

University of New Mexico; Public Coll/Univ - Unlimited Student Fees

Primary Credit Analyst:

Phillip A Pena, San Francisco + 1 (415) 371 5039; phillip.pena@spglobal.com

Secondary Contact:

Megan Kearns, Englewood (1) 303-721-4643; megan.kearns@spglobal.com

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Long Term Rating

AA-/Stable

Affirmed

University of New Mexico Board of Regents, New Mexico

University of New Mexico, New Mexico

University of New Mexico Brd of Regents subordinate lien sys imp bnds (University of New Mexico)

Long Term Rating

AA-/Stable

Affirmed

Credit Highlights

- S&P Global Ratings affirmed its 'AA-' long-term rating on University of New Mexico's (UNM) outstanding various subordinate-lien system revenue bonds. There is currently no senior-lien debt outstanding; the subordinate-lien bonds were rated on par with the senior-lien bonds because the senior-lien indenture is closed.
- S&P Global Ratings also affirmed its 'AA-' underlying rating (SPUR) on the university's series 2021 subordinate-lien system revenue refunding bonds.
- In addition, S&P Global Ratings affirmed the 'AA-' long-term component of its 'AA-/A-1' dual rating on the university's existing series 2001, 2002B, and 2002C variable-rate demand bonds. The 'A-1' short-term component of this rating reflects the current short-term rating from U.S. Bank, which was downgraded in May 2023.
- The outlook is stable.

Security

University-secured debt totals \$456.2 million as of fiscal 2023. Specifically, debt includes, \$361.2 million in outstanding university debt, and about \$51.7 million in university operating leases, and about \$43.3 million in subscription-based information technology arrangements (SBITAs). The university's debt is secured by what we consider an unlimited student fee obligation of the university due to the broad pledge. Specifically excluded from the system bond pledge are hospital revenue and state operating appropriations. Maximum annual debt service (MADS) on university debt (including leases and SBITAs) is \$50.6 million and occurs in fiscal 2026, equivalent to a 1.6% MADS burden when including all expenses, which we view as low and manageable. We only include university debt in our calculation of the MADS burden given the unlimited student fee pledge, and the separate security of the hospital revenue bonds.

Secured on a separate basis from the university debt, debt secured by the University of New Mexico hospital totaled \$482.8 million. Hospital-secured debt includes hospital revenue bonds totaling \$68.0 million, a U.S. Department of Housing and Urban Development (HUD) insured mortgage note for UNM Sandoval Regional Medical Center totaling \$94.9 million, and up to \$320 million of a HUD mortgage loan for the construction of a new hospital tower (as of fiscal 2023, \$166.5 million was drawn--\$114.8 million and \$51.7 million in fiscal 2023 and fiscal 2022, respectively). The UNM Hospital closed on a \$320 million mortgage loan in fiscal 2022 through the HUD Section 242 loan guarantee program backed by Ginnie Mae securities. The Federal Housing Administration 242 program allows the bonds to be

insured by the federal government. The loan is secured by UNM Hospital revenues and a mortgage on the hospital facilities, and not any other revenues of UNM. We do not include this debt in our calculation of MADS given that hospital revenues and state appropriations cannot be used to pay the higher education bonds; only pledged revenues, an unlimited student fee, are used to secure the higher education bonds. Total debt outstanding at the university as of fiscal 2023 totaled \$939.0 million when including university debt, leases, SBITAs, and hospital-secured debt.

The long-term rating on the variable-rate demand bonds reflects our view of UNM's creditworthiness, and the short-term rating is based on our view of bank liquidity support, in the event of an unremarketed tender, from U.S. Bank (scheduled to expire on June 1, 2026, for the series 2001 and 2002B bonds, and Sept. 15, 2026, for the 2002C bonds).

Credit overview

We assessed UNM's enterprise risk profile as very strong, reflecting its role as the flagship higher educational institution of the state. UNM's enterprise risk profile also reflects solid full-time-equivalent (FTE) growth over the past year driven by both real growth and a change in methodology for calculating FTE students that aligns with Integrated Postsecondary Education Data System (IPEDS) standards, offset by selectivity rates that remain below the median but are improving. We assessed UNM's financial risk profile as strong, characterized by consistent financial resources and a low MADS burden, offset by revenue concentration, growing tuition discounting, and a full-accrual operating deficit during fiscal 2023. We believe these credit factors, combined, lead to an anchor of 'a+'. As our criteria indicate, the final rating can be within one notch of the anchor. In our opinion, the 'AA-' rating on the university's bonds better reflects UNM's key role in the state including its flagship status, R-1 status, and role of providing health care and health care education within the state.

