

## Private Driver 2010-1 Fixed GmbH

### **€942.5 Million Asset-Backed Fixed-Rate Notes**

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### **Transaction Summary**

Standard & Poor's Ratings Services has assigned credit ratings to the asset-backed floating-rate notes issued by Private Driver 2010-1 Fixed GmbH (Private Driver), a special-purpose entity (SPE) established as a limited liability company in Germany.

The collateral comprises German auto loan receivables that Volkswagen Bank GmbH (VW Bank) has originated and sold to the issuer.

Our ratings reflect our analysis of the ability of the servicer, VW Bank, to fulfill its role in the transaction and the cash flow mechanics of the transaction assuming various stress scenarios.

A combination of overcollateralization, a subordinated loan, a cash reserve, and (for the class A notes only) subordination of the class B notes provide protection for the class A and class B noteholders. BNP Paribas S.A. acts in a supporting role as guarantor for the issuer account provider (the Luxembourg branch of BNP Paribas Securities Services).

On the closing date, an affiliate of Volkswagen AG (the "subordinated lender") granted to Private Driver a subordinated loan of €52.5 million (5.25% of the discounted portfolio volume). The subordinated loan serves as credit enhancement to the class A and B notes because it ranks below the notes for payment of interest and principal. This loan does not form part of the rated capital structure.

The receivables are purchased at a fixed discount rate of 3.08%. This discount rate is set so that the cash flow from the assets covers the fixed rates under the swap agreements, plus fees and expenses. No excess spread builds up in the transaction.

The credit and cash-flow analyses of this transaction follow our criteria in “European Consumer Finance Criteria,” published March 10, 2000 and “Auto Loan Criteria,” published Sept. 28, 2004. The legal analysis is based on “European Legal Criteria for Structured Finance Transactions,” published Aug. 28, 2008 (see “Related Criteria And Research”).

### ***Notable Features***

Private Driver 2010-1 is VW Bank’s 11th auto loan transaction after seven Driver transactions and three Private Driver transactions. It largely follows the structure of the Driver Seven GmbH transaction with two significant differences: The notes Private Driver issued carry fixed coupons, rather than floating rates, and the transaction is not static like Driver Seven, but has a one-year revolving period. During this period the originator can sell further receivables to the issuer. Private Driver is VW Bank’s first revolving auto loan transaction since Driver Three’s issuance in 2006. Similar to the previous Driver transactions, Private Driver features pro rata amortization of the notes after the replenishment period, provided certain performance triggers are fulfilled. On breach of these triggers, the repayment of the notes switches temporarily or permanently to sequential amortization.

### ***Strengths, Concerns, And Mitigating Factors***

#### ***Strengths***

- VW Bank has a strong market position as one of the largest car-financing companies in Europe, and has more than 50 years of business experience.
- Private Driver’s structure has been used for the previous Driver transactions. These transactions have performed well, so we also expect this transaction, which is similar in structure and have a similar asset pool, to perform well.
- The portfolio is highly granular and diversified between the federal states in Germany. The pool cut as of Sept. 30, 2010, comprised 78,075 loan contracts. The largest single borrower represents about 0.035% of the portfolio and the top 20 loans comprise 0.22% of the portfolio.
- All contracts are current as of the last day of the month preceding the closing date.
- The structure benefits from a cash reserve, which was initially sized and fully funded at 1.2% of the discounted principal balance. The cash reserve serves primarily as liquidity support to mitigate any liquidity stresses. Its purpose is to ensure the timely payment of interest on the notes, while ultimately serving as credit support.

#### ***Concerns***

- The portfolio is revolving, which allows substitution of repaid receivables. This means that the portfolio credit quality could deteriorate during the revolving period.
- No recovery data was provided.
- There is no excess spread in the structure, as the discount rate is set to match Private Driver’s expenses.
- The cash reserve amortizes, subject to a floor amount.
- The payment structure is not fully sequential. Subject to certain performance triggers, the principal for the class A and B notes can be paid pro rata. Pro rata redemption of the class B notes causes the credit enhancement available for the class A noteholders to reduce in absolute terms.

