Article Title: ARCHIVE | General Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt Data: (EDITOR'S NOTE: — This criteria article has been fully superseded by "Methodology And Assumptions For Analyzing Letter Of Credit-Supported Debt," published Feb, 20, 2015. , We originally published this criteria article on July 6, 2009. We're republishing this article following our periodic review completed on March 27, 2014.) Standard & Poor's Ratings Services is updating its methodology and assumptions for rating letter of credit (LOC)-backed debt transactions. We are publishing this article to help market participants better understand our approach to reviewing these structures. Our approach for rating LOC-supported debt addresses the "legal and regulatory risk," "payment structure and cash flow mechanics," "operational and administrative risk," and "counterparty risk" principles discussed in “Principles-Based Rating Methodology For Global Structured Finance Securities,” published May 29, 2007. Our approach also addresses the "Principles Of Corporate And Government Ratings," published June 26, 2007. SUMMARY OF THE CRITERIA UPDATE This article supersedes “Criteria | Governments | U.S. Public Finance: LOC-Backed Municipal Debt,” published July 2, 2007, and “Criteria | Structured Finance | ABS: Rating U.S. Letter of Credit-Backed Bonds,” published June 2, 1999, and updated on April 21, 2003, and “Credit-Enhanced Commercial Paper Rating Criteria,” published June 2, 1999. These articles are available on RatingsDirect and on Standard & Poor's Web site at www.standardandpoors.com. This article clarifies the following: Our analysis of scenarios where a rating on LOC-supported debt may be different from the rating on the LOC provider; Our assumptions regarding preference risk in a number of different contexts, including situations where we apply our joint support methodology, and where a remarketing agent is purchasing LOC-supported debt for its own account; Our assumptions relating to LOC enforceability; and Our assumptions regarding operational risks that relate to debt administrator performance. We are also including our updated methodology and assumptions for: Investment risk pertaining to funds received before a debt payment date; Analyzing transactions that allow the issuance of additional debt; LOC-supported debt that can be legally defeased; and Application of a Standard & Poor's underlying rating (SPUR) on LOC-supported debt issues. EFFECTIVE DATE AND TRANSITION The criteria outlined in this article are effective immediately. We do not anticipate any rating changes as a result of this update. METHODOLOGY Overview When an LOC fully backs an obligor's debt obligations, we believe the credit quality of the obligor's debt is improved because the LOC provider is an additional source of repayment—the LOC mitigates credit exposure to the obligor by substituting in its place the credit risk of the LOC provider. When we rate LOC-supported debt, we analyze the terms of the LOC with the goal of identifying structural and legal risks that, in our view, may expose investors to a default risk that is greater than the rating on the LOC provider indicates. When we have identified such legal and structural risks, we consider whether the involved parties have, in our opinion, sufficiently mitigated them. Rating linkages The rating we assign to LOC-supported debt is usually linked to the long- or short-term issuer credit rating (ICR) assigned to the LOC provider—our current opinion of the LOC provider's overall financial capacity to pay its financial obligations. Therefore, changes to the LOC provider's ICR will typically result in similar changes to the rating on the LOC-supported debt. However, our methodology contains exceptions to this approach in a number of different contexts. For example, application of our counterparty and supporting party framework provides for 'AAA' ratings on debt supported by LOC providers rated lower than 'AAA' as long as the provider expressly agrees to convert the LOC to cash if it is downgraded below the minimum eligible rating, and various other risks (e.g., reinvestment risk) are addressed. See “Revised Framework For Applying Counterparty And Supporting Party Criteria,” published May 8, 2007, on RatingsDirect. Similarly, other Standard & Poor's methodologies may apply when the debt is supported by two or more rated parties: We typically apply our joint support methodology, if each party provides full support, the parties are, in our opinion, not too highly correlated, and we view the structure of the debt as consistent with the application of the joint support methodology. This methodology results in an assigned debt rating that is higher than the rating on either of the supporting parties. When we think the joint support methodology does not apply due to our assessment of the degree of correlation among fully supporting parties, the assigned debt rating is linked to the higher rated of two or more supporting parties. We typically apply our weak-link (or "several support") approach if two or more partially supporting parties combine to wholly support debt

repayment. This approach results in the assigned debt rating being linked to the lowest-rated party. VRDO ratings Most of the LOC-supported bonds we rate are variable-rate demand obligations (VRDOs). A VRDO is a variable-rate bond, usually multimodal (discussed in the "Interest rate mode conversion" section below), with an embedded tender or put option (i.e., a demand feature). The put option gives investors the right to a full repayment of principal prior to maturity, together with accrued interest, if the investors give the required notice to the designated administrator. Because the put option adds liquidity risk to the debt, we usually assign dual ratings (e.g., 'AA-/A-1+') to VRDOs, based on the LOC provider's long- and short-term ICRs. The long-term rating addresses our assessment of the likelihood of receiving principal and interest when due. The short-term rating addresses our assessment of the likelihood of payment of the demand feature. The "Common Risks" section below describes many of the risks we evaluate in LOC-supported debt