FitchRatings

The ABCP Paper Trail (U.S.)

AUGUST 2010

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ABCP Market Commentary

As of Aug. 11, 2010, U.S. ABCP outstandings stood at $403 billion on a non-seasonally adjusted basis, according to the Federal Reserve. This represents a 10% decline from the end of 2009 and a 66% drop from a peak of $1.2 trillion in July 2007. The total U.S. CP market (corporate and ABCP) has contracted approximately 6% since the end of 2009 and 50% since peaking in July 2007 at $2.19 trillion.

Straight-A Funding, LLC (Straight-A), rated 'F1+' by Fitch, made its final Federal Family Education Loan Program (FFELP) student loan asset purchases in June. The program began funding on May 11, 2009, and ramped up significantly via the subscription of 22 student loan lenders. Straight-A currently has $39 billion of short-term notes outstanding funding the amortizing portfolio of student loans. This represents almost 10% of the ABCP market. The program is discussed in greater detail on page 4.

The focus for market participants through the balance of the year will be on evaluating the strength of the economy and on the impact of the FASB's FAS 166 and 167 on cash reserve and balance sheet requirements for both conduit portfolios and their liquidity support facilities. Sponsors have continued to concentrate conduit efforts on core banking relationships, and they have been taking advantage of opportunities to improve the credit quality of their underlying portfolios by reducing exposures to troubled asset classes and tightening deal triggers upon lending facility renewals. Certain administrators of multiple conduits have taken measures to merge or otherwise consolidate their programs as they assess the near-term prospects of the conduit business.

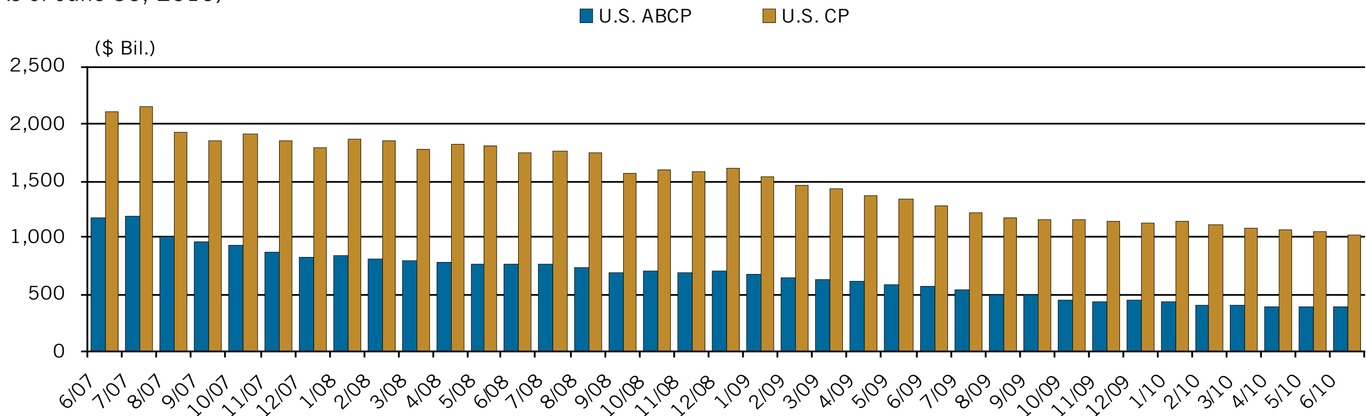
Fitch's credit outlook for global ABCP in 2010 remains consistent with the outlooks for the global financial institutions that act as liquidity and credit enhancement providers to ABCP programs. ABCP rating actions, if taken, will most likely reflect the health of sponsors, support providers, and other relevant counterparties. While performance measures are expected to worsen for most consumer asset classes, rating actions are expected to be limited, particularly for senior tranches typically funded through ABCP conduits.

Global Economic Update

Fitch is maintaining its forecast of a continued global recovery in 2010 and the medium term, but at rates which are low by the standards of previous recoveries. For 2010, Fitch has revised its global growth forecast to 3.1%, up from 2.8% in its previous "Global Economic Outlook" report, published [date]. The 0.3 percentage point upward revision mainly reflects stronger growth in Japan (driven by the dynamic recovery of exports) and the BRIC economies (Brazil, Russia, India, and China), which are benefiting from stronger than expected domestic demand. Meanwhile, the U.S., euro area (EA), and U.K. appear to be performing in line with Fitch's projections.