- There is commingling risk due to a collection account that is currently in VW Bank's name rather than Private Driver's.
- There is set-off risk for the cash deposits maintained by borrowers whose loans form part of this securitization.

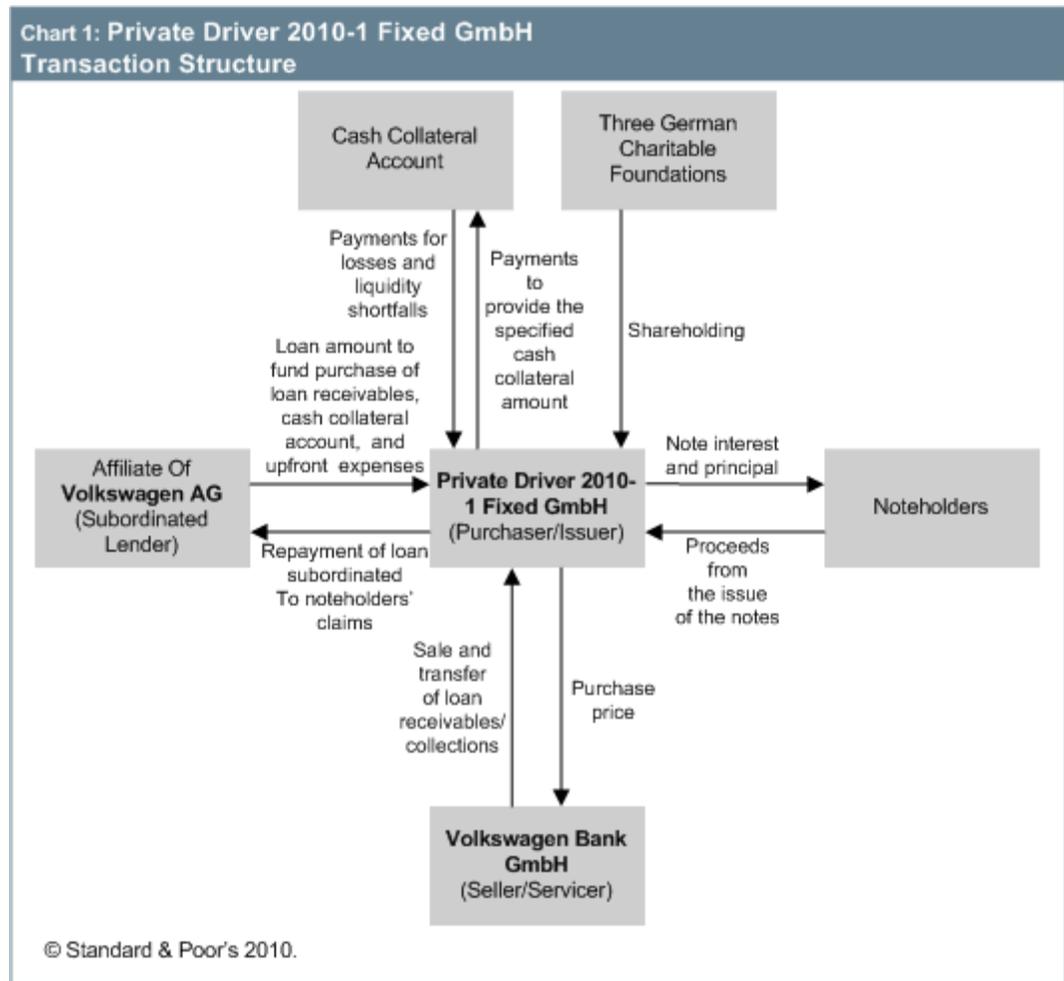
***Mitigating factors***

- Triggers are in place to stop the revolving period if performance deteriorates (see "Revolving Period"). Additionally, a further purchase 2% price haircut is applied on all newly purchased receivables during replenishment, which builds up additional overcollateralization during the revolving period. Furthermore, the available credit enhancement level is higher than in the most recent non-revolving Driver Seven.
- We have made a conservative recovery assumption.
- In addition to the subordinated loan and a cash reserve, 0.5% overcollateralization provides credit enhancement.
- Cash flows have been appropriately stress-tested for each rating level, and various performance triggers have been set for cumulative net loss rates, mitigating the risk derived from pro rata amortization. A breach of these triggers leads to a temporary switch to sequential repayment to build up additional enhancement. Further deterioration in the performance with cumulative net losses growing to more than 1.6% results in a permanent switch to sequential note repayment.
- Set-off and commingling risks are mitigated because VW Bank is a supporting party to the transaction. VW Bank is committed to take appropriate action if it is downgraded below 'A-2' in line with our criteria for support counterparties. In addition, the eligibility criteria state that borrowers whose loans are included in the portfolio may not have money deposited with VW Bank at the time of inclusion.

***Transaction Structure***

On the closing date, Private Driver purchased the auto loan portfolio (see chart 1). The loan receivables are discounted at a fixed rate of interest, which equals administrative expenses, a servicing fee, the fixed interest rate due on the class A notes and class B notes, and the interest due under the subordinated loan.

During the revolving period, Private Driver may acquire further loan receivables if funds are available. The net present value of these assets is calculated using the same discount rate as was used for the initial portfolio at closing. The purchase price equals the net present value reduced by a 2% haircut until the overcollateralization has increased to 11% from 9.5% at closing for class A and to 7% from 5.75% at closing for class B.