issues. The "Additional LOC-Supported Debt Structures" section describes some common, but less frequently observed, LOC-supported structures and our framework for analyzing them. The "LOC And Liquidity Facility Reviews" section briefly describes how our analysis of liquidity facilities, a similar arrangement covering only liquidity risk, differs from our analysis of LOCs, which cover any liquidity and credit risk. Common Risks In LOC-Supported Structures Recapture risk related to obligor bankruptcy When linking a debt rating to an LOC provider's ICR, we usually assume the obligor (which, for purposes of this article, also includes, the issuer, if different, and any obligor guarantors) becomes bankrupt immediately after making a payment to investors. Because the methodologies in this article are intended to be applied globally and the risks we assess are based, in part, on the laws of the relevant jurisdictions, we use the term "recapture" to generally cover the risk that debt service payments made before an obligor's bankruptcy filing may be clawed back from investors. Obligor paymentsFor LOC-backed transactions where the obligor is a U.S. entity, we generally view recapture risk as limited to preference risk under section 547 of the U.S. Bankruptcy Code (the Code). Under section 547 of the Code, a bankrupt debtor's estate may void and recapture certain property transfers, potentially including payments made by the debtor to service and/or repay existing debt. Transferred funds may be subject to recapture if they were made during the 90 days (one year, if payments are to "insiders", as defined in the Code) that preceded the debtor's bankruptcy filing. Therefore, in our opinion, there may be a risk that debt service payments to investors in U.S. law-governed LOC-supported debt may be recaptured as a voidable preference if an obligor becomes bankrupt. An exception to this view occurs when the obligor is a "municipality" under Chapter 9 of the Code, because debt payments by these municipalities are not subject to recapture according to Code section 926. Payment structureWe evaluate whether investors could be exposed to recapture risk arising from obligor payments largely by reviewing the order of debt repayment sources. There are three basic LOC-supported debt repayment structures, each of which emphasize different repayment sources and raises different analytical considerations: Direct-pay; Prioritized direct-pay; and Standby LOC. In a direct-pay structure, funds drawn under the LOC are the first source for repaying investors. Obligor funds reimburse the LOC provider. Investors are paid only with LOC provider funds, so they avoid potential recapture risks that may arise from receiving obligor payments. In a prioritized direct-pay structure, LOC funds are a secondary payment source available to be drawn on if the primary source of funds is not enough to pay debt service. The obligor for the bonds is usually the primary source of funds, which means that payments to investors are vulnerable to recapture risk, unless the risk is mitigated. In transactions governed by U.S. law, mitigation of recapture risk consists of making funds "preference-remote." The process often involves a trustee, which represents investors, paying the debt with obligor funds that were "aged" for the appropriate preference period before they are used to pay investors, and verifying that the obligor did not become bankrupt during the aging period. In a standby LOC structure, investors are usually paid first with obligor funds that are not aged or otherwise recapture-remote. LOC funds are used primarily to cover payment shortfalls. This structure leaves investors exposed to recapture risk arising from obligor payments. Therefore, in transactions governed by U.S. law, the terms of the LOC and other transaction documents usually include provisions requiring the LOC provider to pay, on the investors' behalf, monies that are recaptured from investors as preferential transfers in a bankruptcy of the obligor (as defined in the "Recapture risk related to obligor bankruptcy" section above). These provisions shift preference risk from investors to the LOC provider. The analytical considerations unique to this structure include: the

maximum aggregate amount of debt service payments that may be subject to recapture (see "Bankruptcy/recapture coverage" section below), and the risk of recapture after the debt has been fully repaid. With regard to the latter consideration, even if the debt already has been repaid, we assess whether the transaction documents require the trustee to continue performing its duties and whether the LOC is available to be drawn until, in our view, no risk of recapture remains (e.g., in transactions governed by U.S. law, the trustee continues performing and the LOC is available to be drawn until after the longest applicable preference period has expired and the trustee has received a certificate of "no bankruptcy filing" from an authorized officer of the obligor). Purchase priceRecapture risk may also exist when remarketing proceeds are the first source for funding principal and interest payments (purchase price) to tendering investors. Accordingly, we evaluate the potential sources from which those proceeds may be derived under the transaction documents. In most cases, the transaction documents address recapture risk by restricting the remarketing agent (i.e., the broker-dealer) from remarketing debt to the obligor (as defined in the "Recapture risk related to obligor bankruptcy" section above). In transactions governed by U.S. law, this restriction usually does not prevent the remarketing agent from purchasing tendered debt for its own account, paying investors with its own funds, and then reselling the debt to any potential buyer (including the obligor). In this scenario, tendering investors would not be exposed to preference risk as a result of the obligor's bankruptcy because they would have received a payment from the remarketing agent's own funds, as opposed to a payment from the obligor. Sources of funds for debt paymentsSome examples of funding sources that, in our view, mitigate obligor-related recapture risk