STANDARD & POOR'S

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604 Structured Finance Ratings Put On CreditWatch Negative Following U.S. Sovereign CreditWatch Placement

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NEW YORK (Standard & Poor's) July 15, 2011--Standard & Poor's Ratings Services today placed its ratings on 604 structured finance transactions on CreditWatch negative after it placed on CreditWatch negative its 'AAA' long-term and 'A-1+' short-term sovereign rating of the U.S. The sovereign CreditWatch action reflects our view of two separate but related issues. The first issue is the continuing failure to raise the U.S. government debt ceiling so as to ensure that the government will be able to continue making scheduled payments on its debt obligations. The second pertains to our current view of the likelihood that Congress and the Administration will agree on a credible, medium-term fiscal consolidation plan in the foreseeable future. (See "United States of America 'AAA/A-1+' Ratings Placed On CreditWatch Negative On Rising Risk Of Policy Stalemate," published July 14, 2011).

As a result of the negative CreditWatch placement of the sovereign rating assigned to the U.S., we placed our ratings on 604 structured finance transactions on CreditWatch negative. This represents approximately 3% of the total structured finance transactions we rate globally. These transactions had an original issuance amount of $373.67 billion. The list below indicates the impact by structured finance sector. This list, however, excludes transactions with holdings of U.S. government securities as eligible investments, as described in the third bullet below. For the complete list of structured finance transactions affected by these CreditWatch actions, please see "Structured Finance Ratings Affected By July 15, 2011, CreditWatch Actions," available on the Global Credit Portal, at www.globalcreditportal.com. The list is also available on Standard & Poor's Web site, at www.standardandpoors.com. Our ratings on structured finance transactions could be further affected if we take additional rating action to lower the sovereign rating.

IMPACT BY STRUCTURED FINANCE SECTOR

Asset class	No. deals	Original Principal amt. (mil. $)
US RMBS	39	23,274
US CMBS	46	7,482
US SC	62	39,240
US ABS	387	259,100
US ABCP/LOC/RRS	70	44,570
Total	604	373,666

Specifically, the negative CreditWatch placement of the U.S. sovereign rating will affect the ratings assigned to structured finance securities with distinct structural characteristics that typically include direct exposure to U.S.-backed securities:

- Principal-protected notes typically are transactions where securities (such as an equity tranche of a structured finance transaction) are combined with a zero-coupon Treasury bond that has an accreted value at maturity that is at least equal to the par amount of the principal-protected note. Generally, our rating on these securities only addresses the receipt of principal at maturity.
- Defeased securities (or transactions with defeased collateral) are transactions where the outstanding principal amount, plus the interest payments that will come due until the securities are repaid, are fully backed by payments from Treasury bond holdings and/or cash. When securities are defeased with Treasury bonds, we link the ratings on them to the U.S. sovereign rating. Examples of transactions with defeasance exposure include CMBS transactions, certain tobacco settlement securitization transactions, and letter of credit-backed issues.
- Transactions with eligible investments composed of holdings of U.S. government obligations are not included in these CreditWatch placements. Under certain downgrade scenarios, transactions holding eligible investments substantially composed of U.S. government obligations may be reviewed to determine the degree of liquidity risk presented by exposure to U.S. government obligations.
- Transactions with ratings directly or in part linked to the sovereign rating of the U.S., such as structured finance securities guaranteed or securities collateralized by loans guaranteed by the U.S. or a government agency (e.g., FFELP, NCUA, Fannie Mae, Freddie Mac, SBA, etc.).

Most structured finance securities are supported by collateral whose credit quality is not directly linked to the sovereign rating of the U.S. government. The ratings on these securities, as well as the ratings on new issuances of structured finance securities that are not dependent on U.S. government obligations, generally would not be directly affected by a change in the sovereign rating of the U.S., at least in the short term (for additional information, see "Weighing Country Risk In Our Criteria For Asset-Backed Securities," published April 11, 2006). In the longer term, however, negative action on the U.S. sovereign rating could have a greater indirect effect depending on the market's reaction and the longer-term economic repercussions of that reaction, which could negatively affect the credit quality of the obligors within the underlying structured finance collateral pools.

Any impact beyond the potential psychological impact on the markets, and the corresponding systemic shock, would likely depend on the nature and magnitude of any action. A downgrade of the U.S. may also mandate forced sales of government and government-backed securities for any institution that can only hold 'AAA' assets under their investment guidelines.

SECTOR-SPECIFIC IMPACT

The exposure of structured finance securities to the sovereign rating of the U.S. varies by sector and transaction. Transactions in some asset classes have been structured with greater reliance on U.S. government securities, the guarantee of U.S. government agencies or the guarantee of agencies backed by the full faith and credit of the U.S. government. As we indicate above, the vast majority of structured finance transactions have ratings that are not dependent on the U.S. and are therefore not directly affected by today's CreditWatch placements.