**Priority of payments**

The class A notes and class B notes pay interest in arrears on a designated date each month at a rate of 1.94% for the class A notes and 2.865% for the class B notes(as shown in the opening ratings table). The transaction has a combined interest and principal priority of payments. On each interest payment date (IPD), the interest on the class A notes is paid before interest is paid on the class B notes. However, class A noteholders only receive principal after interest is paid to the class B noteholders. Amounts standing in the priority of interest and principal payments for the class A and B notes include taxes payable by the issuer, servicing and administrative expenses, and net payments due under the swap agreement.

**Revolving period**

During the revolving period, VW Bank can sell further loan receivables to the issuer. The revolving period starts on the closing date and ends at the latest on November 20, 2011. It will end earlier if and when any of the following early amortization events occur:

- A foreclosure event (e.g. issuer insolvency);
- The amount available, but not used for the purchase of further receivables, exceeds 10% of the portfolio volume on two consecutive payment dates;

- Cumulative net losses exceeding 0.5%;
- Late delinquencies (i.e., more than six installments overdue) exceeding 1.75%; or
- A servicer replacement event (e.g. servicer insolvency).

According to the transaction documents, receivables added to the portfolio during revolving period need to comply with the same eligibility criteria as the receivables purchased at closing. In addition, certain concentration limits for used cars, amortizing loans, and non-VW brands should not be exceeded during the revolving period.

#### ***Repayment of notes***

After the revolving period has ended, the issuer uses available funds to repay class A and class B. As soon as overcollateralization has reached 11% (plus 150bps compared to the closing level) for class A and 5.75% (plus 125bps compared to the closing level) for class B, the issuer pays principal payments received pro rata to the class A and B noteholders. The percentage of overcollateralization for the classes A and B notes remains constant for as long as the portfolio's performance stays within the predetermined boundaries: If the cumulative net loss ratio exceeds 0.5% during the first 15 months after closing or 1.15% between month 15 and 24, the issuer repays the notes sequentially until overcollateralization reaches 14% for the class A notes and 8% for the class B notes. When additional credit enhancement reaches the required level, the repayment switches back to pro rata. If the cumulative net loss ratio exceeds 1.6% at any time, the amortization permanently switches to sequential repayment. VW Bank can exercise a clean-up call as soon as the portion of the discounted receivables falls below 9% of the discounted receivable balance at closing.

