

# HIPOCAT 8 Fondo de Titulización de Activos

**Caixa Catalunya  
RMBS  
Spain**

**PLEASE NOTE:** This pre-sale report addresses the structure and characteristics of the proposed transaction based on the information provided to Moody's as of March 2005. Investors should be aware that certain issues concerning this transaction have yet to be finalised. Upon conclusive review of all documents and legal information as well as any subsequent changes in information, Moody's will endeavour to assign definitive ratings to this transaction. The **definitive** ratings may differ from the **provisional** ratings set forth in this report. Moody's will disseminate the assignment of definitive ratings through its Client Service Desk.

## CLOSING DATE:

April 2005

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## RATINGS

| Class | Rating  | Amount           | % of Total | Legal Final Maturity | Maturity Expected |
|-------|---------|------------------|------------|----------------------|-------------------|
| A1    | (P)Aaa  | €[250,000,000]   | 16.67      | 15/03/38             | 15/12/34          |
| A2    | (P)Aaa  | €[1,155,500,000] | 77.03      | 15/03/38             | 15/12/34          |
| B     | (P)Aa1  | €[26,200,000]    | 1.75       | 15/03/38             | 15/12/34          |
| C     | (P)A1   | €[35,600,000]    | 2.37       | 15/03/38             | 15/12/34          |
| D     | (P)Baa2 | €[32,700,000]    | 2.18       | 15/03/38             | 15/12/34          |
| Total |         | €[1,500,000,000] | 100        |                      |                   |

The ratings address the expected loss posed to investors by the legal final maturity. The structure allows for timely payment of interest and ultimate payment of principal at par on or before the rated final legal maturity date. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

## OPINION

### Strengths of the Transaction

- Credit enhancement provided by the excess spread, a reserve fund and the subordination of the notes
- Swap to hedge interest rate risk in the transaction and securing 65 bps
- Excess spread-trapping mechanism through an 18-month "artificial write-off"
- Reserve fund available to cover potential shortfall in interest and principal
- 100% of the portfolio is paid via direct debit
- 100% of the portfolio is paid on a monthly basis

### Weaknesses and Mitigants

- Flexible product within the Spanish market (LOC + grace periods + high LTV lending)
- High LTVs in the portfolio (no loans above 100% LTV)
- Performance for these loans is somewhat worse than the market average
- Geographical concentration in the region of Catalonia (80%) mitigated in part by the fact that this is the region of Caixa Catalunya's origin, where it has its highest expertise. Additionally the potential increase in the volatility of losses is mitigated due to the highest concentrations requiring additional credit enhancement.
- Pro-rata amortisation of the B, C and D Classes of notes leads to reduced credit enhancement of the senior class in absolute terms. This is mitigated by strict triggers which terminate the pro-rata amortisation of the notes as the performance of the transaction deteriorates



## STRUCTURE SUMMARY

|                              |                                                                                                                 |
|------------------------------|-----------------------------------------------------------------------------------------------------------------|
| Issuer:                      | HIPOCAT 8 Fondo de Titulización de Activos                                                                      |
| Structure Type:              | Senior / Mezzanine / Subordinated / Reserve fund                                                                |
| Seller/Originator:           | Caixa Catalunya ( <b>A1/P-1</b> )                                                                               |
| Servicer:                    | Caixa Catalunya ( <b>A1/P-1</b> )                                                                               |
| Back-up Servicer:            | N/A                                                                                                             |
| Interest Payments:           | Quarterly on 15 <sup>th</sup> March, June, September and December                                               |
| Principal Payments:          | Pass-through on each payment date                                                                               |
| Credit Enhancement/Reserves: | Excess spread per annum<br>Reserve fund<br>Subordination                                                        |
| Liquidity Facility:          | Available to be used for: (1) coverage of possible shortfalls in terms of inflows due to loans in grace periods |
| Hedging:                     | Interest rate swap to cover interest rate risk which guarantees 65 bps                                          |
| Principal Paying Agent:      | Caixa Catalunya ( <b>A1/P-1</b> )                                                                               |
| Management Company:          | Gestion de Activos Titulizados S.G.F.T.; S.A                                                                    |
| Arranger/Lead Manager:       | JP Morgan, BBVA, Caixa Catalunya                                                                                |