The ratings further reflect our view of:

- Growing FTE, with 23,959 FTE students as of fall 2023 at the Albuquerque campus, including increases in both credit hours and headcount on an absolute basis when compared to the prior year;
- UNM's low and manageable pro forma MADS burden of 3.2% when including only university-related expenses, and a 1.6% MADS burden when including all expenses including hospital-related expenses; and
- Solid freshman matriculation rate relative to peers'.

Partially offsetting credit factors include UNM's:

- Negative operating performance in fiscal 2023, with a -3.4% operating margin, and growing tuition discount rate, with overall tuition discounting of 54.5% as of fiscal 2023, though we note incoming freshman discounting is much lower and that tuition waivers are counted as part of the discount rate;
- High dependence on health care revenue, which makes up nearly 53% of the university's fiscal 2023 operating revenue; and
- Below-median, but improving, selectivity rate, at 83.8% as of fall 2023.

UNM is the largest of New Mexico's seven four-year universities in terms of enrollment. UNM offers bachelor's, master's, and doctorate degrees, as well as various professional degrees (medicine, law, pharmacy, and architecture).

There are four branch campuses--in Gallup, Los Lunas (Valencia), Taos, and Los Alamos--and graduate studies courses taught in Santa Fe and some upper-level courses taught at Los Alamos. An academic center in Rio Rancho has been transitioned to a health sciences campus that leverages the relationship with UNM Sandoval Regional Medical Center to increase the health care workforce for New Mexico. The Health Sciences Center (HSC) is the state's only academic medical center and the state's largest integrated health care treatment, research, and education organization. Management reports that UNM is one of only 21 institutions in the U.S. classified as both a Hispanic Serving Institution and a Carnegie Doctoral/Research University Extensive institution.

Environmental, social, and governance

We view environmental physical risks as somewhat elevated for the university due to the service area's susceptibility to drought, water scarcity, and wildfires. These risks could have a long-term effect on market position should they lead to demographic changes, though near-term risk to the university's physical campus and finances are likely limited. Despite the elevated environmental risk, we believe UNM's social and governance risks are a credit neutral factor in our credit assessment.

Outlook

The stable outlook reflects our view that enrollment will grow, albeit at a lower rate than in fall 2023, and that matriculation rates will remain consistent. The outlook also reflects our view that financial resources will remain around current levels, and that the MADS burden will remain manageable. The outlook also reflects our view that operating performance will not deteriorate materially, and may improve somewhat.

Downside scenario

We could consider a negative rating action during the outlook period if the university's financial resources relative to operating expenses or debt deteriorate. We could also consider a negative rating action if UNM issues a material amount of additional debt without commensurate growth in resources. Should a trend of material FTE enrollment decline or material operating deficits emerge, we could also lower the rating.

Upside scenario

We could consider a positive rating action during the outlook period if FTE enrollment growth trends continue, retention and selectivity rates improve, a trend of positive full-accrual operations occurs, and debt and financial resource ratios show a trend of material improvement.

Credit Opinion

Enterprise Risk Profile--Very Strong

Market position and demand

In fall 2023, total FTE grew by an impressive 32% to 23,929 FTE from 18,101 in the prior year at the Albuquerque campus. We attribute the enrollment growth primarily to a change in methodology for calculating FTE students. UNM now calculates an FTE based on a class load of 12 credit hours per semester (previously 15) for undergraduate and

nine credit hours per semester (previously 12) for graduate students. The FTE methodology is now in line with IPEDS calculation of FTE for undergraduate and graduate students. While this change is primarily driven by methodology, we view it as positive and more reflective of the methodology used across many universities. We note that there was true growth in fall 2023 in addition to a change in methodology. Fall 2023 credit hours across the combined Albuquerque and branch campuses totaled 318,460, up from 302,209 in fall 2022. Fall 2024 preliminary results anticipate enrollment growth, but at much lower levels than the growth attributed to the methodology change in fall 2023.