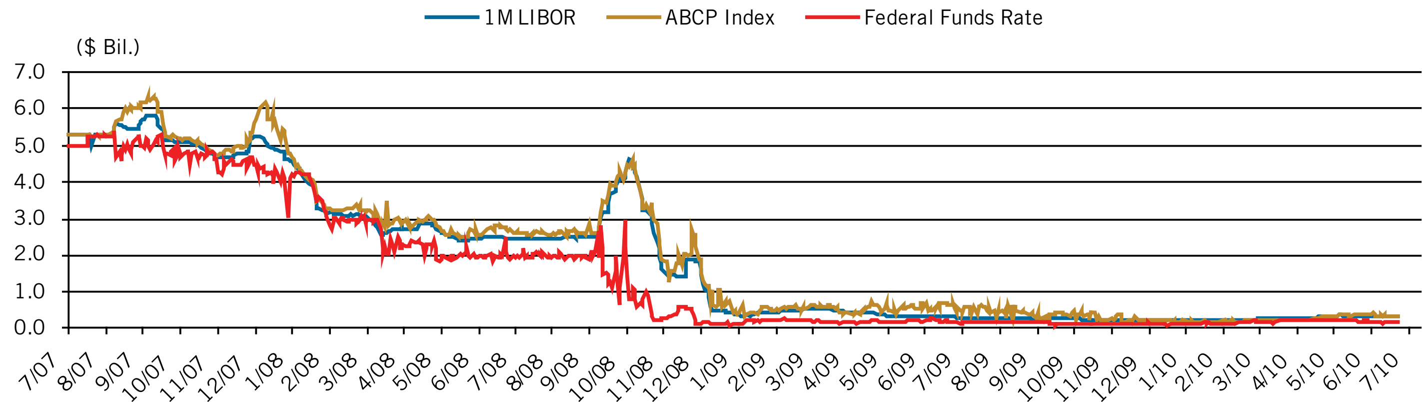
Despite the increase in volatility of sovereign debt markets, macroeconomic data has been robust. Major advanced economies (MAEs) registered their fourth GDP quarterly (quarter-over-quarter) advance of 0.6% in first-quarter 2010, equivalent to 1.9% year-over-year. This was above the previously projected 0.4% quarter-over-quarter advance, and reflects the accelerated export-led recovery in Japan. On the other hand, steady growth in the U.S. and stable but weak growth in the EA and the U.K. fell in line with Fitch's previous forecasts.

The vigorous rebound in global trade has been the main engine behind growth, particularly for the Asian economies, Russia, and Brazil. Both exports and imports came in significantly higher than previously projected for a number of MAEs, including export growth of 6.9% quarter-over-quarter in Japan, and import growth of 6.1% quarter-over-quarter in Germany. The upturn in the inventory cycle is also serving as a major growth driver, as firms are beginning to restock following almost



U.S. ACBP Versus U.S. CP Outstandings (Non-Seasonally Adjusted)
(As of June 30, 2010)

Source: Federal Reserve.



One Month Indexes
(As of July 12, 2010)

Source: Federal Reserve.

two years of inventory drawdowns. Finally, monetary and fiscal policies continue to be accommodative in the MAEs in 2010, although the phasing out of some specific stimulus measures — particularly car incentive schemes in the EA — has weighed on domestic demand.

Sovereign credit worries stemming from the European debt crisis have taken a toll on consumer confidence and unsettled capital markets. And, although high-frequency indicators continue to point to a recovery, the risk of European countries falling into a double-dip recession has clearly increased.

However, in Fitch's view, the likelihood that fiscal consolidation could drive the MAEs as a whole into a renewed recession in the near term is exaggerated. Although several EA governments, including Germany, have announced large-headline fiscal tightening measures, the bulk of the fiscal consolidation will not take place in 2010, apart from measures taken by the so-called 'peripheral' EA economies in southern Europe.