## COLLATERAL SUMMARY

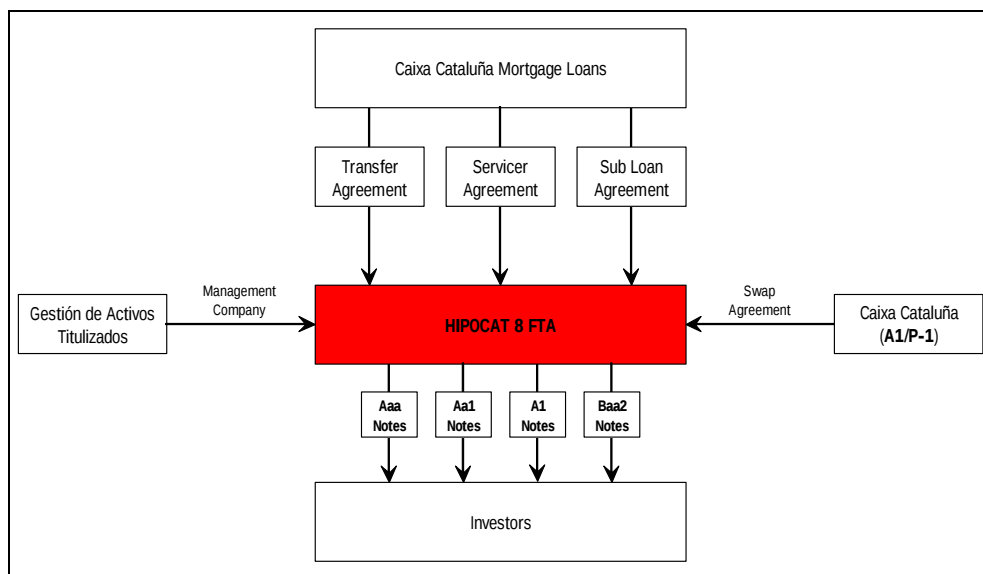
|                             |                                                                     |
|-----------------------------|---------------------------------------------------------------------|
| Collateral:                 | First-lien flexible mortgages                                       |
| Number of Contracts:        | 17,195                                                              |
| Number of Borrowers:        | 17,195                                                              |
| Average Loan                | 98,250                                                              |
| Geographic Diversity:       | Catalonia (81%), Valencia (6%)                                      |
| WA Average Current LTV:     | 74.57%                                                              |
| WA Remaining Term:          | 25.2 Years                                                          |
| WA Seasoning:               | 2 Years                                                             |
| WA interest rate:           | 3.66%                                                               |
| Historical Loss Experience: | No loans more than 30 days in arrears at the time of securitisation |

## Structural and Legal Aspects

This transaction consists of the securitisation of the first draw-down of a mortgage product which is structured like a line of credit and is currently Caixa Catalunya's star product. This product, called CREDITO TOTAL, offers several advantages to the debtor such as:

- The possibility to withdraw additional funds as soon as the funds have been amortised (up to an LTV level of 80%)
- The possibility to enjoy grace periods (both interest and principal)
- 100% financing.

The products being securitised are first-lien flexible mortgages granted to purchase a first residence in Spain.



The transaction consists of 4 rated classes – a senior tranche composed of two [Aaa]-rated Series, A1 and A2 notes, two mezzanine Class B rated [Aa1] and Class C rated [A1] and a subordinated Class D rated [Baa2]. The SPV will use the proceeds from the issuance of the notes to purchase the mortgage loans portfolio, as illustrated in the structure in this section.

**Caixa Catalunya will transfer the Borrower payments every two days**

The treasury account will be held at Caixa Catalunya. The proceeds from the loans, the amounts received under the swap agreement and the cash reserve will be deposited in the treasury account. Caixa Catalunya guarantees an annual yield from the amounts deposited in the treasury account equal to 3 month Euribor rate applicable on the notes.

Moody's has set up some triggers in order to protect the treasury account from any possible downgrade of Caixa Catalunya. Should Caixa Catalunya's short-term rating fall below **P-1**, the management company will have 30 days within which to find a suitably rated guarantor or substitute as holder of the treasury account.