in transactions governed by U.S. law are: Initial debt sale proceeds; LOC draws, provided the LOC is subject to International Standby Practices (ISP) 98 or the LOC provider explicitly has agreed to make payments with its own funds; Remarketing proceeds (if limited as described in the "Purchase price" section above); Funds held by the trustee for at least 90 days (or, the applicable preference period, if longer), during which time there has not been a bankruptcy filing by or against the obligor; Insurance proceeds paid directly to the trustee, as a beneficiary (on behalf of the investors) of an insurance policy; Proceeds from a refunding debt issue; and Other monies, if accompanied by a preference opinion concluding that payments to investors from a specified source of funds would not be preferential transfers. In any given case (e.g., where the laws of a non-U.S. jurisdiction may apply), we may request additional legal comfort that the funds paid to investors would not be subject to recapture. Obligor bankruptcy/LOC payments (new LOC support for previously issued debt)Recapture risk may also arise where an LOC provider is granted new or additional collateral for agreeing to support previously issued debt (e.g., providing additional credit support following deterioration of preexisting credit support) or replacing a departing provider (i.e., LOC substitution). In the U.S., for example, the granting of such collateral by the obligor may result, under certain circumstances, in the treatment of an LOC payment as a preferential transfer subject to recapture by an obligor's bankruptcy trustee. In these contexts, we gain comfort that LOC payments in transactions governed by U.S. law would not be recaptured when we receive a legal opinion that reviews the holdings of two cases, In re Air Conditioning and In re Compton Corp. (see Appendix I), and, based on this review, concludes that a payment under the LOC would not be a preferential payment by the obligor if it files for bankruptcy. If no new or additional collateral is granted to the LOC provider issuing the LOC to support the obligor's antecedent debt, we may rely on a written statement from the obligor's (or, in some cases, the LOC provider's) counsel to that effect. Sufficiency of LOC coverage When a debt rating is to be linked to an LOC provider's ICR, we usually assume the obligor will default on its payment obligations. Furthermore, because an LOC ordinarily provides a finite coverage amount for a debt issue, we apply stressful assumptions when assessing whether the LOC fully covers the maximum principal and interest (and premium, if any) liability that may be due for the interest rate modes (discussed in "Interest rate mode conversion" below) to which the assigned rating will apply. Principal coverageWe consider whether the LOC covers 100% of the outstanding principal repayment obligation. Interest coverageWe consider a number of factors to assess LOC interest coverage. They include: The maximum debt interest rate that could occur while the LOC is in effect; The maximum number of days between interest payment dates for all interest rate modes to which the assigned rating will apply; The LOC's terms for interest reinstatement (discussed in the "Events of default/nonreinstatement of interest coverage" section below); All of the remedies the trustee could use

to repay the debt should the LOC provider exercise any option to not reinstate interest coverage; and The terms for interest accruals on the debt (including analysis of the first interest accrual period, which could be longer than later interest accrual periods). Our interest coverage stress test usually includes the following three assumptions: Interest will accrue at the maximum rate, as defined in the debt instrument; The LOC provider and trustee will exhaust the maximum time allowed to exercise a right or fulfill an obligation (e.g., the LOC provider will, on the last day that it has the right to do so, provide notice that it is not reinstating interest coverage; and, the trustee will, on the last day that it is obligated to do so, complete the steps described in the transaction's documents for repaying investors); and When either of these parties may choose between two or more options, they will choose the option that could result in the greatest amount of interest accruing on the debt. Purchase price coverageIf the debt structure includes provisions for mandatory or optional tenders (e.g., VRDOs), when a tender occurs, investors are typically repaid with remarketing proceeds and, to the extent of deficiencies caused by failed remarketings, LOC funds. In this case, we analyze whether the trustee is required to draw on the LOC before the draw deadline, and whether the amount drawn would be equal to principal and interest due to tendering investors (the purchase price) minus any remarketing proceeds on deposit with the remarketing agent or the trustee. Purchase price reinstatementWith regard to coverage for tendered bonds, LOCs operate as revolving facilities. In other words, the LOC provider's available commitment is reduced by the amount of tendered debt that has been purchased with LOC funds and, when the debt is remarketed and the provider reimbursed, the available commitment is replenished by the amount of debt that has been resold together with accrued interest. When the LOC's commitment is reduced following the purchase of tendered debt with an LOC draw, the LOC provider or the trustee, as custodian, usually holds the purchased debt (often referred to as bank bonds). We assess whether the transaction documents sufficiently mitigate the risk that the custodian (if it is not the LOC provider) could release an amount of debt to new investors that exceeds the amount of reinstated LOC coverage. This risk is usually mitigated by a provision that restricts the custodian from releasing any debt until the LOC provider has confirmed the reinstated LOC amount to the custodian in writing. Optional redemptionsCertain transactions are structured so that payments due to investors (i.e., principal, interest, and/or premium) upon an optional redemption are not supported by an LOC. For these transactions, we