

Announcement: Moody's Places US Aaa Government Bond Rating and Related Ratings on Review for Possible Downgrade

Global Credit Research - 13 Jul 2011

New York, July 13, 2011 -- Moody's Investors Service has placed the Aaa bond rating of the government of the United States on review for possible downgrade given the rising possibility that the statutory debt limit will not be raised on a timely basis, leading to a default on US Treasury debt obligations. On June 2, Moody's had announced that a rating review would be likely in mid July unless there was meaningful progress in negotiations to raise the debt limit.

In conjunction with this action, Moody's has placed on review for possible downgrade the Aaa ratings of financial institutions directly linked to the US government: Fannie Mae, Freddie Mac, the Federal Home Loan Banks, and the Federal Farm Credit Banks. We have also placed on review for possible downgrade securities either guaranteed by, backed by collateral securities issued by, or otherwise directly linked to the US government or the affected financial institutions.

RATIONALE FOR REVIEW

The review of the US government's bond rating is prompted by the possibility that the debt limit will not be raised in time to prevent a missed payment of interest or principal on outstanding bonds and notes. As such, there is a small but rising risk of a short-lived default.

Moody's considers the probability of a default on interest payments to be low but no longer to be de minimis. An actual default, regardless of duration, would fundamentally alter Moody's assessment of the timeliness of future payments, and a Aaa rating would likely no longer be appropriate. However, because this type of default is expected to be short-lived, and the expected loss to holders of Treasury bonds would be minimal or non-existent, the rating would most likely be downgraded to somewhere in the Aa range.

The specific rating that would be assigned at the conclusion of the review once such a default is cured would depend on (1) the speed with which the default is cured; (2) an assessment of the likely effect on future borrowing costs; and (3) whether there is a change in process for raising the debt limit that would preclude another default. A return to a Aaa rating would be unlikely in the near term, particularly if there were no progress on the third consideration.

While the debt limit has been raised numerous times in the past, and sometimes the issue has been contentious, bond interest and principal have always been paid on time. If the debt limit is raised again and a default avoided, the Aaa rating would likely be confirmed. However, the outlook assigned at that time to the government bond rating would very likely be changed to negative at the conclusion of the review unless substantial and credible agreement is achieved on a budget that includes long-term deficit reduction. To retain a stable outlook, such an agreement should include a deficit trajectory that leads to stabilization and then decline in the ratios of federal government debt to GDP and debt to revenue beginning within the next few years.

Moody's does not take a position on what measures should be included in any deficit reduction package. Instead, it is the resultant deficit and debt trajectories that are relevant to the rating and its outlook.

RELATED ISSUES

In addition to the financial institutions directly linked to the US government, Moody's has also placed on review for possible downgrade pre-refunded municipal bonds (which are invested in government or related securities), certain housing bonds that are supported or guaranteed by the US government, and other municipal ratings that are directly linked to the rating of the US government. Bonds issued by the governments of Israel and Egypt that are guaranteed by the US government were also placed on review for possible downgrade.

Structured finance securities that hold government-linked debt as their primary collateral have also been placed on review for downgrade. These include transactions defeased by US Treasury strips, transactions backed by FFELP government guaranteed student loans, and US RMBS backed by government agency mortgages.

FURTHER INFORMATION

Moody's is also publishing today its annual report on the United States, detailing the factors relevant to the analysis of the government bond rating. The report, United States of America: Credit Analysis, can be found at www.moody's.com/USRatingActions.

The rationales and expected timing for today's rating reviews on the US government's rating and directly related credits were previously discussed in Moody's Updates on Rating Implications of US Debt Limit, Long-Term Budget Negotiations and Implications of a US Rating Action for Other Aaa Issuers.

For a complete list of affected securities and additional analysis, please visit www.moody's.com/USRatingActions.

REGULATORY DISCLOSURES

Please see the rating methodologies tab on the Credit Policy page on moody's.com for the relevant methodology for each action.

Please see the ratings tab on the issuer / entity page on moody's.com for the last Credit Rating Action and the rating history.

New York
Steven A. Hess
VP - Senior Credit Officer
Sovereign Risk Group
Moody's Investors Service, Inc.

JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

New York
Bart Oosterveld
MD - Sovereign Risk
Sovereign Risk Group
Moody's Investors Service, Inc.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653



© 2011 Moody's Investors Service, Inc. and/or its licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ARE MOODY'S INVESTORS SERVICE, INC.'S ("MIS") CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MIS DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS DO NOT CONSTITUTE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS ARE NOT RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. CREDIT RATINGS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MIS ISSUES ITS CREDIT RATINGS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable, including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at

www.moodys.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Any publication into Australia of this document is by MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657, which holds Australian Financial Services License no. 336969. This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001.

Notwithstanding the foregoing, credit ratings assigned on and after October 1, 2010 by Moody's Japan K.K. ("MJKK") are MJKK's current opinions of the relative future credit risk of entities, credit commitments, or debt or debt-like securities. In such a case, "MIS" in the foregoing statements shall be deemed to be replaced with "MJKK". MJKK is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO.

This credit rating is an opinion as to the creditworthiness or a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be dangerous for retail investors to make any investment decision based on this credit rating. If in doubt you should contact your financial or other professional adviser.