

RatingsDirect®

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

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Table Of Contents

Credit Highlights

Outlook

Credit Opinion

Enterprise Profile

Financial Profile

Related Research

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

Credit Profile

US\$58.63 mil sys imp rev bnds (University of New Mexico) ser 2023 dtd 03/30/2023 due 06/01/2054

<i>Long Term Rating</i>	AA-/Stable	New
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University of New Mexico Brd of Regents, New Mexico

University of New Mexico, New Mexico

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

<i>Long Term Rating</i>	AA-/A-1+/Stable	Affirmed
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Univ of New Mexico Brd of Regents (University of New Mexico)

<i>Long Term Rating</i>	AA-/Stable	Affirmed
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Credit Highlights

- S&P Global Ratings assigned its 'AA-' long-term rating to the University of New Mexico Board of Regents' \$58.63 million series 2023 system improvement revenue bonds, issued for the University of New Mexico (UNM).
- S&P Global Ratings affirmed its 'AA-' long-term rating on UNM's 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 affirmed its 'AA-' underlying rating (SPUR) on the university's series 2021 subordinate-lien system revenue refunding bonds.
- S&P Global Ratings affirmed the 'AA-' long-term component of its rating on the university's existing series 2001, 2002B, and 2002C variable-rate demand bonds. The 'A-1+' short-term component of this rating remains unchanged. The long-term rating on the variable-rate demand bonds reflects UNM's creditworthiness, and the short-term rating is based on bank liquidity support, in the event of an unremarketed tender, from U.S. Bank (scheduled to expire on Oct. 30, 2023).
- The outlook is stable.

Security

Post-issuance and on a pro forma basis, university-secured debt will total \$438.7 million. Specifically, debt includes \$58.6 million series 2023 bonds, \$333.2 million in outstanding university debt, and about \$46.9 million in university operating leases. The university's debt is secured by what we consider an unlimited student fee obligation of the university due to the broad pledge, and the series 2023 bonds are issued on a parity basis with the outstanding subordinate-lien debt. Specifically excluded from the system bond pledge are hospital revenue and state operating appropriations. Maximum annual debt service (MADS) on university debt is \$45.2 million and occurs in fiscal 2023, equivalent to a 2.77% MADS burden when including only university-related expenses, and a 1.47% MADS burden when including all expenses, both of which we view as low and manageable. We only include university debt in our

calculation of MADS burden given the unlimited student fee pledge, and the separate security of the hospital revenue bonds. Proceeds from the series 2023 bonds will be used for a new facility for the Center for Collaborative Arts and Technology, various housing improvements, various ecological improvements, and a new facility for the UNM police department.

Secured on a separate basis from the university debt, debt secured by the University of New Mexico hospital totaled \$494.9 million. Hospital-secured debt includes hospital revenue bonds totaling \$74.3 million, a U.S. Department of Housing and Urban Development (HUD) insured mortgage note for UNM Sandoval Regional Medical Center totaling \$100.6 million, and up to \$320 million (\$51.7 million drawn as of fiscal 2022) of a HUD mortgage loan for the construction of a new hospital tower. 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 2022 totaled \$933.6 million when including university- and hospital-secured debt.

Credit overview

We assessed UNM's enterprise profile as strong, reflecting its role as the flagship higher educational institution of the state. UNM's enterprise profile also maintains solid retention and matriculation rates, which are offset by a recent history of full-time-equivalent (FTE) enrollment declines and weaker selectivity rates as part of a new admissions process. We assessed UNM's financial profile as very strong, characterized by robust available resources, a low debt burden, and solid operating performance. We believe these credit factors, combined, lead to an indicative stand-alone credit profile of 'a+'. As our criteria indicate, the final rating can be within one notch of the indicative credit level. In our opinion, the 'AA-' rating on the university's bonds better reflects UNM's low MADS burden compared to peers and solid available resource base.

The ratings further reflect our view of:

- UNM's healthy available resource ratios for the rating category, with adjusted fiscal 2022 unrestricted net assets (UNA) equal to 294% of university related pro forma debt, 135% of total pro forma debt, and a robust 39% of adjusted operating expenses;
- UNM's low and manageable pro forma MADS burden of 2.77% when including only university-related expenses, and a 1.47% MADS burden when including all expenses including hospital-related expenses; and
- Positive full-accrual operating performance in the last three fiscal years, bolstered in part by federal stimulus.

Partially offsetting credit factors include UNM's:

- Growing tuition discount rate, with overall tuition discounting of 42.3% as of fiscal 2022, though we note incoming freshman discounting is much lower at 23.1% and declined from the prior year;
- Weak freshman selectivity of about 95% during fall 2022, driven in part by a new admissions process for freshmen;

and

- High dependence on health care revenue, which makes up nearly 52% of the university's fiscal 2022 operating revenue.