We attribute the growing demand at the university in part to the New Mexico Opportunity Scholarship, competitively priced tuition for in-state students at a university where 80% of students are from New Mexico, a broad array of program offerings at the undergraduate and graduate and professional levels, and status as both a flagship and an R-1 research university. The scholarship allows New Mexico residents the opportunity to have full tuition and fees covered for all New Mexico public colleges and universities.

Applications rose by about 2.5% to 12,738 in fall 2023 from 12,428 in fall 2022. As part of the university's application, students may self-report GPAs and test scores, and standardized tests remain optional. The university's selectivity remains below median, but improved to 83.8% in fall 2023 from 94.6% in fall 2022, and we would view continued improvements favorably. Despite soft selectivity, the university's matriculation rate was robust at around 33.8% for fall 2023, which we believe is evidence of the university's growing demand. We note that retention rates were stable at about 72% for both fall 2023 and fall 2022, improving from a low during the pandemic. We believe that retention rates will likely continue to improve to at least pre-pandemic levels.

Tuition rates for in-state undergraduate students were stable over the past two years and totaled \$8,504 for the 2022-2023 and the 2023-2024 academic years. In-state, undergraduate tuition and fees remain competitive, in our view, aided by both by the New Mexico Opportunity Scholarship funded by the New Mexico Legislature, and New Mexico Lottery Scholarship, a state-sponsored scholarship program that is funded by lottery revenue. The lottery fund was established in 1996 for scholarships and is funded with proceeds of lottery sales in New Mexico. The lottery fund supports tuition, but not mandatory fees or room and board charges. The university also created the Lobo First Year Promise scholarship, a "last dollar" program that would cover any tuition and fees not covered by federal and state aid.

We note that we assess the university's industry risk as intermediate given reliance on health care operations, which have historically made up about 50% of operating revenue. However, we expect no material change to the university's enterprise risk profile as a result of this assessment.

Management and governance

The senior management team has seen relative stability. Changes include an interim general counsel, a new CEO of the health sciences center, and a new dean of the school of nursing. We view this amount of turnover as typical, and note that the university continues to operate successfully. We view the management team as experienced and capable, guiding the university through a post-pandemic phase of enrollment growth while executing its strategic plan.

UNM recently developed a new long-term strategic plan, UNM 2040, which has five goals, titled Advance New Mexico, Student Experience and Educational Innovation, Inclusive Excellence, Sustainability, and One University. Each goal has a variety of subgoals, which include both quantitative and qualitative measures for success and engage a variety of stakeholders. Compliance with each goal is monitored. We view the plan as in line with the university's

capabilities, and believe it will implement the plan successfully.

A seven-member board of regents appointed by the governor for six-year staggered terms manages the university, with the student board member appointed for one two-year term. There have been no changes to the board aside from changes due to term limits. We view the board as capable and stable, and expect continued board strength.

Financial Risk Profile--Strong

Financial performance

The university's revenue mix is highly concentrated in health care revenues. For the fiscal year ended June 30, 2023, consolidated operating revenue included net patient services (53.0%), state operating appropriations (13.0%), research (12.8%), and gross tuition and fees (8.9%).

Following several years of positive operating results, UNM reported negative operating performance on a full-accrual basis in fiscal 2023, with an operating deficit of 3.4%. Management attributes this result to lower net tuition revenue driven by increased discounting; a decline in federal stimulus; weaker operating performance at University of New Mexico Hospital because of higher labor costs and lower net patient service and pharmacy-related revenues; and increased expenses due to inflationary pressures. We expect some improvement in results for fiscal 2024 with expectations for growth in state appropriations and research funding, and a large Federal Emergency Management Agency-related claim at the hospital.

The tuition discount overall tuition discount rate is high for a public university, and increasing rapidly. The tuition discount rate was 54.5% in fiscal 2023, up from 42.3% in fiscal 2022. Net tuition revenue has declined each year over the last five years, and the increased discounting does place some pressure on operations. The increased discounting is driven in part by the counting of tuition waivers as institutional dollars. Nevertheless, the university is much less dependent on student-generated revenues (8.9% of in fiscal 2023 revenues) than peers are.

UNM Health System operations

In fiscal 2024, the UNM Board of Regents approved the consolidation of UNM Sandoval Regional Medical Center (SRMC) into University of New Mexico Hospital. The hospital acquired all assets and assumed all liabilities of SRMC on Jan. 1, 2024. We view the move positively, and believe it provides increased operational efficiency.