**Reserve fully funded upfront to cover potential shortfall in interest and principal**

The reserve fund will have a mechanism set in place by which if arrears exceed a certain percentage, the value of the reserve fund will be increased. These levels have been established as follows: (1) 1.55% if the level of loans more than 90 days in arrears is below 3.00% and (2) 1.65% if arrears levels are above 3.00%.

A floor on the reserve fund will also be included: 0.75% of the initial amount of the bonds, if the level of loans more than 90 days in arrears is below 3.00%, and (2) 0.85% of the initial amount of the bonds if arrears levels are above 3.00%.

However, amortisation of the reserve fund will cease if either of the following scenarios occurs:

- The amount of loans more than 3 months and less than 18 months in arrears exceeds 1.50% of the outstanding balance of the portfolio.
- The available amount under the reserve fund is not equal to the then required amount.

If the loans in grace periods exceed 35% of the outstanding amount of the note, Caixa Catalunya has the obligation to include a liquidity facility for the purpose of covering possible shortfalls in inflows due to the loans in grace periods.

#### **Liquidity Line**

The liquidity facility will be equal to a maximum of the minimum of the following quantities:

- 1) 3.75% of the bonds' initial balance, or
- (2) 7.50% of the bonds' outstanding balance.

Should Caixa Catalunya's short-term rating fall below **P-1**, it will have to find a suitably rated guarantor or substitute, or deposit the amount of the liquidity line in the treasury account within 30 business days as provider of the liquidity line.

#### **Interest rates swap guaranteeing 0.65 bppa of excess spread**

According to the swap agreement entered into between the *fondo* and Caixa Catalunya, on each payment date:

- The *fondo* will pay the interest actually received from the loans.
- Caixa Catalunya will pay the sum of (1) the weighted average coupon on the notes plus 65 bppa, over a notional calculated as the daily average of the outstanding amount of the loans not more than 90 days in arrears since the last payment date; (2) the weighted average margin on the notes over a notional calculated as the daily average of the outstanding amount of the amortisation account; and (3) the servicing fee due on such payment date only if Caixa Catalunya is substituted as servicer.

#### **Class A amortisation**

Until the payment date on which the Class B, C and D notes will start to amortise pro-rata with Class A, the amount retained as principal due will be used for the repayment of Class A in the following order of priority:

- 1) Amortisation of Series A1 notes
- 2) The Series A2 notes will start to amortise on whichever of the two following payment dates is latest:
  - I. Once the Series A1 notes have been fully amortised, or
  - II. 15 December 2006

Nevertheless, the amount retained as principal due will be distributed pro-rata among Series A1 and A2, if the amount of loans more than 3 months and less than 18 months in arrears exceeds [1.50%] of the outstanding balance of the portfolio.

#### **Series A2 amortisation**

Until the payment date falling on 15 December 2006, all funds available to the repayment of this series will be transferred to the amortisation account, creating an amortisation fund for the Series A2 notes. Funds available under the amortisation account will be used for the repayment of the Series A2 notes on the payment date falling on 15 December 2006. After that date the outstanding principal remaining after such partial repayment will be repaid on a pass-through basis on the subsequent payment dates.

**Pro-rata amortisation**

As in the previous Caixa Catalunya transaction, this transaction also includes pro-rata amortisation. Pro-rata amortisation entails greater risk than fully sequential transactions, given that the credit enhancement decreases in absolute terms. The risks introduced by pro-rata amortisation are mitigated by the following triggers:

The Class B, C, and D notes will start amortising pro rata with the Series A2 notes when they represent [12.60]% of the outstanding balance under the Series A2, B, C and D Notes.