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 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 the health and safety social risks posed by the pandemic as somewhat abating for the higher education sector. However, the pandemic has had significant effects on enrollment that could continue to affect demand and finances. Given health care exposure, and similar to other health care systems, UNM faces heightened human capital risks regarding access to labor and higher labor expenses, which we view as a social risk. In addition, we view environmental physical risks as somewhat elevated for the university due to the service area's susceptibility to drought, water scarcity, and wildfires that could have a long-term effect on market position should these risks lead to demographic changes, though near-term risk to the university's physical campus and finances are likely limited. For more information on how we believe drought conditions could affect issuers in the western U.S., see our report "Western U.S. Drought: Declining Supply, Rising Challenges," published Aug. 16, 2022, on RatingsDirect. Despite the elevated social and environmental risk, we believe UNM's governance risk is a credit neutral factor in our credit assessment.

Outlook

The stable outlook reflects our expectation that available resources will remain solid, and that operating performance will remain positive though will likely moderate as federal stimulus funds are spent. The outlook also reflects our expectation that enrollment will stabilize or see incremental growth, and that this stabilization or growth will offset weakening freshman selectivity rates.

Downside scenario

We could consider a negative rating action during the outlook period if the university's enrollment or retention rates decline materially, the university's operations show a trend of operating deficits, the HSC's operations become pressured, or UNM's available resources decline. We could also consider a negative rating action if UNM issues a material amount of additional debt without commensurate growth in resources.

Upside scenario

We could consider a positive rating action during the outlook period if FTE enrollment growth trends continue, retention and selectivity rates improve, operations continue to improve without federal stimulus, and debt and financial resources remain stable or improve further.

Credit Opinion

Enterprise Profile

Market position and demand

In fall 2022, total FTE grew by 2.2% to 18,101 from 17,710 in the prior year. The trend of FTE enrollment decline has at least partly been offset by the university's strategic enrollment plan, as FTE enrollment grew in fall 2022 for the first time in the last several years. In addition the university's strategic enrollment plan, the state has created the New Mexico Opportunity Scholarship. The scholarship allows residents of New Mexico the opportunity to have full tuition and fees covered for all New Mexico public colleges and universities. We believe this scholarship will have a positive impact on enrollment, and understand some of the growth in fall 2022 was attributed to this scholarship.

As part of the university's new enrollment strategy, students are now allowed to self-report GPAs and test scores, and this has increased the rate of completed applications and the overall selectivity rate. The university's selectivity rate as of fall 2022 was weak at about 95%, but offset by FTE growth, and a larger freshman class, than in any of the past five years. We understand the university will keep this self-reporting policy through next fall, and will then evaluate whether to continue it. We would view improvement in selectivity favorably.

Applications rose by about 10% to 12,428 in fall 2022 from 11,346 in fall 2021. We view the rate of application growth favorably, and would view further growth in applications along with improved selectivity as a positive credit factor.

Student quality is slightly above the national average, with entering first-years' average ACT scores typically about 22.4. Retention rates rebounded to 72% after declining to 67% in fall 2021. We believe retention rates were likely affected by the pandemic and expect they will continue to rebound to historical levels.

Tuition rates for in-state undergraduate students totaled \$8,504 for the 2022-2023 academic year, a sizable increase of about 24% from \$6,888 for the 2021-2022 academic year, largely driven by removal of a discount at the full time blocked rate. Although increases are large, the university managed to grow enrollment and also benefits from the New Mexico Opportunity Scholarship. In-state, undergraduate tuition and fees remain competitive, in our view, aided by the state-sponsored scholarship program, which 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 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.

Management and governance

The senior management team has seen relative stability. The university has elevated the position of senior vice president for finance and administration to executive vice president for finance and administration. Additionally, the

school of medicine has hired a new dean, and has hired new chancellors at the Los Alamos and Valencia campuses. Additionally, the University of New Mexico cancer center has hired a new director. We view the management team as experienced and capable, having guided the university through the onset of the pandemic while improving demand and achieving a near break-even operating deficit.

A seven-member board of regents appointed by the governor for six-year staggered terms manages the university. We understand there will be several new board members appointed in March 2023 as board members complete their terms. We view the board as capable, and expect continued board strength.

UNM updates its strategic plan every three to five years, according to management, and the plan has goals, strategies, and key performance indicators that the university follows to realize its ambitions. In addition, UNM has a risk assessment plan administered by its internal audit department that is overseen by the board of regents' audit committee and includes completion of an annual risk assessment matrix.