Asset-Backed Securities

The asset-backed securities (ABS) with ratings placed on CreditWatch are all student loan securitizations backed fully or partially by loans originated under the Federal Family Education Loan Program (FFELP). Each of the loans originated under this program are, at a minimum, 97% guaranteed by the U.S. government.

Asset-Backed Commercial Paper

We placed the rating on the short-term notes of Straight-A Funding LLC, an asset-backed commercial paper (ABCP) program, on CreditWatch negative. The short-term notes of Straight-A Funding are fully supported by the Federal Financing Bank (FFB), a wholly owned U.S. government corporation that the U.S. Treasury directs and supervises.

We placed our ratings on 59 referenced and repackaged securities (RRS) on CreditWatch negative. In these transactions, U.S. Treasuries serve as collateral (such as principal protected notes) or are eligible to serve as collateral.

We placed our ratings on 10 ABS letter-of-credit (LOC) transactions on CreditWatch negative. The securities in eight of these transactions have been defeased with U.S. Treasuries and the securities in the other two are reliant on a guarantee from a U.S. government agency.

Commercial Mortgage-Backed Securities

Commercial mortgage-backed securities (CMBS) transactions generally have exposure to U. S. government obligations through defeased loan collateral. The underlying commercial real estate securing mortgage loan collateral is released from the lien and replaced or substituted by U.S. government obligations. The defeasance collateral is required to have the same principal amount due at maturity, have the same interest rate and payment date of the subject loan, and is not generally subject to prepayment, call, or early redemptions. We determined that 46 U.S. CMBS transactions have at least moderate exposure to defeased loans.

Residential Mortgage-Backed Securities

While most residential mortgage-backed securities (RMBS) generally have limited direct reliance on U.S. government obligations, some transactions have a greater reliance. For example, six rated RMBS transactions benefit from specific guarantees by Fannie Mae or Freddie Mac to receive payments due on such RMBS. Additionally, one re-securitization transactions holds zero-coupon treasuries as collateral supporting the payment of principal on the related securities at maturity. There are 32 RMBS transactions in which the collateral benefits from forms of mortgage insurance that would be provided by a government related entity such as the Federal Housing Administration should a mortgage loan within the collateral be liquidated.

Structured Credit

Structured credit transactions, which include collateralized loan obligations (CLOs), collateralized debt obligations (CDOs), nontraditional securitizations, and leveraged fund transactions, typically have limited direct exposure to U.S. government obligations. The affected transactions consist of 47 principal-protected note transactions, 13 tobacco securitization transactions defeased with government obligations, one small business loan securitization with ratings linked to the U.S. government, and one funded synthetic CDO with collateral that includes U.S. government linked obligations.

Non-U.S. Structured Finance Securities

There is minimal impact from the sovereign CreditWatch action on non-US structured finance securities. Accordingly, we have placed our ratings on only two non-US transactions on CreditWatch at this time.

We believe transactions issued in markets outside of the U.S. are less likely to be directly affected by a rating action on the U.S. sovereign. Standard & Poor's would consider transfer and convertibility risks in its analysis of cross-border transactions linked to the U.S. dollar.

The nature and magnitude of any subsequent rating action on the U.S. sovereign would affect the overall impact on rated structured finance securities. A temporary technical default, for example, might generate significant temporary spikes in interest rates or currency exchange rates. Additionally, the impact is likely to be markedly different for a U.S. downgrade, or a technical default. Our criteria for rating securities higher than the sovereign credit rating may also become more relevant, particularly if a downgrade were to exceed one notch.

Projecting with any certainty the potential effects of a sovereign downgrade, however, is difficult. For example, the recent downward credit migration of Greece, a smaller and less creditworthy sovereign than the U.S., has had a more pronounced effect on the markets than many anticipated.

We will continue to surveil the ratings on these structured finance securities and revise them as necessary to reflect any changes in the transactions' credit quality. In addition, we may take further rating actions on these transactions pending the resolution of the ongoing CreditWatch status of the U.S. government ratings.

RELATED CRITERIA AND RESEARCH

- United States of America 'AAA/A-1+' Ratings Placed On CreditWatch Negative On Rising Risk Of Policy Stalemate, published July 14, 2011.
- U.S. Entities And Issues Suffer Knock-On Effects Of U.S. Government’s CreditWatch Negative, published July 15, 2011.
- Principles Of Credit Ratings, published Feb. 16, 2011.
- Standard & Poor's Ratings Definitions, published April 27, 2011.
- Understanding Standard & Poor's Rating Definitions, published June 3, 2009.
- Weighing Country Risk In Our Criteria For Asset-Backed Securities, published April 11, 2006.
- Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions, published June 14, 2011.