review whether the trustee is required by the transaction documents to refrain from sending a notice of optional redemption to investors unless it has enough preference-remote funds on deposit, sends an optional redemption notice that explicitly conditions the redemption on the trustee having sufficient preference-remote funds to make the redemption payment by the scheduled redemption date, or sends an optional redemption notice that states a redemption will occur only to the extent of available preference-remote funds. Bankruptcy/recapture coverageStandby LOCs typically cover recapture risk resulting from obligor bankruptcy (see "Recapture risk related to obligor bankruptcy" section above), in addition to providing coverage for principal and interest shortfalls. In our view, the relevant factors for determining the size of recapture coverage include: Loan agreement (or equivalent document) payment due dates; Loan agreement grace periods for curing obligor payment defaults; The longest applicable recapture period; The sum of all payments (including principal) that could be due under the loan agreement during the longest applicable recapture period; and If the LOC does not reinstate following a draw, the provisions for and timing of remedies to repay investors (e.g., acceleration following an event of default due to trustee notice of obligor bankruptcy or loan agreement payment default) relative to the date of obligor bankruptcy. Additional debtThe issuance of additional debt potentially dilutes the LOC coverage of the existing investors. Transaction structures have addressed this risk by, for example, conditioning all issuances of additional debt on both corresponding increases in the principal and interest coverage of the existing LOC and written notice to us, so that we may evaluate the additional LOC coverage's sufficiency. Alternatively, transaction structures have provided that any additional debt will have a different series designation, and the investors related to that series will not have any rights under an LOC issued for the benefit of holders of any other debt series. Enforceability risk Even if an LOC provides adequate coverage, it cannot be relied upon for payment unless it is legal, valid, binding and, therefore, enforceable. We usually assume that LOCs provided by U.S. banks are enforceable. Therefore, we typically do not review enforceability opinions. However, depending on the particular facts and circumstances of a given transaction (e.g., transactions

involving LOC providers that are new to us, non-U.S. or non-bank LOC providers, or LOCs with terms that we view as nonstandard), we may look for legal comfort on the enforceability of the LOC, including in the form of a legal opinion. Credit event analysis When a debt rating is to be linked to an LOC provider's ICR, we usually look for the provider to remain obligated to make full and timely payments on the debt until final maturity, or, if earlier, the point in time when the debt is repaid in full (our approach for reviewing standby LOC structures also accounts for the applicable recapture period—see the "Payment structure" section above). Therefore, we determine whether investors are exposed to credit event risk. In the context of LOC-supported debt, a credit event usually causes either the LOC to terminate before investors are scheduled to be fully repaid, or a reduction in LOC coverage that is larger than a corresponding reduction in the outstanding liability. Some of the most common credit events in LOC-supported debt issues are: LOC expiration; LOC substitution; Events of default/nonreinstatement of interest coverage; and Interest rate mode conversion. LOC expirationMost LOC-supported debt that we rate has a maturity exceeding 20 years, but the LOCs supporting them rarely have terms exceeding three years. Therefore, a purchaser of LOC-backed debt may hold a bond that could lose its LOC support. This risk is usually addressed by extending the expiration date of the LOC, substituting in replacement credit support from a new provider before the existing LOC expires, or repaying investors by way of a mandatory tender or redemption. LOC substitutionMany LOCs terminate upon substitution with replacement credit support (e.g., a new LOC from a different LOC provider). When an LOC is replaced with a lower-rated or an unrated source of credit support, investors suffer a loss of credit quality—measured by the difference in the credit rating of the LOC providers—that does not result from a deterioration of the creditworthiness of the existing LOC provider. To address this issue, many debt structures provide for investors to be repaid before the date of substitution by way of a mandatory tender funded by the LOC provider being replaced. Then, upon credit substitution, the debt is remarketed to new investors. In other instances, the replacement credit support provider is rated at least as high as the existing LOC provider and we have assessed that the substitution alone would not result in a reduction or withdrawal of the then-current rating assigned to the debt issue. A rating action that is expected to result from an LOC substitution will, in most cases, take place when the replacement credit support becomes effective. Similarly, a credit event may occur when an LOC provider assigns the LOC or grants participation interests to other providers. In these cases, we have observed remedies similar to those provided for LOC substitutions, unless there are clear provisions in the LOC-related documents that the assigning or granting of those interests would not relieve the LOC provider of its obligations. Events of default/nonreinstatement of interest coverageIn many LOC-supported debt issues, the LOC includes terms that may allow the provider to terminate the LOC after declaring an event of default under a reimbursement agreement with the obligor. The LOC may also contain a provision allowing the LOC provider, after an LOC interest draw, to opt out of reinstating (or replenishing) interest coverage that has been drawn down. The terms for reinstating interest coverage are important, because the LOC provider usually provides limited interest