costs. While we view the model results as good quantitative indications, qualitative measures may also affect the transaction's actual performance, including the:

- Originator's underwriting standards;
- Servicing, operations, and maintenance provider's strength and responsibilities;
- Economic value and savings associated with solar systems;
- Geographic diversity;
- Customer credit quality and diversity;
- Terms of the customer agreements;
- Portfolio seasoning and performance history;
- Quality and diversification of manufacturers of systems financed by the solar loans, including panels and inverters;
- System installation and maintenance quality;
- Duration and diversification of cash flow sources;
- Federal, state, and local government support and incentives;
- Pre-securitization financing arrangements, transaction asset ownership, and control structure;
- Level of third-party participation within the structure; and
- Political backdrop and regulatory framework.

Base-Case Scenario

Our base-case scenario assumes there are only cash flows from contractual obligations associated with customer agreements, which account for base-case assumptions on solar energy production estimates from studies provided by the IE. Further, our base-case scenario does not ascribe any recovery values to the solar loans or PV systems financed

by the loans beyond their existing contractual term. We are also assuming that the useful life of PV panels is approximately 25 years, and as such, do not assume any cash flows afterward. Under this scenario, the beginning DSCR for the transaction is approximately 1.4x, and our model indicated that class A notes would be able to pay timely interest and full principal by its rated final maturity. According to the model, the payoff year for principal under this scenario is 2030.

Rating Scenarios

Our rating scenarios incorporate the base-case assumptions above, and stresses to solar energy production estimates, customer agreement reassignment and renegotiation, and operating and capital expenditures.

Solar energy production estimates

Our assumption considers solar energy production estimates provided by the IE, which include stresses on solar energy production estimates and system degradation (including potential induced degradation). We assumed a one-year P90 production volume for each year of the transaction. Panel technology risks stem from the variety of panels used, their limited track record, and their varying quality. Given the lack of a strong warranty provider and that solar panel quality can vary across different manufacturers, we referenced the IE's analysis, which stressed the degradation rates of the panels to approximately 1.2% per year.

Customer default

Our assumptions for customer default account for various factors, including customer credit quality, contract term, sum of scheduled customer loan payments, and geographic location. Under our rating scenarios, our residential customer default assumptions for the portfolio are approximately 30%-35% in total; the first wave of defaults starts in year one, the next waves starting approximately every 10 years afterwards. The defaults in later years are higher than the first wave of default, accounting for the potential downward drift the customers' credit quality over time.

We further assume that approximately 7%-8% of the defaulted customers will be permanently removed from the portfolio upon default with zero recovery. The remaining portion of the defaulted contracts will not receive any cash flow for 24 months post-default, after which cash flow is assumed to restart at a renegotiated rate. This time lag is generally consistent with approaches used in various other asset classes. Typically, the renegotiated rate is lower than the existing contractual rate and will be a function of the prevailing utility rate and the market solar contract rate.

Customer moving/sale of the underlying property

We assume that approximately 10% of the pool (excluding the customer that permanently defaulted per the above) will experience a customer move or sale of the underlying property each year, and the customer agreement will be subsequently renegotiated. Typically, the renegotiated rate is lower than the existing contractual rate and will be a function of the existing contractual rate before the move and the prevailing utility rate.

Voluntary customer renegotiation

For the portion of the portfolio that is current on its payments, we assume that approximately 7-8% of the customers in the pool will voluntarily renegotiate if the contract rate rises meaningfully above either the prevailing utility or market solar contract rate. Under that scenario, the renegotiated rate is lower than the existing contractual rate and will be a

function of the prevailing utility rate and the market solar contract rate.

Prevailing utility rate

We believe that many factors can affect the trends for utility rates, including geopolitical landscape, infrastructure expenditure needs, renewable requirements, and commodity prices. We assume that utility rates will increase marginally per year with some level of stabilization in later years.

Prevailing market solar contract rate

In our opinion, many factors may affect the trends for market solar contract rates, including raw material and component costs, installed costs, system efficiencies, financing costs, external subsidies, and market competition. We believe installed costs will continue to decline and that there will likely continue to be a meaningful relationship between cost and contract rates. We assume that market solar contract rates will remain stable for the next few years and then decline steadily per year with some level of stabilization in later years.

Operating and capital expenses

While the transaction documents specify the responsibilities borne by the manager, we assume the transaction cash flows will cover major capital expenses and needs, especially inverter replacement. Our assumption for inverter costs stresses the estimates provided by the IE, which accounts for some decline from today's prices. While there is a production guaranty payment from SolarCity if energy production is less than the amount that is contractual guaranteed, given that the customer payment is based on the amount of solar energy produced, we are not assuming the transaction will make additional guaranty payments. However, if there are guarantee payments to be made and SolarCity does not pay the guaranteed amount, the loan balance may not be fully paid by the end of its term. We are assuming that any amount outstanding at the end of loan's current term will not have any recovery.