We view UNM Health System operations as presenting incremental risk to the university, but believe that UNM Hospital generates sufficient positive net income to support hospital-secured debt service. While most revenue comes from patient service income, positive operating margins depend on proceeds of a voted mill levy from Bernalillo County and sufficient revenue-generating capacity to service required intergovernmental transfers for the state's Medicaid program.

Management attributes the \$16.0 million decrease in net position at UNM Hospital in fiscal 2023 primarily to lower operating revenue. Net patient service revenue and pharmacy-related operating revenues decreased by about \$35 million in fiscal 2023 compared to fiscal 2022. Despite inflationary and labor-related pressures, the hospital managed to decrease operating expenses by about \$13 million. Nonoperating revenues increased by about \$4.6 million.

Health system operations include revenue from the 537-bed tertiary UNM Hospital, which includes a children's hospital, an adult psychiatric center, a child psychiatric center, a cancer research and treatment center, an adult substance abuse program, a center for developmental disabilities, and 60 additional beds related to the Sandoval Regional Medical Center. A new UNM Hospital tower is currently under construction.

UNM Hospital is in the process of completing a seven-story, 570,000-square-foot new hospital tower. The tower will have 96 inpatient beds in four 24-bed intensive care units. The project began construction in 2019, and to date a parking garage and utility plant have been constructed. The hospital tower is anticipated to be completed in mid-2025. UNM Hospital financed the project through capital appropriations as well as a \$320 million HUD-insured mortgage loan, of which \$166.5 million is drawn as of fiscal 2023.

Financial resources

Cash and investments at the university including the university foundation totaled \$1.7 billion as of fiscal 2023, up from \$1.65 billion in fiscal 2022. Cash and investments to total adjusted operating expenses were 52.7% as of fiscal 2023, while cash and investments to total debt was at 181.1%. We consider both ratios sufficient though note they are below the 'AA' category medians. When including only university-related debt, the ratio improves to 373% of debt.

We note that most university and foundation endowments are consolidated for investment purposes in a consolidated investment fund. The foundation's spending draw for quasi and permanent endowment is a fairly standard formula varying between 4% and 6% of a trailing 20-quarter market value. As is typical of many public universities, the endowment draw does not represent a significant source of general operating income.

Two large privatized student housing projects funded from equity by a third party are currently in service. According to university officials, the university has no actual or potential financial exposure to these facilities. We consider the student housing facilities to have high connectivity to the university because they are integral to its academic strategies--one facility is on university property, and one will become an asset of the university on completion of the associated long lease terms.

The university completed a \$1 billion comprehensive campaign, which began in 2006 and closed in fiscal 2020. The university ultimately raised \$1.1 billion on its \$1 billion goal. We view this fundraising as strong and would view further success in fundraising positively.

Debt and contingent liabilities

The university's debt profile (including leases and excluding the hospital debt) is about 80% fixed rate and 20% variable rate. As of its fiscal year-end 2023, the university had six swap agreements outstanding with highly rated counterparties with total notional amounts of \$56.3 million as of June 30, 2023: five with JP Morgan Chase Bank N.A. and one with Royal Bank of Canada. We believe there is minimal degree of issuer termination risk, due to the wide spread between the rating on the university and the termination trigger, limited counterparty risk due to the high ratings associated with the counterparties, and moderate economic viability of the swap portfolio over stressful economic cycles.

Hospital revenue bonds are secured by net income from the hospital and a Federal Housing Administration mortgage. Internally, hospital operations are distinct from general academic operations, and net hospital revenue has not been

used to secure university debt. While other revenue of the university are not pledged to the hospital debt, we view the hospital as an integral part of the university.