Nevertheless, amortisation of Classes B, C or D will not take place on the payment date on which any of the following events occurs:

| Classes B, C and D                                              |
|-----------------------------------------------------------------|
| • The loans more than 90 days in arrears exceed 1.50%           |
| • The cash reserve is not funded at the required level          |
| • The loan balance is less than 10% of the initial loan balance |

**Priority of payments**

On each quarterly payment date, the *fondo's* available funds (principal and interest received from the asset pool, the reserve fund, amounts received under the swap agreement and interest earned on the transaction accounts) will be applied in the following simplified order of priority:

1. Cost and fees, excluding servicing fee (except in the case of Caixa Catalunya being replaced as servicer of the loans)
2. Any amount due under the swap agreement
3. Interest payment to Class A
4. Interest payment to Class B (if not deferred)
5. Interest payment to Class C (if not deferred)
6. Interest payment to Class D (if not deferred)
7. Amortisation fund
8. Interest payment to Class B notes (if deferred)
9. Interest payment to Class C notes (if deferred)
10. Interest payment to Series D notes (if deferred)
11. Replenishment of the reserve fund
12. Termination payment under the swap agreement (except if the *fondo* is the defaulting or the sole affected party)
13. Junior expenses

**18-month "artificial write-off" mechanism**

The transaction structure for Classes A, B, C and D benefits from an "artificial write-off", which traps available excess spread to cover losses (if any). This type of "artificial write-off" is hidden in the definition of Principal Due, which is the difference between the notes outstanding and the outstanding performing loans (loans less than 18 months in arrears).

**Interest deferral trigger**

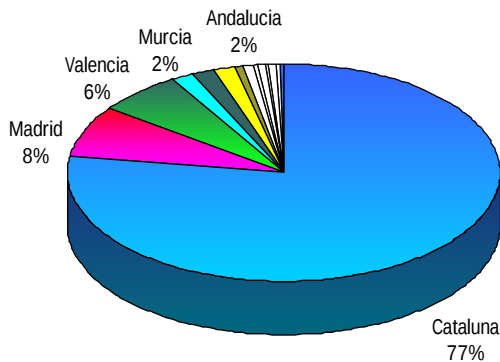
The payment of interest on the Class B, C and D Notes will be brought to a more junior position if, on any payment date, the following criteria are met:

|                 |                                                                                                                                                                                             |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Class B:</b> | The principal deficiency exceeds the sum of the outstanding amount of the Class B + the outstanding amount of Class C + the outstanding amount of Class D and Class A is not fully redeemed |
| <b>Class C:</b> | The principal deficiency exceeds the sum of the outstanding amount of the Class C + the outstanding amount of Class D and Class A and B are not fully redeemed                              |
| <b>Class D:</b> | The principal deficiency exceeds the sum of the outstanding amount Class D and Class A, B and C are not fully redeemed                                                                      |

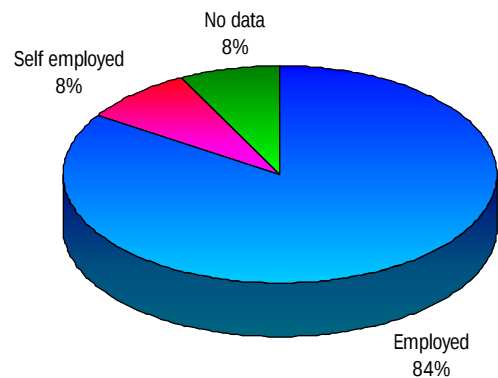
**COLLATERAL – REFERENCE PORTFOLIO**  
**(to understand how this product works, please see Appendix 1)**

|                                 |               |                                           |             |
|---------------------------------|---------------|-------------------------------------------|-------------|
| <b>Original Balance:</b>        | 1,823,299,320 | <b>Average seasoning in months:</b>       | 24.4        |
| <b>Current Balance:</b>         | 1,689,405,136 | <b>Average seasoning in years:</b>        | 2.03        |
| <b>Number of Loans:</b>         | 17,195        | <b>Average time to maturity in years:</b> | 25.25       |
| <b>Number of Borrowers:</b>     | 17,195        | <b>Maximum maturity date:</b>             | 31-Dec-2034 |
| <b>Average Loan (Borrower):</b> | 98,249        | <b>WA interest rate:</b>                  | 3.60%       |
| <b>Average Loan (Property):</b> | 98,249        | <b>WA Margin</b>                          | 0.53%       |
| <b>WA Current LTV</b>           | 74.57%        |                                           |             |
| <b>WA Original LTV</b>          | 78.77%        |                                           |             |