Inverter replacement expenses

Liquidity is a focus in solar assets because the trust faces a significant capital expenditure item approximately every 12 years after each system is put into service, when the inverter needs to be replaced. This transaction, similar to prior transactions, has a reserve build-up leading up to this expected expense. To model the potential liquidity stress, we model inverter replacement on an average of every 12 years after the system installation date, plus or minus 24 months. The 24-month buffer around the expected inverter replacement date reflects our understanding that the replacement is unlikely to occur on the exact 12-year anniversary date of each system but rather can occur either before or after this date due to various factors affecting the inverter life, as well as the analysis provided by the IE. We assume the inverter replacement cost at a price per watt DC reflecting reduced costs over the next 12 years based on IE estimates. However, for stress runs, we model inverter costs at levels closer to today's higher price per watt DC during the first replacement cycle, and at levels closer to the IE's estimates for the second replacement cycle.

Uncertainty and event risk

Given that the solar loans have longer maturities than comparable leases and PPAs, there is additional uncertainty and potential for event risk in the sector in later years. We are assuming an additional reduction in cash flow of approximately 10% starting after year 20.

Under this scenario, our model indicated that class A notes would be able to pay timely interest and full principal by its rated final maturity. According to the model, the payoff year for principal under this scenario is 2037. The haircut to

the base-case present value net cash flow is approximately 31%.

To determine whether the available credit support is sufficient to withstand the assumed stresses, we examined various simulated cash flow scenarios by incorporating the assumptions above and varying the distribution of defaults. In each scenario we examined, the notes did not experience any interest shortfall, and all note principal was paid by the rated final maturity.

Our rating assumptions are much more stressful than industry data or SolarCity's historical experience. The stresses examine potential scenarios in which the value proposition of existing customer contracts is less pronounced, especially when the customers' circumstances change. In our opinion, the value proposition/economic cost savings is the key variable in assessing the likelihood that customers will continue to make payments on their solar loans or renegotiate to preserve the economics.

Sensitivity Analysis

Sensitivity run 1: Management fee stress

Using the rating scenarios described above, we assumed that the management and servicing fee increased by approximately 20%-25% from the start of the stress. Under this scenario, the model indicated that the class A notes would be able to pay timely interest and full principal by its rated final maturity. The haircut to the base-case present value net cash flow is approximately 34%. In our opinion, this additional management and servicing fee stresses what could occur if the manager or servicer, or both, experienced a bankruptcy. While the manager and servicer fees are currently outlined in the transaction documents, we believe that that these fees might be renegotiated in a manager's or servicer's potential bankruptcy scenario.

Sensitivity run 2: Additional system removal stress

Using the rating scenarios described above, we assumed that approximately 20%-30% of the defaulted customers will be permanently removed from the portfolio upon default with zero recovery. Under this scenario, the model indicated that the class A notes would be able to pay timely interest and full principal by its rated final maturity.The haircut to base-case present value net cash flow is approximately 32%.

Payment Priority

The transaction currently includes two classes of notes that will pay interest and principal semi-annually in the priority shown below in table 4.

Table 4

Priority Of Payments

Payment	Priority
1	The indenture trustee fee, subject to annual limit.
2	The manager fee and the servicing fee.
3	The custodian fee, subject to the annual limit.
4	The platform provider fee.