coverage (e.g., coverage for only one interest accrual period). Therefore, if the provider does not reinstate interest coverage, the LOC may terminate or lack the coverage required to fully honor a future interest drawing. Typically, the provider is capable of exercising these options only after the obligor has failed to comply with a covenant (e.g., failure to reimburse the LOC provider for an interest drawing). To determine if these credit event risks are mitigated, we consider whether the LOC provider is obligated to notify the trustee of the provider's intent to terminate or not reinstate LOC coverage. We also examine whether the transaction documents direct the trustee to repay investors after receiving the notice from the LOC provider. Our purpose is to determine whether the trustee would be notified of the credit event, and has instructions to draw on the LOC to fully repay investors before the LOC terminates or coverage is exhausted. In addition, we assess whether the trustee has the ability, under the transaction documents, to waive an event of default that might be declared by the LOC provider. If the trustee can do this, investors could find themselves holding securities that are not LOC-supported. When the trustee has waiver rights over bank-declared events of default, we consider whether the trustee's waiver rights are restricted only to circumstances where the trustee has obtained 100% investor consent or received written evidence of the LOC provider's rescission of its event of default declaration and full reinstatement of LOC coverage. Interest rate mode conversionInterest rate mode conversions can

occur when debt is multimodal. The term "multimodal" refers to the obligor's option of changing how frequently interest rates are reset. For example, a VRDO issued in a weekly rate mode also may have daily, monthly, semiannual, and fixed-rate modes. When in a weekly mode, the VRDO's interest rate is reset on the same day each week until the bond matures unless the obligor elects to change to one of the other available interest rate modes before maturity. For example, if an obligor elects to change from a weekly to a semiannual rate mode, interest rates on the VRDO are reset once every six months following mode conversion. Conversion from one interest rate mode to another may give rise to a credit event if the LOC terminates upon conversion. In addition, a credit event would occur if interest payment dates in the new rate mode occurred less frequently than in the previous mode(s) and the LOC did not provide enough interest coverage to account for the additional accrual days between interest payment dates. Depending on the circumstances, mode conversion-related credit event risk is usually addressed by a mandatory tender upon conversion, an amended LOC with enough coverage, or substitute credit support with enough coverage (see the "LOC substitution" section above). A rating action that is expected to result from a mode conversion will, in most cases, take place when the new interest rate mode becomes effective. Put option termination The terms of some VRDOs provide for the immediate rescission of the investor's tender or put option rights following the occurrence of some specified event (e.g., an event of default by the obligor or upon publication of a notice that the bonds will be redeemed). We typically assign a short-term issue rating to an LOC-supported VRDO with a tender option termination provision only if the events leading to termination of the tender option are consistent with the prospective rating for the specific debt issue. Document-related timing risk Late debt payments could result from ambiguous or inconsistent document provisions. To assess this risk, we review and compare the payment terms of the LOC and the notification provisions of the operative documents, and determine whether they are synchronized. Commingling risk and eligible accounts We examine the potential for ambiguities regarding account ownership by analyzing whether the terms of the debt provide that accounts into which LOC and remarketing proceeds are deposited will be held in the name of the trustee, for the benefit of the investors. We also consider whether any other funds would be commingled in the accounts. In addition, we consider whether the account guidelines minimize credit exposure to the account provider. We assume this result is achieved if the account must be maintained with the corporate trust department of a federal depository institution or state-chartered depository institution subject to regulations regarding fiduciary funds on deposit similar to Title 12 of the U.S. Code of Federal Regulation section 9.10(b). In either case, the trust department has corporate trust powers and is acting in its fiduciary capacity. Alternatively, we derive comfort regarding the creditworthiness of an account provider if the account is maintained with a federal or state-chartered depository institution or trust company that has a Standard & Poor's rating satisfying certain minimum rating thresholds and, if the account no longer complies with the minimum rating thresholds, the documents contain provisions for the trustee to promptly transfer the account to another financial institution so that the minimum rating threshold again would be satisfied. (For more on the minimum rating threshold and time frame to transfer accounts, see the "Eligible Other Support Counterparties" section in "Revised Framework For Applying Counterparty And Supporting Party Criteria," published May 8, 2007.) When the debt rating for an LOC-supported structure is based on the higher rated of two or more fully supporting parties or our joint support methodology (see the "Joint support methodology" section below), we further examine—for commingling risk and account provider credit risk—accounts related to each repayment source upon which the assigned rating may depend. Investment risk Funds, including remarketing proceeds, LOC draws and, in some cases, obligor monies, received by the trustee before a debt payment date sometimes are invested on a short-term basis. When the structure of a transaction provides for the investment of funds upon which an assigned rating may depend, we review the investment guidelines to assess the degree to which we believe they may introduce market risk and incremental credit risk. Market risk is not present if the investments mature before the date they are needed for full and timely payment. In addition, we usually assume that credit risk is sufficiently limited when the investment guidelines provide for investing in securities that are of the quality and tenor described in “Criteria | Structured Finance | General: Eligible Investment Criteria for 'AAA' Rated Structured Transactions,” published June 25, 2001, and “Revised Framework For Applying Counterparty And Supporting Party Criteria,” published May 8, 2007. Operational risks relating to debt