Beyond 2010, the downside risks of fiscal tightening will intensify, as most countries have committed to implementing their consolidation programs starting in 2011; even then, tightening measures are mostly being phased in, while the impact on demand will take some time to be felt. Although Fitch has taken account of lower government spending in its growth forecasts, the agency emphasizes the importance of "non-Keynesian" effects of fiscal consolidation, as stronger and more credible fiscal plans should reduce uncertainty among private investors and consumers. Fiscal stimulus is no basis for sustained economic recovery and, to the extent that they are viewed as credible, adjustment plans can support a recovery in private-sector investment and ease precautionary saving by households. Household saving behavior is also likely to be influenced by further signs of stabilization in labor markets over the past few months, particularly in Germany, where unemployment has registered faster monthly declines than Fitch previously forecast.

At the same time, the likelihood that monetary policy will be looser for longer has increased since the last GEO, prompting Fitch to adjust downward its forecast for the EA policy rate in 2011, to 1.25% from 1.5%, while the weaker euro should also help underpin growth.

Overall, Fitch expects global GDP to grow 2.9% in 2011 (down from 3% expected previously) and 3.3% in 2012. The agency's outlook, although signaling that ongoing recovery is intact despite sovereign debt worries, should be taken in context. While Fitch believes its projected growth rates can sustain fiscal tightening, the envisioned recovery continues to be tepid by historical standards and is below consensus projections. The combination of private-sector deleveraging and fiscal retrenchment is likely to prevent the above-trend "bounce-

back" in growth over the medium term that has historically been witnessed in the aftermath of deep recessions.

The full special report, "Global Economic Outlook," dated July 2010 is available at www.fitchratings.com.

Fitch Comments on U.S. Financial Reform Act's Implication for Credit Rating Agencies

On July 19, Fitch issued the following press release regarding the U.S. Financial Reform Act.

Following months of consideration, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was passed by the U.S. Congress last week and is expected to be signed into law by President Obama this week.

In addition to the far-reaching areas of the financial markets covered by the act, the Dodd-Frank Act provides enhanced regulation, transparency, and accountability for credit rating agencies, objectives that Fitch Ratings supports and believes are constructive for all credit rating agencies and the capital markets as a whole. Fitch is committed to implementing the provisions of the Dodd-Frank Act specific to credit rating agencies in a timely and effective manner.

The unprecedented events of the last two years have changed expectations for credit rating agencies and Fitch has made a number of changes to its rating process to address these expectations. Since the beginning of the financial crisis, ongoing improvement of the rating process has been a special focus as Fitch has adapted to rapidly changing market realities.

As Fitch addresses the enhanced regulation of the Dodd-Frank Act, as well as the increased expectations created by worldwide regulatory reform, Fitch will keep the market informed of its changes as they are implemented. Fitch expects to make a range of changes that will provide greater transparency, more rigorous processes and heightened verification of the information Fitch is provided by issuers and underwriters. The new procedures will differ among different rating categories, but enhanced requirements will be adopted throughout Fitch. While the differences will be most noticeable across ratings of MBS, ABS, and other structured products, the ratings processes for corporate credits, financial institutions, municipalities, and even sovereigns will also be strengthened.

There are certain provisions of the Dodd-Frank Act applicable to credit rating agencies that are effective immediately and deserve special attention from all market participants.

The Dodd-Frank Act repeals Rule 436(g) under the Securities Act of 1933 (the Securities Act), which relates to U.S. public offerings registered under the Securities Act. Before repeal, Rule 436(g) provided that credit ratings assigned by a Nationally Registered Statistical Rating Organization (NRSRO) are not considered a part of registration statement prepared or certified by an 'expert', as described within the meaning of sections 7 and 11 of the Securities Act, and the NRSRO consent would not be required to include credit ratings in Securities Act registration statements and any related prospectuses.