#### ***Credit enhancement***

A combination of overcollateralization, a subordinated loan, a cash reserve, and (for the class A notes only) subordination of the class B notes provide protection for the class A and B noteholders. Performance triggers based on cumulative net losses protect noteholders (see above).

#### ***Servicing***

The originator and seller, VW Bank, services the loans. VW Bank is a wholly owned subsidiary of Volkswagen Financial Services AG, which in turn is owned by Volkswagen AG. It is the largest auto bank in Germany, with more than 50 years' experience in originating auto loans with German consumers. VW Bank is also active in other retail banking activities (including deposit taking).

#### ***Losses due to prepayments***

As it is a present-value structure, the issuer might be subject to losses due to prepayments. This results from the fact that the issuer purchases the loans at a fixed discount rate, while the contractual interest rates of the loans could be higher than the discount rate, resulting in such loans being purchased above par. If any of these loans prepays, the issuer suffers a loss, as the prepayment is done at par. The seller, VW Bank, covers this loss. To stress-test the scenario where VW Bank is not available to take those losses, we have modeled potential losses arising from prepayments and have adjusted the loss assumptions in our models accordingly.

***Commingling and set-off***

Collections on the loan receivables occur monthly. VW Bank has direct debit arrangements for more than 99% of the pool. As long as VW Bank, as the servicer, is rated at least 'A-2', it is entitled to commingle collections on loan receivables with its own funds. If VW Bank's rating is lowered below 'A-2', the bank must make biweekly advance payments to the issuer equal to approximately half a month's interest and principal collections two weeks in advance. The cash advances must be paid into an account in the issuer's name or a VW bank account, but with a sufficiently rated account bank. The cash in this account must be pledged to the issuer. The issuer grants security over this account to the trustee for the noteholders' benefit.

Downgrade language in line with our criteria regarding the bank account provider addresses bank account commingling risk.

As the debtors of the securitized loan contracts could potentially have cash deposits with VW Bank, there is the risk that borrowers could set off all or part of their payment obligation under the auto loans against claims they might have against the bank. While VW Bank is rated at least 'A-2', it pays to the issuer any amounts set off by borrowers. If the rating on VW Bank drops below 'A-2', VW Bank must fund the set-off risk reserve. This reserve collateralizes the set-off risk and is adjusted monthly. However, the eligibility criteria state that borrowers must not have deposits with VW Bank when their loans are included in the transaction portfolio.

***Collateral Description***

The provisional collateral pool backing the notes comprises 41,946 loans, with a total discounted principal balance of about €1,000 million. The discount rate applied to Private Driver's pool is 3.08%. The largest single borrower represents about 0.035% of the portfolio and the top 20 loans comprise 0.22% of the portfolio. The average outstanding loan balance is €12,808 and the average outstanding discounted loan balance per borrower is €12,896.