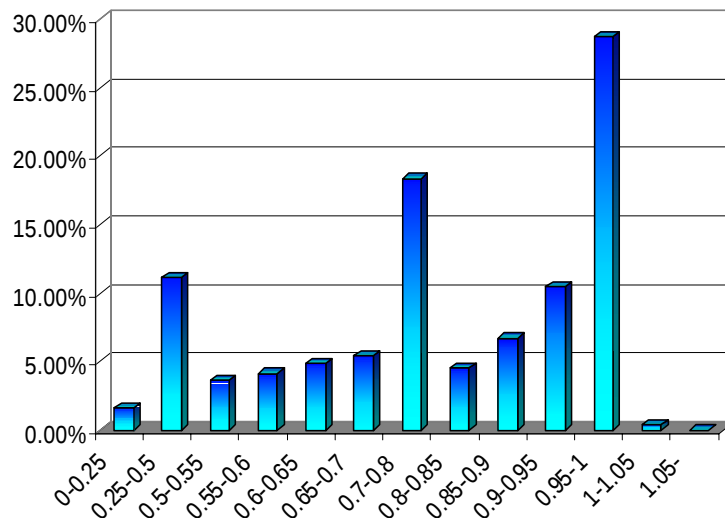
**Portfolio Breakdown by Region**



**Portfolio Breakdown by Employment Type**



**Portfolio Breakdown by LTV**



The product being securitised under HIPOCAT-8 is the first draw down of a mortgage product designed by Caixa Catalunya and marketed under the name “Crédito Total Primera Vivienda (Cuota Variable)”. The financial contract underlying CTPV is a line of credit. As was the case with HIPOCAT-7, HIPOCAT-6, HIPOCAT-5, and HIPOCAT-4, subsequent advances under the line of credit will remain in Caixa Catalunya’s balance sheet.

The first utilisation under CTPV mimics the behaviour of a standard mortgage loan in terms of purpose (buying the main residence of the obligor), amortisation profile (annuity), maturity (up to a maximum of 30 years), etc;

All the payment obligations under CTPV are backed by a first lien mortgage on the residential property being acquired, and such a mortgage is always registered in the Property Register. The first draw down under the line of credit is always used for the purpose of buying the obligor's main residence.

#### The Product Being Securitised – Particular Characteristics

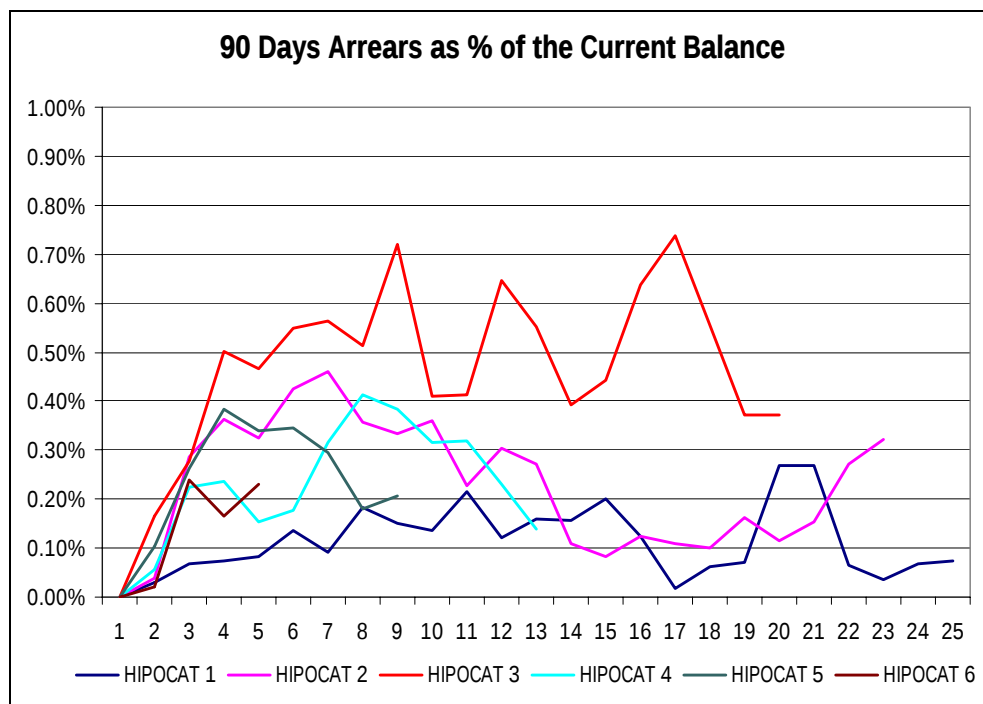
- Granted to individuals residing in Spain.
- Product is set up as a line of credit – with an underlying mortgage guarantee (the guarantee will be the residence that is acquired under the first drawdown).
- Successive drawdowns have no priority over previous drawdowns – all are pari passu (an example of how this works is provided later in this pre-sale report).
- However, longer outstanding debts have priority over shorter outstanding debts and the rank of order also has priority (i.e. the first withdrawal would have priority over the second, the second would have priority over the third, and so on).
- Maximum amount of credit granted = 100% LTV. For all amounts over the 80% limit, a guarantee (personal in most cases) will be set up throughout the life of the loan.
- The first drawdown will have a maximum maturity of 30 years. Successive drawdowns will be capped at a maximum of 10 years.
- Each successive drawdown is treated separately. Each has its own amortisation profile, generates its own invoice and has its own payment date (although this will be matched with that of the previous drawdowns).
- Additional drawdowns can only be granted if the following conditions are met:
  - There are no arrears
  - Total outstanding debt (including the new drawdown) does not exceed 80% LTV (over the original appraisal)
  - Debt-to-income ratio does not exceed 40%.
  - The combination of the first and successive withdrawals can never exceed the original maturity date.