administrator performance Operational risk exists largely because, in addition to LOC provider performance, full and timely payments depend on the debt administrator (usually, a trustee or an issuing and paying agent) performing according to document terms. In general, our ratings on LOC-supported debt assume the trustee and other administrators will perform as contracted. In addition, we assume the trustee will fulfill its fiduciary responsibilities to the extent the documents provide latitude for exercising discretion. Further, to assess whether operational risk is a credit factor, we evaluate the transaction documents to see whether they explicitly describe and assign responsibilities that, if not performed as agreed upon by the transaction parties, may adversely affect an assigned Standard & Poor's rating. We also assess other elements of operational risk, including whether: A trustee is explicitly instructed to draw in accordance with the terms of the LOC; A party integral to the administration of the debt is capable of resigning, or otherwise being relieved from duty, without a successor in place (e.g., in our view, the remarketing agent is an integral party if it is the party to whom an investor's notice of optional tender is to be given); and A party integral to the administration of the debt would be able to require indemnity as a condition of fulfilling responsibilities that are important for the financing to perform as expressly agreed upon by the transaction parties (e.g., draws on an LOC for a due payment or debt acceleration following an event of default). Legal defeasance In a legal defeasance, the debt is deemed paid because the security backing the debt—the trust estate, usually including the LOC—is released or discharged and replaced by an escrow account funded with cash and/or securities. The amount in the escrow account (and timing of investment income, if any) are intended to fully and timely cover all remaining debt service payments, and pay off the debt on the specified date. When a VRDO is legally defeased, put option rights are at risk because these rights often end when the security that has been backing the debt is discharged. However, a short-term issue rating does not account for the risk of a put option loss in this context. Some structures resolve this issue either by limiting defeasance to interest rate modes during which investors have no put option or calling for a full mandatory tender or redemption by the first to occur of the next tender, redemption, and interest rate adjustment date following the defeasance. If the latter is employed, then, as a practical matter, VRDOs in the weekly (or daily) mode usually would be paid off no later than one week (or day) following the date when the bonds are defeased. In other instances, we have assessed that the defeasance alone would not result in a reduction or withdrawal of the then-current rating assigned to the debt issue (e.g., based on the methodology described in “Criteria | Governments | U.S. Public Finance: Defeasance,” published June 26, 2007). The outstanding debt rating will expire on the date the indenture is discharged because we typically do not rate legally defeased debt without request. Without the rating request, we withdraw the outstanding rating when we receive notice that the debt has been legally defeased. Additional LOC-Supported Debt Structures And Methodologies There are several other common LOC structures and methodologies, although they are less frequent: LOC-supported commercial paper; Confirming LOCs; and Joint support methodology. LOC-supported commercial paper In an LOC-supported commercial paper (CP) program, depending upon the structure, proceeds from the sale of subsequently issued CP notes (rollover proceeds) are used to pay either the amount due on the CP note's maturity date and/or reimburse the LOC provider for an LOC draw. Although CP programs operate differently from many other debt types, the principles governing our analysis of LOC-supported CP and other types of LOC-supported debt are the same. Therefore, much of the discussion in this article also applies to our review of LOC-supported CP. One significant difference between many of the other debt types and CP is the manner in which CP programs address credit events. For other debt types (e.g., VRDOs), the transaction parties address credit event risk by structuring the transaction to repay investors before a credit event occurs. In contrast, CP structures usually address credit event risk through a CP issuance test, with which the issuing and paying agent is required to comply. Accordingly, we consider whether the documents governing issuance clearly outline the preconditions to CP issuance for the issuing and paying agent. Specifically, for the CP rating to fully reflect LOC coverage, we consider whether, among other things, the preconditions to CP issuance or other structural features, in our view, adequately addresses LOC coverage sufficiency and credit event risk. Even if an LOC does not terminate until after the last outstanding CP note matures, we review whether the issuing and paying agent remains in place to make any necessary LOC draws until all outstanding CP notes are paid in full. Confirming LOCs A debt issue that has a confirming LOC