University of New Mexico--Enterprise and financial statistics						
	--Fiscal year ended June 30--					'AA' rated public college and university medians
	2024	2023	2022	2021	2020	2023
Enrollment and demand						
Full-time-equivalent enrollment	23,959	18,101	17,710	18,178	18,833	38,162
Undergraduates as % of total enrollment	75.1	75.3	73.7	75.8	76.0	80.2
First-year acceptance rate (%)	83.8	94.6	97.3	53.8	66.3	73.7
First-year matriculation rate (%)	33.8	29.1	27.9	37.2	33.2	27.1
First-year retention rate (%)	72.0	72.1	66.5	76.9	77.3	85.6
Six-year graduation rate (%)	52.1	52.8	51.4	52.3	53.7	71.0
Income statement						
Adjusted operating revenue (\$000s)	N.A.	3,117,862	3,193,413	3,028,683	2,761,067	MNR
Adjusted operating expense (\$000s)	N.A.	3,226,685	3,070,369	2,876,992	2,656,691	MNR
Net adjusted operating margin (%)	N.A.	(3.4)	4.0	5.3	3.9	2.1
Estimated operating gain/loss before depreciation (\$000s)	N.A.	24,336	237,262	258,272	210,331	MNR
Tuition discount (%)	N.A.	54.5	42.3	39.1	37.6	28.2
Student dependence (%)	N.A.	8.9	7.8	7.6	8.7	36.2
State appropriations to revenue (%)	N.A.	13.0	10.8	10.7	12.1	17.2
Health care operations dependence (%)	N.A.	53.0	51.9	52.6	50.6	MNR
Research dependence (%)	N.A.	12.8	13.4	12.7	10.7	14.5
Debt						
Foundation debt (\$000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Total university-related debt (\$000s)	N.A.	456,158	380,056	406,682	366,985	
Total hospital-related debt (\$000s)*	N.A.	482,820	494,927	186,741	199,585	
Total debt (\$000s)	N.A.	938,978	874,983	593,423	566,570	985,387
Proposed debt (\$000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Total pro forma debt (\$000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	1.7	1.7	1.7	2.2	MNR
Current MADS burden (%)	N.A.	1.6	1.4	1.4	1.4	3.5
Pro forma MADS burden (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	14.4	16.0	16.4	15.7	12.7
Financial resource ratios						
Endowment market value (\$000s)	N.A.	713,882	604,103	580,297	444,631	1,291,622
Related foundation market value (\$000s)	N.A.	324,146	294,335	305,963	232,104	MNR
Cash and investments including foundation (\$000s)	N.A.	1,700,988	1,653,678	1,771,916	1,566,891	2,690,303
Cash and investments including foundation to operations (%)	N.A.	52.7	53.9	61.6	59.0	116.1

University of New Mexico--Enterprise and financial statistics (cont.)

	--Fiscal year ended June 30--					'AA' rated public college and university medians
	2024	2023	2022	2021	2020	2023
Cash and investments including foundation to debt (%)	N.A.	181.2	189.0	298.6	276.6	290.2
Cash and investments including foundation to pro forma debt (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR

Fiscal 2022 and fiscal 2023 figures include \$320 million total for HUD mortgage related to hospital tower, \$166.5 million drawn in fiscal 2023. MADS--Maximum annual debt service. MNR--Median not reported. N.A.--Not available. Total adjusted operating revenue = unrestricted revenue less realized and unrealized gains/losses and financial aid. Total adjusted operating expense = unrestricted expense plus financial aid expense. Net operating margin = 100(net adjusted operating income/adjusted operating expense). Student dependence = 100*(gross tuition revenue + auxiliary revenue) / adjusted operating revenue. Current MADS burden = 100*(maximum annual debt service expense/adjusted operating expenses). Cash and investments = cash + short-term and long-term investments. Average age of plant = accumulated depreciation/depreciation and amortization expense.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of October 8, 2024)

University of New Mexico Board of Regents, New Mexico

University of New Mexico, New Mexico

University of New Mexico Brd of Regents USF (AGM)

Unenhanced Rating AA-(SPUR)/Stable Affirmed

University of New Mexico Brd of Regents (University of New Mexico) taxable subordinate ln sys rfdg rev bnds (University of New Mexico) ser 2021 due 06

Long Term Rating AA-/Stable Affirmed

University of New Mexico Brd of Regents (University of New Mexico) taxable USF (BAM)

Unenhanced Rating AA-(SPUR)/Stable Affirmed

University of New Mexico Brd of Regents (University of New Mexico) PCU_USF

Long Term Rating AA-/A-1/Stable Affirmed

University of New Mexico Brd of Regents (University of New Mexico) PCU_USF

Long Term Rating AA-/A-1/Stable Affirmed

University of New Mexico Brd of Regents (University of New Mexico) PCU_USF

Long Term Rating AA-/A-1/Stable Affirmed

University of New Mexico Brd of Regents (University of New Mexico) Taxable Subordinate Lien sys rfdg rev bnds

Long Term Rating AA-/Stable Affirmed

Many issues are enhanced by bond insurance.

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