#### GRACE PERIODS

Some of the HIPOCAT loans will have the option of enjoying grace periods, during which neither principal nor interest are paid. Unpaid interest is capitalised at the end of the grace period. Grace periods can only be used on the first drawdown (that used to acquire the first residence). The following limitations apply to the use of such grace periods:

- No single grace period can last more than 12 consecutive months
- No more than 5 grace periods can be granted, for a total maximum of 36 months
- The CTPV initial balance cannot be increased due to the interest that has been capitalised throughout the grace period.
- Grace periods are only granted subject to Caixa Catalunya's approval

**Performance Data on  
previous Hipocat  
transactions**



**Caixa Catalunya was  
recently upgraded to A1**

**ORIGINATOR, SERVICER AND DUE DILIGENCE**

With total assets of EUR35.8 billion at end-December 2004, Caixa Catalunya is the fourth-largest savings banking group in Spain, but the second leading player in the wealthy region of Catalonia (after La Caixa 1). Although operating in one of the most competitive regions in Spain, it has managed to ably defend its franchise over the years. The bank's success is underpinned by solid local roots: Caixa Catalunya was created in 1926 by the Diputaci3n Provincial de Barcelona (Provincial Council of Barcelona). At year-end 2003, the bank enjoyed market shares in the region of around 17% in both deposits and lending, and 10% in pension/mutual funds, despite having a less aggressive growth strategy than its local competitors, which led market shares to be slightly down from year-end 2002.

Moody's upgrade was based on further improvement in the bank's profitability since the assignment of a positive outlook in July 2003. This was the result of a consistent and prudent strategy, especially under the 2002-2004 plan focusing on cross-selling, sales dynamism and cost controls. The new 2005-2007 plan is a continuation of current guidelines. The ratings also reflect Caixa Catalunya's strong franchise as the second leading savings bank in the wealthy region of Catalonia after La Caixa (rated **Aa2/P-1/B+**). Although operating in one of the most competitive regional markets in Spain, the bank has well defended its market position. Active sales and cross-selling efforts resulted in double-digit growth in fee income. With around 25% of its operating revenues being fees and commissions (from payments but also savings-related products), CC enjoys better revenue diversification, which has been key given currently low interest rates. This combined with higher cost containment allowed the bank reach a cost-to-income ratio slightly better than its 60% target vs. 75% in 1998. While further improvement might be difficult, partly due to intense domestic competition, recent management actions provide a good base to support future profitability. Due to the bank's overall prudence as well as strengthening credit procedures, asset quality remains sound

## MOODY'S ANALYSIS

### ***Determination of lognormal loss distribution***

The first step in the analysis is to determine a loss distribution for the pool of mortgages to be securitised. Due to the high volume of loans and supporting historical data, Moody's uses a continuous distribution model to approximate the loss distribution: lognormal distribution.