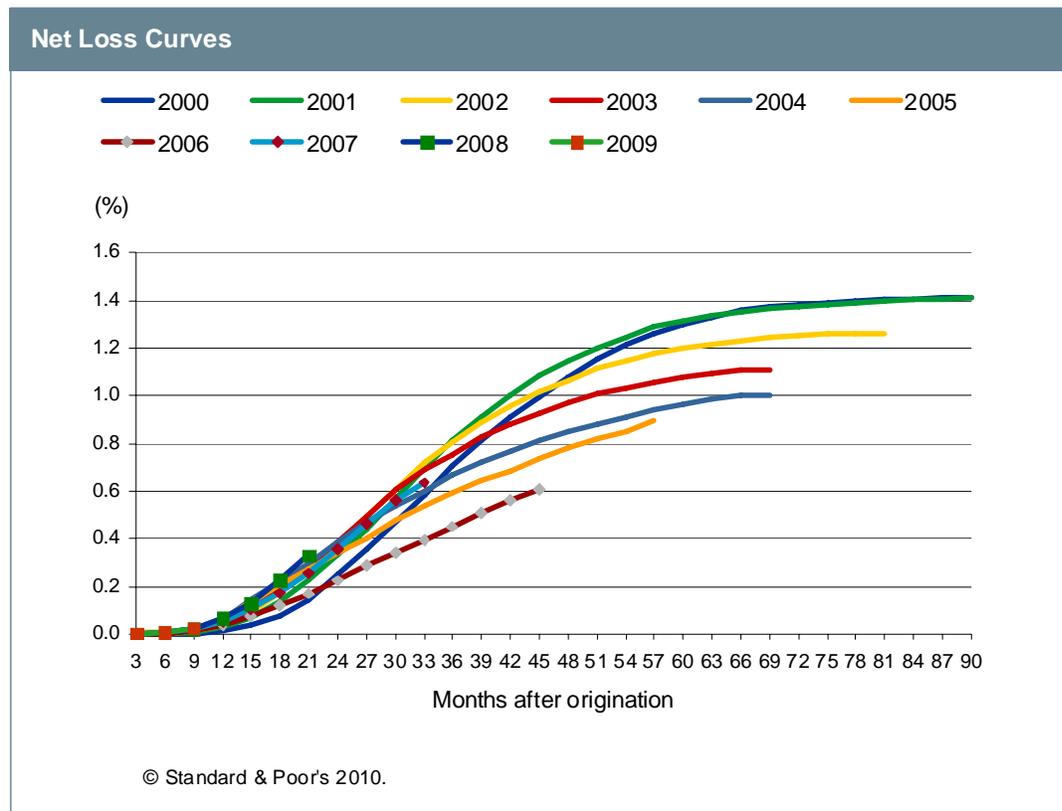
No maintenance components are contained in the contracts sold, and no borrower is an affiliate of Volkswagen AG. Each borrower has paid at least two installments. This transaction contains consumer loan contracts (74.5%) and business loan contracts (25.5%). Approximately 16.7% of loan contracts are amortizing and 83.3% incorporate a balloon feature.

Loans have an original maturity of between 24 and 72 months, and the remaining terms are between 18 and 60 months. The portfolio being securitized comprises predominantly Volkswagen and Audi vehicles, along with Škoda, some SEAT and other brands vehicles. The geographical distribution shows a diversified portfolio, with the highest concentration at 19.3% for residents in North Rhine Westphalia (see map).



Chart 2 shows the cumulative net losses that occurred for the entire bank book during the period after the vintage year. For example, for the 2000 vintage, at 36 months the data shows accumulated net losses for all loans originated in 2000 after three years.

Chart 2



**Nature of the loan receivables**

The purchased loan receivables are from vehicle loan contracts originated by VW Bank using Volkswagen, Audi, SEAT, and Škoda dealers as agents, as well as by third parties.

The loan receivables require monthly interest and principal payments in exchange for financing a new or used vehicle. The transaction securitizes two types of loans: (i) the “ClassicCredit” loan, which is paid down over its life in equal monthly installments (amortizing loan), and (ii) the “AutoCredit” loan, where in addition to equal monthly installments, the loan has a final payment that is significantly higher than the monthly installments (balloon loans) and typically set in line with the expected residual value of the vehicle at maturity of the loan.

If the loan contracts provide for a final larger balloon payment, the borrower can settle it either by:

- Keeping the vehicle and pay in cash;
- Selling the vehicle to the car dealer for a purchase price equaling the balloon payment. The dealer will settle the balloon payment on the borrower’s behalf. If the purchase price for the financed object is lower than the contractual balloon payment, the car dealer must pay the difference to settle the balloon payment; or
- Refinancing the balloon payment by concluding a new loan with VW Bank. VW Bank will settle the balloon payment from the funds of the new loan contract.

***Credit and Cash Flow Analysis***

The rating analysis includes an assessment of the credit risk inherent in the transaction. We have sized the credit enhancement after analyzing the effect that various stress scenarios would have on the collateral.

We established the credit support for each class of notes issued by Private Driver based on our standard rating methodology for analyzing consumer finance transactions.