Historically, credit rating agencies have never been treated as experts under the Securities Act, appropriately so since ratings are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. While Fitch continues to believe that it is not an expert under the plain meaning of sections 7 and 11 of the Securities Act, it is Fitch's understanding that, absent clarification by the SEC, immediately after the Dodd-Frank Bill is signed into law an issuer will need to obtain Fitch's written consent to include a Fitch credit rating in a Securities Act registration statement and any related prospectuses. If Fitch provides its consent for ratings to be included into Securities Act registration statements or prospectuses, Fitch will be potentially exposed to 'expert' liability under section 11 of the Securities Act, liability to which Fitch is not currently exposed. Fitch is not willing to take on such liability without a complete understanding of the ramifications of that liability to Fitch's business and the means by which Fitch may be able to effectively mitigate the risks associated therewith. While Fitch will continue to publish credit ratings and research, given the potential consequences, Fitch cannot consent to including Fitch credit ratings in prospectuses and registration statements at this time.

In addition, the Dodd-Frank Act directs the SEC to remove the exemption for credit rating agencies from the SEC's Fair Disclosure Rule (Regulation FD) within 90 days of the enactment of the Dodd-Frank Act. The exemption for credit rating agencies from Regulation FD permits issuers to provide the credit rating agencies with material non-public information without requiring public disclosure of such information. To the greatest extent possible, Fitch will work with the issuer community to put in place appropriate mechanisms so that Fitch can continue to receive confidential information as part of the rating process.

Issuers should consult their legal counsel with respect to the effect of these issues on the issuer and any planned securities offerings.

Additional information can be found at www.fitchratings.com.

U.S. Banking Industry Update

With U.S. banks reporting results for the most recent quarter, it is becoming more apparent that financial stability is beginning to emerge across the industry. Fitch's Rating Outlook on the industry has been Negative since late 2007. Although results are still comparatively weak relative to pre-crisis levels, and will likely remain pressured over the next few quarters, collective quarterly net income for institutions covered in this report was $15.1 billion, versus $7.6 billion in the year-ago quarter. Although reported results are beginning to trend positively, results continue to be affected by one-time items such as reserve releases, tax gains, and FAS 166/167 consolidation. Moreover, for the larger institutions, results have been helped by more volatile trading revenues. Nonetheless, Fitch anticipates that nonrecurring items will continue to exert lesser influence on reported results going forward, and that broad and sustainable core profitability is beginning to emerge. Earnings have been noticeably helped by moderating and/or lower provision expenses as the asset quality picture stabilizes. Further bolstering this brighter outlook is the vastly improved capital and liquidity position of the larger U.S. banks in general, which provides a solid base to address further stresses on the balance sheet. Fitch's outlook is predicated on the view that the economic environment will remain challenging with only modest GDP growth and unemployment levels remaining elevated. Fitch's Outlook does not incorporate exogenous shocks, although Fitch would factor in any such events should they occur. This, in turn, will keep the level of problem assets relatively high for the foreseeable future, albeit improving. While the overall industry outlook is Stable, individual outlooks will vary. For banks that still have a Negative Outlook, Fitch anticipates resolving these individually over the next few months, and could result in Outlooks going to Stable, or in more limited instances, a one-notch downgrade, with the Outlook then going to Stable.

The special report, "U.S. Banking Quarterly 1Q10 — Finding Stability," published June 2, 2010, is available at www.fitchratings.com.