In order to determine the shape of the curve, two parameters are needed: the expected loss and the volatility associated with this expected loss. These parameters are derived from the Moody's Individual Loan Analysis ("MILAN") model.

In order to extrapolate expected losses for the loan pool, Moody's has compared the underwriting criteria of the originators with those of other mortgage originators in Spain.

Moody's thus determines a number representing the enhancement that would be required for a pool of mortgages to obtain an 'Aaa' rating under highly stressed conditions. This enhancement number (the "Aaa CE" number) is obtained by means of a loan-by-loan model.

### ***The "Aaa CE" number is determined by using "MILAN", Moody's loan-by-loan model for rating RMBS transactions***

The "MILAN" model looks at each loan in the pool individually and, based on its individual characteristics such as LTV or other identified drivers of risk, computes a benchmark CE number. This number assumes stressed recovery rates (through house price decline), interest rates and costs of foreclosure, as well as a stressed recovery time. The weighted average benchmark CE number is then adjusted according to the positive and negative characteristics of each loan and to those of the pool as a whole, in order to produce the "Aaa CE" number.

The "Aaa CE number" and the Expected Loss Number form the basis of Rating Committee discussions and are used to derive the lognormal distribution of the pool losses.

The standard deviation of the distribution is found by setting the probability of a loss greater than the expected loss that is consistent with the Idealised Expected Loss target of the "Aaa CE number".

### ***"MARCO", Moody's cash-flow model, is used to assess the impact of structural features of RMBS transactions***

Once the loss distribution of the pool under consideration has been computed, a cash flow model, Moody's Analyzer of Residential Cash-Flows ("MARCO"), is used to assess the impact of structural features of the transaction, such as the priorities of interest and principal and the related triggers, swap features and excess margins, liquidity mechanisms and the value of excess spread.

The sum of the loss experienced per note Class in each scenario, weighted by the probability of such loss scenarios, will then determine the expected loss on each tranche and hence the rating, in line with Moody's target losses for each rating category.

## RATING SENSITIVITIES AND MONITORING

Gestion de Activos Titulizados S.G.F.T, S.A, in its capacity as management company, will prepare monthly monitoring reports with respect to the portfolio and payments to the notes. These reports will detail the amounts received by the issuer during each collection period and will provide portfolio data. Moody's will monitor this transaction on an ongoing basis to ensure that it continues to perform in the manner expected, including checking all supporting ratings and reviewing periodic servicing reports. Any subsequent changes to the rating will be publicly announced and disseminated through Moody's Client Service Desk. For updated monitoring information, please contact [monitor.madrid@moodys.com](mailto:monitor.madrid@moodys.com)

**Visit [moody.com](http://moody.com) for more details**

## **RELATED RESEARCH**

For a more detailed explanation of Moody's rating approach to this type of transaction, similar transactions and performance data, please refer to the following reports:

- SPECIAL REPORT: Moody's Approach to Rating Spanish RMBS: The "MILAN" model, March 2005
- SPECIAL REPORT: Introducing Moody's Arrears Index for Spanish Mortgage-Backed Securities, March 2002.
- SPECIAL REPORT: Moody's Spanish RMBS Arrears Index: Delinquency Levels Remained Persistently Low in 2002 But Are Likely To Rise Given Weakening Global Economy And Factors Affecting Homeowners' Indebtedness, May 2003.
- SPECIAL REPORT: Structural Features in the Spanish RMBS Market Artificial Write-Off Mechanisms: Trapping the Spread, January 2004.
- SPECIAL REPORT: Spanish RMBS Q3 2004 Performance Review, February 2005
- HIPOCAT1 Pre-sale report + Performance Overview
- HIPOCAT 2 Pre-sale report + Performance Overview
- HIPOCAT 3 Pre-sale report + Performance Overview
- HIPOCAT 4 Pre-sale report + Performance Overview
- HIPOCAT 5 Pre-sale report + Performance Overview
- HIPOCAT 6 Pre-sale report + Performance Overview
- HIPOCAT 7 Pre-sale report + Performance Overview

## HOW THIS PRODUCT WORKS



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