Table 4

Priority Of Payments (cont.)	
5	The transition service provider fee subject to annual and cumulative limit.
6	To the class A noteholders, the note interest (which does not include post-ARD additional note interest).
7	To the class B noteholders, the note interest (which does not include post-ARD additional note interest).
8	To the liquidity reserve account, the lesser of all remaining available funds and liquidity reserve account floor amount minus the amount on deposit in the account on the payment date.
9	To the inverter replacement reserve account, the inverter replacement reserve deposit.
10	To the noteholders: During a regular amortization period, first to the class A noteholders, the class A scheduled note principal payment, then to the class A noteholders, the unscheduled principal payment, then to the class B noteholders, the class B scheduled note principal payment, then to the class B noteholders, any unscheduled principal payment, and then to the class B noteholders, any unpaid class B deferred interest; and during an early amortization period or sequential interest amortization period, all remaining available funds to the class A noteholders until the balance is reduced to zero, and then to the class B noteholders to reduce the class' outstanding note balance to zero and to pay any unpaid class B deferred interest.
11	On the payment date in September 2016, to the class B noteholders any additional principal payment amount; on any payment date after September 2016, to the class A noteholders the additional principal payment amount, then to the class B noteholders the additional principal payment amount.
12	To the liquidity reserve account, the lesser of all remaining available funds and liquidity reserve account required balance minus the amount on deposit in the account on the payment date.
13	To the servicer, to reimburse any power production guaranty payment due from SolarCity to an obligor that the servicer has elected to make as a result the manager notifying that SolarCity cannot pay the obligor.
14	To the indenture trustee, any extraordinary expenses not paid in item 1 above.
15	To the transition service provider, any transition service provider expenses not paid in item 5 above.
16	To the custodian, any extraordinary expenses not paid in item 3 above.
17	If applicable, to the letter of credit bank, any fees and expenses related to the letter of credit and any amounts which have been drawn under the letter of credit and interest due.
18	To the manager, any manager extraordinary expenses not previously paid.
19	To the class A noteholders and the class B noteholders, in that order, their respective make-whole amount, if any.
20	To the class A noteholders and the class B noteholders, in that order, their respective post-ARD additional note interest and deferred post-ARD additional note interest due, if any.
21	To the issuer, any remaining available funds.

ARD—Anticipated repayment date.

Events Of Default

Under the transaction documents, each of the following constitutes an event of default:

- Default on the interest payments--excluding class B deferred interest or post-anticipated repayment date (ARD) additional note interest--subject to a cure period;
- Default on principal payments at the rated final maturity;
- The issuer's insolvency;
- The issuer breaches on certain covenants or obligations, subject to a cure period;
- Any representation, warranty, or statement of the issuer proves to be materially incorrect, subject to a cure period;
- The indenture trustee fails to have a first-priority perfected security interest in the trust estate in the indenture trustee's favor;
- The issuer must register as an investment company under the Investment Company Act of 1940;
- The issuer becomes taxable as an corporation for federal or state income tax;
- The originator fails to pay a defective solar loan's repurchase price according to the related contribution agreement;
- Any final non-appealable judgment in the amount of $100,000 or more against the issuer not covered by insurance;

- Any default in paying the amount due by the performance guarantor under the performance guaranty, subject to a cure period; or
- The performance guarantor's failure to observe or perform any covenant or obligation set forth in the performance guaranty, subject to a cure period.

Early Amortization Period

Under the transaction documents, an early amortization period will occur if any of the following events or conditions occur and are continuing:

- The DSCR is less than or equal to 1.15x for the applicable determination date and the immediate preceding determination date, and a sequential interest amortization period is not in effect.
- As a condition to accepting its appointment as a replacement manager or servicer, the replacement manager or servicer requires an increase to the existing manager fee base rate or servicer fee base rate, to perform the related duties; or
- A DSCR sweep period has continued for three consecutive determination dates.

An early amortization period caused by the first item above will last until the DSCR is greater than 1.15x for two consecutive determination dates.

An early amortization period caused by the second item above will last until the outstanding balance of the notes has been reduced to zero.

An early amortization period caused by the third item above will last until the DSCR is greater than 1.25x on the next determination date.

Sequential Interest Amortization Period

Under the transaction documents, a sequential interest amortization period will occur if any of the following events or conditions occur and are continuing:

- The DSCR is less than or equal to 1.00x for the related determination date;
- An event of default occurs;
- On the ARD, the aggregate outstanding note balance has not been reduced to zero; or
- An early amortization period has continued for four consecutive determination dates.

A sequential interest amortization period caused by the first item above will last until the DSCR is greater than 1.00x for the next determination date.

A sequential interest amortization period caused by the second item above will last until all events of default have been cured or waived per the indenture.

A sequential interest amortization period caused by the third item above will last until the aggregate outstanding note balance has been reduced to zero.

A sequential interest amortization period caused by the fourth item above will last until the DSCR is greater than 1.25x for the next determination date, provided that if an early amortization period is in effect due to the second item (of the early amortization definition) above, the sequential interest amortization period will last until the aggregate outstanding note balance has been reduced to zero.

During a sequential interest amortization period, all available funds remaining after steps 1-9 of the payment priority will be distributed first to the class A notes until they have been reduced to zero, second to the class B notes until they have been reduced to zero, and third, to the class B notes to pay any unpaid class B deferred interest.

DSCR Sweep Period

Under the transaction documents, the DSCR sweep period will commence on any determination date when the DSCR is less than or equal to 1.25x and a regular amortization period is in effect. A DSCR sweep period will continue until the DSCR is greater than 1.25x for two consecutive determination dates. During the DSCR sweep period, the liquidity reserve account required balance (item 12 in the payment priority) will equal the then-outstanding note balance.