Fitch Completes North American ABCP Annual Review: $145 Billion Affirmed

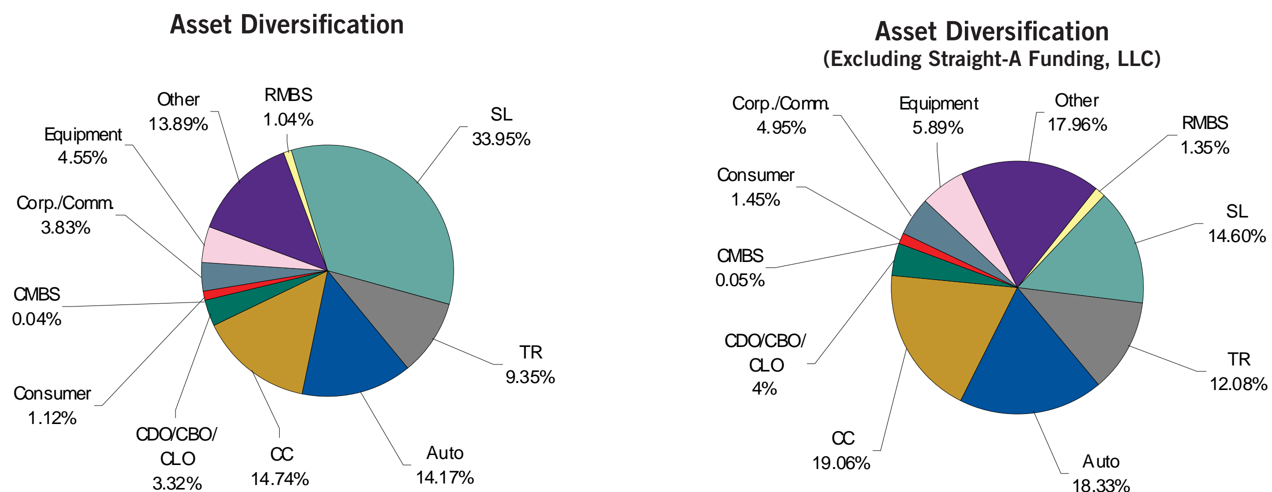
In June 2010, Fitch completed an annual review of its rated North American ABCP portfolio. The review resulted in the affirmation of approximately $145 billion of outstanding ABCP. Fitch focused on each program's portfolio composition and the credit and structural protections supporting each program, such as pool-specific and program-wide credit enhancement, as well as committed liquidity support facilities available to fund the payment of maturing ABCP.

In its review of a program's portfolio composition, Fitch analyzes the credit quality of underlying exposures and tracks shifts in asset allocation and seller concentration. Where applicable, the analysis also includes a Monte Carlo simulation analysis of partially supported, multi-seller programs to assess portfolio and correlation risks and the sufficiency of program-wide credit enhancement levels.

The charts below provide a composite snapshot of asset diversification for the Fitch-rated North American ABCP portfolio as of April 30, 2010. The graph on the right excludes issuance through Straight-A, a multi-seller program established in April 2009 to purchase FFELP student loan assets. Straight-A is fully supported by the Federal Financing Bank (FFB), a U.S. government corporation with a deemed credit risk commensurate with that of the U.S. government ('AAA'/'F1+'), and had approximately $32.8 billion in outstandings as of April 30, 2010. The chart on the right, which excludes Straight-A, displays a better representation of the general asset composition across the Fitch-rated North American ABCP portfolio. Traditional asset classes including credit cards (19.1%), autos (18.3%), student loans (14.6%), and trade receivables (12.1%) continue to represent the most frequently funded asset types.

Full rating reports and credit updates for each program can be found at www.fitchratings.com.

Fitch-Rated North American ABCP Portfolio Composition as of April 30, 2010



Straight-A Funding Nears $40 Billion Following Final Asset Purchases

Straight-A, rated 'F1+' by Fitch, made its final FFELP student loan asset purchases in June. The program began funding on May 11, 2009, and ramped up significantly via the subscription of student loan lenders. Between May 2009 and June 2010, 22 lenders signed on to sell student loans to Straight-A. Currently, Straight-A has $39 billion of short-term notes outstanding funding the amortizing portfolio of student loans. This represents almost 10% of the ABCP market.

Program Background

Late in the fall of 2008, the Department of Education announced its intentions to establish an ABCP program following an extension of the Ensuring Continued Access to Student Loans Act (the Act). Among other provisions, the Act grants lenders the option to put student loans to the Department of Education under certain conditions.

The government's stated intention for the program is to continue to provide families with access to federally guaranteed student loans. As conditions to participating in the ABCP program, student loan lenders generally agree to originate and disburse or acquire government-guaranteed student loans and conduct activities constituting a continued participation in the FFELP within a 24-month period after selling or pledging loans to the program.

Through the ABCP program, Straight-A may issue two series of student loan short-term (SLST) notes, series-1 and series-2. Series-1 SLST notes may be issued with expected maturities of up to 90 days and legal final maturities on the third business day following the expected maturity. Series-2 SLST notes may be issued with expected maturities of up to 90 days and legal final maturities on the seventh business day following the expected maturity. Proceeds from the issuances are used to fund the purchase of 'AAA' rated funding notes

backed by FFELP student loans. The funding notes are issued either directly by student loan lenders or via special purpose vehicles sponsored by student loan lenders, depending on eligibility requirements. To be eligible, the underlying FFELP loans must be sold to the funding note issuer before July 1, 2010. First disbursements must have been made between Oct. 1, 2003 and July 1, 2009 and full disbursement, no later than Sept. 30, 2009.