We were provided with monthly static net loss data starting from January 2004 to June 2010 for the following four subportfolios:

- Balloon loans for new cars (equivalent to 53% of initial portfolio);
- Balloon loans for used cars (equivalent to 30% of initial portfolio);
- Amortizing loans for new cars (equivalent to 8% of initial portfolio); and
- Amortizing loans for used cars (equivalent to 9% of initial portfolio).

The data received indicates that amortizing and balloon contracts for new vehicles are performing substantially better than those contracts for used vehicles. Base cases were derived for all four subportfolios, resulting in a weighted-average net loss base case for the initial portfolio of 1.27%.

The static net loss data indicates the actual write-offs after recoveries, including vehicle sale proceeds and other recovery sources. We were not provided with separate recovery or prepayment data. To get to gross loss numbers, we assumed a recovery rate of 50%.

Because the transaction is revolving with further assets purchased at a haircut, additional overcollateralization partially offsets negative effects from uncured loss accumulation and portfolio credit quality deterioration caused by a shift in portfolio composition. As a result we modeled the portfolio with a reduced pool volume of 99.7% to account for accumulation of losses and built up of further overcollateralization. We also increased the net loss base case applied in the cash flow model to 1.31% due to a potential change in portfolio composition, resulting in a gross loss base case of 2.63%

When modeling the amortization phase, we made assumptions on the timing of defaults, delinquencies, and prepayment levels. We based these on the standard criteria for European consumer finance transactions and our experience with similar types of assets in other securitizations (see tables 1 and 2 for the base cases and stresses used). In addition to the net losses, we additionally stressed the balloon portion of the portfolio by calculating losses on the final balloon payments due to market value declines of the vehicles. These losses were only applied on final balloon payments that are made at contractual maturity, i.e. excluding defaulted and prepaid loans.

Table 1

<i>Base Cases Used</i>	
	<i>Gross default base cases (%)</i>
Balloon loans (new cars)	1.9
Balloon loans (used cars)	3.4
Amortizing loans (new cars)	1.2
Amortizing loans (used cars)	4.7

Table 2

<b>Stresses Used</b>			
<b>Rating</b>	<b>Gross default multipliers (x)</b>	<b>Recovery haircut (%)</b>	<b>Losses on balloon payments (%)</b>
AAA	4 to 5	30 to 40	4.0 to 5.0
A+	2 to 3	20 to 30	1.5 to 2.0

To determine the effect of pro rata amortization, the cash flow modeling took the performance triggers into account. We calculated losses that might arise due to prepayments for the different rating levels and added these to the loss assumptions used in the cash flow modeling. In addition, we adjusted the loss severity used for the cash flow modeling for the fact that on average the portfolio will be purchased above par: with an average contractual interest rate of around 4.35% in the portfolio, the discounted value of the portfolio is roughly 102.9% of the par value.

The ratings address not only the availability of funds for full payment of interest and principal, but also the timeliness of these payments in accordance with the terms of the rated securities. We tested different runs of the cash flows to control the timeliness of payments to noteholders. We applied this throughout the life of the transaction under different stress scenarios and corresponding to different rating levels.

In our cash flow scenarios, we have run different interest rate scenarios: Increasing, flat and decreasing EURIBOR. In addition, we have tested for stressed low and high prepayment rates (0.5% and 20.0%, respectively).

### ***Scenario and Sensitivity Analysis***

As part of a broad series of measures that we announced in 2008 to enhance our analytics and dissemination of information, we have committed to provide a “what-if” scenario analysis in rating reports to explain key rating assumptions and the potential impact of positive or negative events on the ratings (see “A Listing Of S&P’s New Actions Aimed At Strengthening The Ratings Process”, published Feb. 7, 2008).

This scenario analysis section incorporates:

- A description of our methodology and scenario stresses;
- Results of the effects of the stresses on ratings; and
- Results of the effects of the stresses on our cash flow analysis.