is supported by two LOC providers: a fronting provider and a confirming provider, each fully supporting repayment of the debt. Usually, the trustee relies primarily on the fronting LOC and, if the fronting provider becomes insolvent, repudiates the LOC, or defaults on a demand for payment, the trustee will draw on the confirming LOC. Our analysis of the risks in a confirming LOC structure is similar to our analysis of a stand-alone LOC structure. In a confirming LOC structure, the resulting rating on the debt issue typically is at least as high as the ICR on the confirming LOC provider. Therefore, at a minimum, we identify those circumstances where, due to structuring and potential legal issues, we believe investors may be exposed to a default risk that is greater than the credit quality indicated by the rating on the confirming LOC provider. To do this, we consider whether the risks described in the "Common Risks In LOC-Supported Structures" section above are addressed for both the fronting LOC provider and the confirming LOC provider. In addition, we consider risks relating to the insolvency of, and default, repudiation, and dishonor by, the fronting LOC provider. We also consider any conditions the confirming LOC provider may impose for honoring drafts (e.g., presentation of an LOC draft originally submitted to the fronting LOC bank). Moreover, because credit event risk is inherent in single-draw confirming LOC structures, we assess whether each event requiring a draw on the confirming LOC would result in a full repayment of the debt. Credit event risk is also inherent in structures involving a multiple-draw confirming LOC that does not reinstate. For these structures, we assess whether each draw on the confirming LOC would result in a corresponding reduction in the outstanding debt amount. Joint support methodology When two or more repayment sources each fully support a debt issue, a default on the debt issue would occur only if both repayment sources default. Therefore, we believe the risk of the debt issue defaulting is generally lower than the risk of either of the repayment sources defaulting. According to our joint support methodology, we will apply to the debt issue a rating that is higher than those assigned to the repayment sources if the sources are not, in our view, too highly correlated (e.g., by region and industry) and the structure of the transaction supports application of the joint support methodology. Common applications of the joint support approach include LOC-supported debt additionally secured by a confirming LOC or a rated obligor's obligation to pay debt service. If we believe the repayment sources are too highly correlated and, in every other respect, the debt structure is consistent with application of our joint support methodology, we will link the assigned debt rating to the highest rated repayment source. We typically apply these approaches to direct-pay LOC-supported debt even when the additional security (e.g., a rated obligor) does not cover LOC bank-related recapture risk if we are comfortable that the risk is sufficiently remote (see Appendix II for a general discussion of our views on LOC bank-related recapture risk). The terms of some transactions may call for the debt to be accelerated or redeemed early if the LOC provider defaults on a payment or becomes insolvent. When LOC-supported debt is additionally secured by a rated obligor, we also consider whether these terms are a credit factor that influences our issue rating and/or alters our opinion of the obligor's creditworthiness. SPURs on LOC-supported debtWhen we assign a joint support rating, we often publish an accompanying SPUR if the obligor does not have an ICR. In this context, the SPUR is the rating on the stand-alone capacity of the obligor to pay debt service, without considering the LOC. In addition, when we are asked to assign a SPUR on a direct-pay LOC-supported debt issue, the long-term rating that we would generally assign to the debt issue will be a joint rating, based on both the LOC provider's ICR and the SPUR, instead of only the rating on the LOC provider. (For additional information, see “S&P; Addresses Application Of SPURs On LOC-Backed Bond Issues,” published Oct. 13, 2008.) In cases where the obligor has an ICR, then the joint support rating will be based on the obligor's ICR and the LOC provider's ICR. LOC And Liquidity Facility Reviews Contrasted LOCs and liquidity facilities are similar arrangements, but a liquidity facility provider—the purchaser of last resort should a remarketing or rollover fail—usually covers only liquidity risk, and not credit risk. When a liquidity facility supports a debt issue, investors or a third-party credit support provider such as a monoline bond insurer bear the credit risk of the obligor. In contrast, when an LOC supports a debt issue, the LOC provider bears liquidity risk and obligor credit risk. This difference is significant because, unlike an LOC provider, a liquidity provider usually tries to structure a liquidity facility that can be immediately revoked as soon as a debt issue's primary source of credit support (the obligor or credit support provider, if any) has experienced material credit deterioration. When a debt rating is to fully reflect third-party liquidity support, we analyze the transaction documents based on many of the

principles described in the "Common Risks In LOC-Supported Structures" section above. Additionally, because liquidity facilities are usually revocable, we analyze the liquidity facility's conditions precedent for purchases, termination events, and suspension events largely to assess whether they are consistent with the prospective rating for the specific debt issue. (For a more detailed discussion of Standard & Poor's analysis of liquidity facilities, see “Criteria | Governments | U.S. Public Finance: Bank Liquidity Facilities,” published June 22, 2007, and “Criteria | Governments | U.S. Public Finance: Standby Bond Purchase Agreement Automatic Termination Events,” published April 11, 2008.) Appendix I: Preference Risk—U.S. Case Law Two notable rulings related to preference risk are In re Compton Corp., No. 87-1135 Slip Op (5th Cir. Nov. 12, 1987) and In re Air Conditioning Inc. of Stuart, 72 BR 657 (S D. Fla 1987). In both cases: The LOC was issued to secure a