Financial Profile

Financial performance

The university's revenue mix is highly concentrated in health care revenues. For the fiscal year ended June 30, 2022, consolidated operating revenue included net patient services (52.1%), state operating appropriations (10.9%), grants and contracts (13.4%), and gross tuition and fees (7.8%).

Fiscal 2022 and fiscal 2021 consolidated financial operations for the university (including substantial HSC clinical revenue) have achieved their best operating results of the recent past. Fiscal 2022 and fiscal 2021 ended with full-accrual operating surpluses of 3.7% and 5.2%, respectively. The robust operating performance is driven in part by federal stimulus through CARES Act, Coronavirus Response and Relief Supplemental Appropriation Act, and American Rescue Plan, as well as other state and local grants. Additionally, in fiscal 2021 there was general growth in operating revenues in aggregate of about 13%, with material increases in federal grants and contracts, as well as increases in net patient service revenues as patients received elective hospital services as the pandemic subsided, all of which helped achieve robust operating performance. Fiscal 2022 results were also positive, driven in part by increases in grants and contracts, auxiliary revenues, and net patient service revenues, in addition to federal stimulus and state appropriations.

Fiscal 2023 is still in its early stages, but is anticipated to have increased expenditures related to compensation; additionally, hospital revenues are anticipated to decline, and there will be little federal stimulus remaining in fiscal 2023. We expect operating performance will moderate beginning in fiscal 2023, and would view the maintenance of full-accrual operating surpluses as a positive credit factor.

The tuition discount overall tuition discount rate is high for a public university at 42.3%, however we note that the incoming freshmen discount rate is much lower at 21.3%. Despite this decline in operating revenues, the university is much less dependent on student-generated revenues (7.8% dependence in fiscal 2022) relative to peers.

UNM Health System operations

We view UNM Health System operations as presenting incremental risk to the university owing to the vagaries of health care reimbursement and constant spending pressures. However, UNM Health System regularly produces a

positive bottom line, and its principal affiliate, UNM Hospital, generates sufficient positive net income to support hospital-secured debt service. While the majority of revenue comes from patient service income, positive operating margins depend on proceeds of a voted mill levy from Bernalillo and Sandoval counties and sufficient revenue-generating capacity to service required intergovernmental transfers for the state's Medicaid program.

Health system operations include revenue from the 537-bed tertiary UNM Hospital including 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. Overall patient revenue increased in fiscal 2022 compared to fiscal 2021. In fiscal 2022, UNM Hospital generated a very modest bottom line of \$2.1 million when including capital appropriations, compared with a more substantial \$341.4 million positive bottom line in fiscal 2021.

UNM Hospital is currently 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 late 2024. UNM Hospital financed the project through capital appropriations as well as a \$320 million HUD-insured mortgage loan, of which \$51.7 million is drawn as of fiscal 2022.

Available resources

When we adjust for the pension liability, UNM's adjusted UNA for debt for fiscal 2022 was flat compared to fiscal 2021, with both at about \$1.259 billion. UNM's adjusted UNA for operations increased by 0.3% to \$1.21 billion. Fiscal 2022 adjusted UNA to university related pro forma debt was 294%, and when including hospital debt, UNA to total pro forma debt was 135%. We view these available resource ratios as consistent with the rating category, and note that both the university and hospital rated debt are secured by different revenue streams. Fiscal 2022 adjusted UNA to operations was 39%, which we view as solid.

Current market value in the consolidated investment fund was \$580.3 million as of fiscal 2021. Invested funds were, in our opinion, diverse, and have a one-year target allocation as follows: They included a mix of money market (13.1%), fixed income (6.5%), equities (42.5%), and alternative investments (37.9%). 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 and totaling approximately \$77 million are currently in service. According to university officials, the university has no actual or potential financial exposure to these facilities; however, consistent with our published criteria, we view the university's available resource ratio relative to debt as potentially overstated since the costs of the projects are not included in the university's debt numbers, but view resources relative to operations as solid. 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.