Manager Termination Events

Under the transaction documents, a manager termination event will occur if certain events or conditions occur and are continuing, including:

- The manager fails to deliver information with respect to the PV systems for the servicer to deliver the semi-annual servicer report within five business days of the requirement;
- The manager fails to materially observe or perform any covenant or agreement contained in the transaction documents;
- Certain events of bankruptcy, insolvency, receivership, or reorganization of the manager occur;
- Any representation, warranty, or statement of the manager made in any transaction documents proves to be incorrect in any material respect;
- The manager ceases to be engaged in the business of monitoring or maintaining energy equipment of a type comparable to the related PV systems;
- An event of default has occurred and is continuing if SolarCity is the manager; and
- If the monthly DSCR is less than 1.05x for two consecutive determination dates.

Servicer Events of Default

Under the transaction documents, a servicer event of default will occur if certain events or conditions occur and are continuing, including:

- The servicer fails to make any required payment, transfer, or deposit within three business day of when it's required
- The servicer fails to deliver to the indenture trustee the semi-annual servicer report within five business days of when it is required;
- The servicer fails to materially observe or perform any covenant or agreement contained in the transaction documents;

- Certain events of bankruptcy, insolvency, receivership, or reorganization of the servicer occur;
- Any representation, warranty, or statement of the servicer made in any transaction documents prove to be incorrect in any material respect;
- The servicer ceases to be engaged in the business of servicing loans of a type comparable to the solar loans;
- An event of default has occurred and is continuing if SolarCity Finance Co. LLC is the servicer; and
- If the monthly DSCR is less than 1.05x for two consecutive determination dates.

DSCR

According to the transaction documents, the DSCR is calculated by dividing the sum of aggregate customer payments, and insurance proceeds related to business interruption insurance related to these payments (minus the manager fee, servicing fee, transition service provider fee, custodian fee, platform provider fee, and indenture trustee fee) by the sum of note interest (in all cases, assuming a non-sequential interest amortization period for that payment date) and scheduled note principal payment for the related payment date.

Legal Matters

We expect the issuers' special-purpose entity provisions to be consistent with Standard & Poor's bankruptcy-remoteness criteria. In rating this transaction, Standard & Poor's will review the legal matters that it believes are relevant to its analysis, as outlined in its criteria.

Surveillance

We will maintain active surveillance on the rated notes until the notes mature or are retired. The purpose of surveillance is to assess whether the notes are performing within the initial parameters and assumptions applied to each rating category. The transaction terms require the issuer to supply periodic reports and notices to Standard & Poor's for maintaining continuous surveillance on the rated notes.

Related Criteria And Research

Related Criteria

- Revised Assumptions For Rating U.S. RMBS Prime, Alternative-A, And Subprime Loans Incorporated Into LEVELS Version 7.4.3, June 1, 2015
- Principles for Rating Debt Issues Based on Imputed Promises, Dec. 19, 2014
- Key Credit Factors For Power Project Financing, Sept. 16, 2014
- Global Investment Criteria for Temporary Investments in Transaction Accounts, May 31, 2012
- Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Understanding Standard & Poor's Rating Definitions, June 3, 2009
- Legal Criteria For U.S. Structured Finance Transactions: Special-Purpose Entities, Oct. 1, 2006

Related Research

- With Limited Operating History In The Sector, Solar Transactions Will Remain At The 'BBB' Rating Level -- For Now, July 10, 2015
- Global Structured Finance Scenario And Sensitivity Analysis: Understanding The Effects Of Macroeconomic Factors On Credit Quality, July 2, 2014
- Will Securitization Help Fuel The U.S. Solar Power Industry?, Jan. 23, 2012

In addition to the criteria specific to this type of security (listed above), the following criteria articles, which are generally applicable to all ratings, may have affected this rating action: "Post-Default Ratings Methodology: When Does Standard & Poor's Raise A Rating From 'D' Or 'SD'?," March 23, 2015; "Global Framework For Assessing Operational Risk In Structured Finance Transactions," Oct. 9, 2014; "Methodology: Timeliness of Payments: Grace Periods, Guarantees, And Use of 'D' And 'SD' Ratings," Oct. 24, 2013; "Counterparty Risk Framework Methodology And Assumptions," June 25, 2013; "Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings," Oct. 1, 2012; "Methodology: Credit Stability Criteria," May 3, 2010; and "Use of CreditWatch And Outlooks," Sept. 14, 2009.