preexisting obligation of the debtor. The debtor collateralized its obligation to reimburse the bank for payments under the LOC. The debtor became subject to a bankruptcy proceeding within 90 days after its obligation to reimburse the bank for payments under the LOC. After the bankruptcy, the bank was permitted to pay a draw under the LOC. The courts held that: The pledge of collateral to the LOC bank was a transfer by the debtor of its property on account of an antecedent indebtedness. The pledge occurred within 90 days before the debtor's bankruptcy. Although the pledge was made directly to the bank, it induced the bank to issue the LOC. Therefore, the pledge was for the benefit of the LOC's beneficiary. Elements of a preferential transfer by the debtor existed and, therefore, the debtor could recapture the LOC payment from the beneficiary to the extent of the pledged collateral. Appendix II: Recapture Risk Related To Bank Insolvency In addition to analyzing recapture risk that exists when LOC-supported debt is backed only by a repayment obligation of the obligor, we analyze recapture risk when LOC-supported debt is secured by additional rated sources of credit support (e.g., an LOC with bond insurance or a fronting LOC with a confirming LOC). Our ratings on debt credit-enhanced by both a direct-pay LOC and a bond insurance policy typically are linked to the higher of the insurance provider's rating and the LOC bank's rating. In contrast, when debt is credit-enhanced by a direct-pay LOC and a confirming LOC, the rating on the debt issue often will be higher than either of the credit enhancers' ratings due to application of our joint support rating methodology. Similarly, we typically also apply our joint support rating methodology if a debt issue is supported by both a direct-pay LOC and a rated obligor's obligation to pay debt service. We may apply these principles even when the insurance policy, confirming LOC, or rated obligor does not cover a direct-pay LOC bank's insolvency risk. As explained below, we have adopted this approach because we usually assume that preference risk in the U.S. arising from LOC bank insolvency is remote. First, if a bank insured by the Federal Deposit Insurance Corp. (FDIC) (which includes all federally chartered and most state-chartered banks) becomes insolvent, the FDIC would be appointed as receiver or conservator. In that capacity, we believe the FDIC typically would apply only the provisions of the Federal Deposit Insurance Act (FDIA) governing the appointment of the FDIC as receiver or conservator of an insolvent institution, even though the FDIC also has the power to apply state law for state-chartered bank insolvencies. Although we believe the FDIC is likely to use the broad contract repudiation powers granted to it by the FDIA to disallow LOCs that have not been drawn, in our view, clawbacks are unlikely because the FDIA does not provide for clawback of prereceivership transfers made by the bank if there was no fraudulent intent. In addition, with regard to national banks (i.e., all federally chartered banks that are not federal savings and loan associations), even though the National Bank Act states that payments made "with a view to the preference of one creditor to another" are null and void (section 91 of the National Bank Act), this section in the past has been interpreted narrowly by the courts and we assume that an LOC bank would have no reason or incentive to favor specific security holders over other creditors. Second, non-FDIC insured state chartered banks and U.S. branches of non-U.S. banks would be governed in insolvency by the applicable U.S. state statute. Most state statutes either contain no preference clawback provisions, unless intent to defraud is present, or contain a preference clawback provision similar to section 547 of the Code (with the same defense for ordinary course of business payments available to recipients). Because we assume that a draw under an LOC would likely be an ordinary course of business payment by the bank, in our view, it is unlikely that preference provisions would apply. In summary, we generally view as remote the risk that funds drawn under an LOC issued by a U.S. bank will be recaptured, regardless of whether the bank is FDIC-insured. Despite this view, depending upon the particular facts

and circumstances, in any given case, we may request legal comfort (e.g., a legal opinion) to address this issue. Finally, non-U.S. banks (including their U.S. branches) also may be subject to the general bankruptcy provisions, or bank-specific statutes, that may apply in their particular jurisdictions. Non-U.S. statutes often require, as a precondition of a preferential clawback, knowledge by the payee of the payor's insolvency at the time the payment was made. However, in view of the multiple jurisdictions and governing laws that might be involved when a non-U.S. bank is the LOC provider, we may request legal comfort on recapture risk in these situations. Related Research “Joint-Support Criteria Update,” published April 22, 2009. “S&P; Explains Its Approach To Rating 'Bank Bonds',” published Oct. 2, 2008. “Credit FAQ: The Interaction Of Bond Insurance And Credit Ratings,” published Dec. 19, 2007. "Criteria | Governments | U.S. Public Finance: Defeasance,” published June 26, 2007. “Revised Framework For Applying Counterparty And Supporting Party Criteria,” published May 8, 2007. “General Criteria: Criteria Update: Joint-Support Criteria Refined,” published Feb. 3, 2006. “Criteria | Structured Finance | General: Eligible Investment Criteria for 'AAA' Rated Structured Transactions,” published June 25, 2001. These criteria represent the specific application of fundamental principles that define credit risk and ratings opinions. Their use is determined by issuer- or issue-specific attributes as well as Standard & Poor's Ratings Services' assessment of the credit and, if applicable, structural risks for a given issuer or issue rating. Methodology and assumptions may change from time to time as a result of market and economic conditions, issuer- or issue-specific factors, or new empirical evidence that would affect our credit judgment.