### ***Methodology***

When rating European auto and consumer ABS transactions, we have developed a scenario analysis and sensitivity testing model framework. This demonstrates the likely effect of scenario stresses on the ratings in a transaction over a one-year outlook horizon. For this asset class, we consider scenario stresses over a one-year horizon to be appropriate given the relatively short weighted-average life of the assets backing the notes. For these types of securities there are many factors that could cause the downgrade and default of a rated note, including asset performance and structural features. However, for the purposes of this analysis we focused on the three fundamental drivers of collateral performance, namely:

- Gross loss rate;
- Recovery rate; and

▪ Prepayment rate.

Given current economic conditions, the stress scenarios proposed reflect negative events for each of these variables. Increases in gross default rates could arise from a number of factors, including rises in unemployment and company insolvencies, together with falls in house prices and a reduction in the availability of credit. In addition, these effects would most likely cause collateral recovery rates to fall as the structural imbalance between supply and demand leads to reductions in asset prices. In this environment, we also expect prepayment rates to fall as fewer refinancing options leave obligors unable to prepay finance agreements and demand for replacement vehicles falls.

For this analysis we have included two stress scenarios to demonstrate the rating transition of a bond (see table 3).

Table 3

<b>Scenario Stresses</b>		
<i>Rating variable</i>	<i>Scenario 1 (relative stress to base case)</i>	<i>Scenario 2 (relative stress to base case)</i>
Gross loss rate (%)	30.0	50.0
Recovery rate (%)	(30.0)	(50.0)
Constant prepayment rate (%)	(20.0)	(33.3)

Our base case assumptions for each transaction are intended to be best estimates of future performance for the asset portfolio. Our approach in determining these base cases would take account of historically observed performance and an expectation of potential changes in these variables over the life of the transaction. The sensitivity of rated bonds in each transaction will differ depending on these factors, in addition to structural features of the transaction, including its reliance on excess spread, payment waterfalls, and levels of credit enhancement at closing.

For each proposed scenario stress, we separate the applied methodology into three distinct stages. In the first stage we stress our expected base case assumptions over a one-year period to replicate deviations away from our expected performance over the stress horizon. We assume the stresses that we apply occur at closing, with gross losses applied based on our expectation of a cumulative default curve for the portfolio.

The second stage applies our usual rating methodology, including revising our base case assumptions at the one-year horizon to reflect the assumed deviations as a result of the stressed environment. In the final stage of the analysis we re-rate the transaction at the one-year horizon, after revising our base case assumptions and applying our standard credit and cash flow stresses at each rating level. The output of the analysis shows the likely rating transition of the rated notes given the applied stresses and the value and timing of any forecasted principal and interest shortfalls under the most stressful scenario.

**Transaction analysis**

When applying scenario stresses in the manner described above, the results of this modeling are intended to be a simulation of what could happen to the ratings on the notes for the given transaction. For the purposes of our analysis for this transaction, we applied the two scenarios described above in our cash flow modeling. Tables 4 to 6 show the implied base case stresses and scenario stress results.

Table 4

<b>Scenario Stresses</b>			
<i>Stress horizon—12 months</i>			
<b>Rating variable</b>	<b>Base case</b>	<b>Scenario 1</b>	<b>Scenario 2</b>
Gross loss rate (%)	2.63	3.40	3.90
Recovery rate (%)	50	35	25
Constant prepayment rate (%)	10.0	8.0	6.7

Table 5

<b>Scenario Stress Analysis—Rating Transition Results</b>			
<b>Scenario stress</b>	<b>Class</b>	<b>Initial rating</b>	<b>Scenario stress rating</b>
Scenario 1	A	AAA (sf)	AA+ (sf)
	B	A+ (sf)	A+ (sf)
Scenario 2	A	AAA (sf)	AA- (sf)
	B	A+ (sf)	BBB+ (sf)