Management reports that fundraising was successful and that the university 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 (excluding the hospital debt) is about 86% fixed rate and 14% variable rate. As of its fiscal year-end 2022, the university had six swap agreements outstanding with highly rated counterparties with total notional amounts of \$65.9 million as of June 30, 2022: 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--					Medians for 'AA' rated public colleges & universities
	2023	2022	2021	2020	2019	2021
Enrollment and demand						
Headcount	21,982	21,638	22,244	22,792	24,393	43,953
Full-time equivalent	18,101	17,710	18,178	18,833	20,245	37,225
Freshman acceptance rate (%)	94.6	97.3	53.8	66.3	69.6	70.6
Freshman matriculation rate (%)	29.1	27.9	37.2	33.2	36.0	28.0
Undergraduates as a % of total enrollment (%)	71.1	69.5	70.9	70.9	71.0	80.6
Freshman retention (%)	72.1	66.5	76.9	77.3	73.6	86.4
Graduation rates (six years) (%)	52.8	51.4	52.3	53.7	49.9	70.0
Income statement						
Adjusted operating revenue (\$000s)	N.A.	3,183,238	3,028,033	2,725,901	2,475,826	MNR
Adjusted operating expense (\$000s)	N.A.	3,071,019	2,876,992	2,656,691	2,518,658	MNR
Net adjusted operating income (\$000s)	N.A.	112,219	151,041	69,210	(42,832)	MNR
Net adjusted operating margin (%)	N.A.	3.65	5.25	2.61	(1.70)	3.50
Estimated operating gain/loss before depreciation (\$000s)	N.A.	226,437	257,622	175,165	60,782	MNR
Change in unrestricted net assets (UNA; \$000s)	N.A.	7,183	(521,533)	589,945	(228,474)	MNR
State operating appropriations (\$000s)	N.A.	346,263	322,786	334,381	310,785	MNR
State appropriations to revenue (%)	N.A.	10.9	10.7	12.3	12.6	16.5
Student dependence (%)	N.A.	7.8	7.6	8.8	10.1	36.3
Health care operations dependence (%)	N.A.	52.1	52.6	51.2	52.2	MNR
Research dependence (%)	N.A.	13.4	12.7	10.8	11.5	12.9
Endowment and investment income dependence (%)	N.A.	(0.9)	2.6	1.3	1.8	1.2

University of New Mexico--Enterprise And Financial Statistics (cont.)

	--Fiscal year ended June 30--					Medians for 'AA' rated public colleges & universities
	2023	2022	2021	2020	2019	2021
Debt						
Outstanding debt (\$000s)	N.A.	874,983	593,423	566,570	479,805	862,015
Proposed debt (\$000s)	N.A.	58,630	N.A.	N.A.	N.A.	MNR
Total pro forma debt (\$000s)*	N.A.	933,613	N.A.	N.A.	N.A.	MNR
Pro forma MADS	N.A.	45,211	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	1.38	1.71	2.20	2.02	MNR
Current MADS burden (%)	N.A.	1.42	1.44	1.38	1.46	3.40
Pro forma MADS burden (%)§	N.A.	1.47	N.A.	N.A.	N.A.	MNR
Financial resource ratios						
Endowment market value (\$000s)	N.A.	604,103	580,297	444,631	459,892	1,204,034
Related foundation market value (\$000s)	N.A.	294,335	305,963	232,104	235,978	826,239
Cash and investments (\$000s)	N.A.	1,285,550	1,457,225	1,322,748	1,205,514	MNR
UNA (\$000s)	N.A.	(690,752)	(697,935)	(176,402)	(766,347)	MNR
Adjusted UNA (\$000s)	N.A.	1,211,150	1,207,992	1,041,075	921,807	MNR
Cash and investments to operations (%)	N.A.	41.9	50.7	49.8	47.9	59.6
Cash and investments to debt (%)	N.A.	146.9	245.6	233.5	251.3	185.2
Cash and investments to pro forma debt (%)	N.A.	137.7	N.A.	N.A.	N.A.	MNR
Adjusted UNA to operations (%)	N.A.	39.4	42.0	39.2	36.6	43.3
Adjusted UNA plus debt service reserve to debt (%)	N.A.	143.9	212.3	194.4	204.8	132.0
Adjusted UNA plus debt service reserve to pro forma debt (%)	N.A.	134.9	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	16.0	16.4	15.7	15.4	13.7
OPEB liability to total liabilities (%)	N.A.	2.6	1.9	3.8	3.9	MNR

*Includes university- and hospital-secured debt. §2.77% when including only university operating expenses.

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 February 21, 2023)

University of New Mexico sub lien sys rfdg & imp rev bnds		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
University of New Mexico sub lien sys rfdg & imp rev bnds		
<i>Long Term Rating</i>	AA-/Stable	Affirmed

University of New Mexico Brd 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)

Ratings Detail (As Of February 21, 2023) (cont.)

<i>Long Term Rating</i>	AA-/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		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
University of New Mexico Brd of Regents (University of New Mexico) taxable USF (BAM)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
University of New Mexico Brd of Regents (University of New Mexico) PCU_USF		
<i>Long Term Rating</i>	AA-/A-1+/Stable	Affirmed
University of New Mexico Brd of Regents (University of New Mexico) PCU_USF		
<i>Long Term Rating</i>	AA-/A-1+/Stable	Affirmed
University of New Mexico Brd of Regents (University of New Mexico) Taxable Subordinate Lien sys rfdg rev bnds		
<i>Long Term Rating</i>	AA-/Stable	Affirmed

Many issues are enhanced by bond insurance.

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