SLST noteholders benefit from full credit and liquidity support provided by the FFB. The FFB is a U.S. government corporation whose risk is considered commensurate with that of the U.S. government. Support mechanisms are sized to cover the face amount of SLST notes being funded by the borrowing, plus any interest accrued and to accrue to the legal final maturity of the notes. Furthermore, Straight-A has entered into a put agreement with the Department of Education, whereby, following the occurrence of certain events, among them a failure by the liquidity provider to honor a liquidity funding, Straight-A will put student loans to the Department of Education.

The program is managed by BMO Capital Markets Corp., and The Bank of New York Mellon acts as the conduit administrator. (A full credit report titled "Straight-A Funding, LLC," published April 17, 2009 and describing the program is available at www.fitchratings.com.)

Fitch Publishes ABCP Scorecard

In June, Fitch published its semi-annual Asset Backed Commercial Paper Scorecard handbook. The book contains one-page summaries of each of the ABCP programs for which Fitch maintains a rating. Each summary contains information on the program type, rating, and key parties involved, as well as brief descriptions of the credit and liquidity support mechanisms employed to protect ABCP noteholders.

For more information or to obtain a copy of the handbook, please contact a member of the ABCP team listed on the first page of this newsletter.

17(g)5 Update

As of May 24, 2010, Fitch has updated its plan to address the implementation of the recent amendment to Rule 17g-5 (Rule 17g-5), providing for certain disclosures with respect to all new structured finance credit ratings published by Fitch.

As Fitch indicated in its March 31 and April 22 press releases, the SEC has adopted an amendment to Rule 17g-5 relating to rating agencies registered as NRSROs.

Rule 17g-5 requires arrangers (defined as issuers, sponsors, or underwriters) that hire an NRSRO to rate any new structured finance security to provide certain written representations to the NRSRO being hired, obligating the arrangers to make available to any NRSRO, whether hired by the arranger or not, all information provided to the hired NRSRO both for determining the initial credit rating and for ongoing surveillance (the Compliance Representations).

The SEC Exemption

While Rule 17g-5 applies to all of Fitch's subsidiaries and offices worldwide, the SEC announced a temporary exemption from the application of Rule 17g-5 for structured finance securities issued by non-U.S. persons in transactions that occur outside the U.S. The temporary exemption will apply until Dec. 2, 2010, unless otherwise extended by the SEC.

A non-U.S. person is any person or entity that does not meet the definition of a U.S. Person under the U.S. securities laws (as defined in Rule 901[k] under the U.S. Securities Act of 1933), which includes corporations, partnerships, and limited liability companies incorporated or formed outside of the U.S. or trusts formed outside of the U.S. with a trustee that is a non-U.S. person.

While the temporary exemption should cover many non-U.S. transactions, Fitch believes that it will not cover any transaction where U.S. investors are targeted. In granting the exemption, the SEC cited as an example of a transaction that occurs outside the U.S. any transaction that complies with the applicable safe harbor available under Rules 903 and 904 of Regulation S. These safe harbor rules only apply to an 'offshore transaction,' which generally is a transaction where offers cannot be made to persons in the U.S. and all buyers of the securities must be outside the U.S. at the time they purchase the security. Fitch recommends that arrangers who believe they are eligible for the exemption to Rule 17g-5 refer to the provisions of Rule 903 and 904 to ensure that a structured finance transaction occurs outside the U.S.

Required Representations for Exempt Structured Finance Transactions

In order for Fitch to ensure that a purported non-U.S. transaction is eligible for the exemption from 17g-5, all engagement letters signed and returned by the arranger to Fitch on or after June 2, 2010, the effective date of Rule 17g-5, where the arranger entering into the engagement letter claims that the exemption from Rule 17g-5 applies must contain representations, the text of which are set forth below, that the issuer and transaction meet the provisions of the exemption.