Table 6

<b>Cash Flow Effect</b>				<b>Principal shortfall</b>		<b>Cumulative interest shortfall</b>	
<b>Scenario stress</b>	<b>Worst case run</b>	<b>Amount (mil. €)</b>	<b>Expected loss as a % of the transaction size</b>		<b>Amount ('000s €)</b>		
			<b>Month</b>	<b>Month</b>		<b>Month</b>	<b>Month</b>
<b>Class A</b>							
Scenario 1	Low CPR	5.5	0.55	Final	8.9	Final	Final
Scenario 2	Low CPR	29.4	2.94	Final	47.6	Final	Final
<b>Class B</b>							
Scenario 1	Low CPR	—	—	Final	—	—	—
Scenario 2	Low CPR	12.0	1.2	Final	28.7	Final	Final

Given the transaction's structure, the more stressful scenario for our cash flow analysis is a low collateral prepayment rate. Given the stresses we applied under scenario 1, the class A notes would most likely be lowered to 'AA+ (sf)', the rating on the class B notes would most likely remain unchanged. Under scenario 2 we would most likely lower the rating on classes A and B to 'AA- (sf)' and 'BBB+ (sf)', respectively.

Under these scenario stress runs, the class A notes would incur a principal shortfall of €5.5 million at legal final for scenario 1 and €29.4 million for scenario 2, representing 0.6% and 2.9% of the total transaction size, respectively. Under the same scenario stress runs the class B notes would most likely remain unaffected in scenario 1, but incur a principal shortfall of €12 million in scenario 2 (1.2% of the total transaction size). A number of features of this transaction, including triggers that lead to temporary and finally permanent sequential repayment mechanism, the initial overcollateralization, and the cash reserve enhance the stability of the ratings under each scenario.

Where interest or principal shortfalls occur under the most senior notes, the holders of these notes and/or the trustee can call an event of default. This could lead to multiple events, such as the swap terminating (with the issuer needing to make termination payments), and the post-enforcement priority of payments being applied. All of these events will have an effect on the transaction cash flows. For the purposes of the analysis above, we make a simplified assumption that the trustee will not call an event of default.

### ***Key Performance Indicators***

We monitor the performance of the transaction, checking:

- Any change in the portfolio composition due to amortization, prepayments, and defaults in the pool;
- The recovery proceeds; and
- The build-up of overcollateralization during the life of the transaction.

### ***Related Criteria And Research***

- European Auto ABS Index Report Q2 2010—Performance Deterioration Levels Out, Sept. 21, 2010
- Scenario Analysis: Gross Default Rates And Excess Spread Hold The Answer To Future European Auto ABS Performance, May 12, 2009
- Updated Counterparty Criteria For Derivatives: Eligibility Of ‘A-2’ Counterparties Removed In ‘AAA’ Transactions, Oct. 22, 2008
- General Criteria: Standard & Poor’s To Explicitly Recognize Credit Stability As An Important Rating Factor, Oct. 15, 2008
- European Legal Criteria for Structured Finance Transactions, Aug. 28, 2008
- A Listing Of S&P’s New Actions Aimed At Strengthening The Ratings Process, Feb. 7, 2008
- Principles-Based Rating Methodology For Global Structured Finance Securities, May 29, 2007
- Revised Framework For Applying Counterparty And Supporting Party Criteria, May 8, 2007
- Auto Loan Criteria: The Rating Process For Auto Loan-Backed Transactions, Sept. 1, 2004
- Auto Loan Criteria: Credit Analysis For Auto Loan-Backed Transactions, Sept. 1, 2004
- Auto Loan Criteria: Structural Analysis For Auto Loan-Backed Transactions, Sept. 1, 2004
- Auto Loan Criteria: Legal Considerations In Rating Auto Loan-Backed Transactions, Sept. 1, 2004
- European Consumer Finance Criteria, March 10, 2000

Related articles are available on RatingsDirect. Criteria, presales, servicer evaluations, and ratings information can also be found on Standard & Poor’s Web site at [www.standardandpoors.com](http://www.standardandpoors.com).

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