"You represent and agree that (i) the issuer of the security or money market instrument is not a U.S. person (as that term is defined under Rule 902[k] under the U.S. Securities Act of 1933); and (ii) the security or money market instrument will be offered and sold upon issuance, and any issuer, sponsor, underwriter, or arranger linked to the security or money market instrument will effect transactions in the security or money market instrument after issuance, only in transactions that occur outside the U.S."

Required Representations for Non-Exempt Structured Finance Transactions

All engagement letters signed and returned by the arranger to Fitch on or after June 2, 2010 for U.S.-based transactions or for non-U.S.-based transactions that are not eligible for the exemption to 17g-5, must contain the Compliance Representations, the text of which are set forth below, regardless of where the structured finance transaction is to take place.

"You agree to comply with the requirements applicable to issuers, sponsors or underwriters specified in Rule 17g-5(a)(3)(iii)(A) through (D) (the Disclosure Rule) under the U.S. Securities Exchange Act of 1934, as amended (the Exchange Act), as interpreted by the U.S. Securities and Exchange Commission from time to time.

Fitch acknowledges that your obligation to provide information in compliance with the Disclosure Rule to any NRSRO (as defined under the Exchange Act) is subject to your receipt of reasonable assurance, in such form and manner as you shall reasonably require, from such NRSRO that the information will remain confidential in a manner that is consistent with your ordinary business practices and applicable laws.

You acknowledge that (i) under Rule 17g-5(a)(3)(i) under the Exchange Act (the

Notification Rule), Fitch must maintain on a password-protected Internet Web Site a list of each security or money market instrument for which Fitch is currently in the process of determining an initial credit rating in chronological order and identifying the type of security or money market instrument, the name of the issuer, the date the rating process was initiated and the Internet Web site address (Web Site Address) where the issuer, sponsor or underwriter of the security or money market instrument represents that the information that must be provided pursuant to the Disclosure Rule can be accessed and (ii) Fitch will provide access to the Fitch Site to any NRSRO who provides Fitch with an executed copy of the certification (the Certification) described in Rule 17g-5(a)(3)(ii). You agree that Fitch is under no duty to verify the accuracy of any such Certification. In addition, you agree to provide, and below do provide, the following information to Fitch in order to allow Fitch to comply with its obligations under the Notification Rule."

Asset Class Applicability

The requirements of Rule 17g-5 only apply to new structured finance securities using Fitch's international credit rating scale. There will be no change to any of Fitch's practices with respect to engaging Fitch to rate any other form of securities.

Fitch believes Rule 17g-5 applies to the following securities regardless of tranching structure:

- All ABS.
- ABCP programs.
- RMBS.
- CDOs.
- CMBS.
- Insurance securitizations.
- Structured investment vehicles.

For the sake of clarity, the following are not considered by Fitch to be covered by Rule 17g-5:

- Covered bonds or similar dual recourse securities.
- Derivative product companies.
- Enhanced equipment trust certificates.
- Whole business/corporate securitizations.
- Project finance.
- Tender option bonds.
- Utility and other forms of mortgage bonds.

Going Forward:

Fitch is continuing to evaluate the application of Rule 17g-5. As indicated in its March 31 and April 22 press releases, Fitch will continue to conduct a dialogue with the SEC and market participants in order to ensure the appropriate application of Rule 17g-5 and will make further commentary when appropriate. Upcoming changes to the FASB's rules regarding off-balance-sheet securitizations have created some ABS market uncertainty regarding FDIC treatment of transfers of financial assets in the event of conservatorship or receivership of an FDIC-insured institution. A key concern is whether the changes introduced by the FASB could re-characterize existing transactions and how this issue would be addressed post-implementation of the new accounting rules. Fitch has been in dialogue with the FDIC regarding these issues to seek clarity on how certain transfers and structures will be treated going forward.

For more information, please contact Douglas Murray at +1 212 908-0518 or Wendy Cohn at +1 212 908-0681.

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The information in this report is provided "as is" without any representation or warranty of any kind. A Fitch rating is an opinion as to the creditworthiness of a security. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed, suspended, or withdrawn at anytime for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of Great Britain, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.