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Iowa Higher Education Loan Authority Grinnell College; Private Coll/Univ - General Obligation

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Credit Profile

US\$61.0 mil priv coll fac rev bnds (Grinnell Coll) ser 2021 due 12/01/2050

Long Term Rating AAA/Stable New

Iowa Hgr Ed Loan Auth, Iowa

Grinnell Coll, Iowa

Iowa Hgr Ed Loan Auth (Grinnell College)

Long Term Rating AAA/Stable Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to Iowa Higher Education Loan Authority's \$61 million series 2021 revenue bonds issued for Grinnell College. At the same time, we affirmed our 'AAA' long-term rating on the existing bonds of Grinnell College. The outlook is stable.

Grinnell plan to issue approximately \$61 million of debt in series 2021 to fund 1) the construction of a new approximately 140-bed residence hall in downtown Grinnell, Iowa, 2) renovating, equipping, and furnishing of Norris Hall and Loose Hall, and 3) expanding the chiller plant for the college's residence halls, and to pay issuance costs. Post-issuance, total pro forma debt is expected to be about \$228 million. Securing the bonds is a general obligation of the college.

While there is a high level of uncertainty regarding the duration and extent of the impact of the COVID-19 outbreak, we believe that Grinnell has taken prudent steps to address its COVID-19 concerns. The college transitioned to remote learning in mid-March 2020, and issued prorated refunds on the housing and dining fees to those no longer using the services. First-year applications were up by 1.7% in fall 2020, but due to the pandemic, total full-time-equivalent (FTE) enrollment for fall 2020 declined by 14.1% and the retention rate dropped to 81% from 94% last year. International students represented a significant 19% of total FTE in fall 2020, and international enrollment declined materially by 18% from that of fall 2019. We will continue to monitor the impact of the ongoing pandemic on international and overall enrollment of the college.

As part of the federal government's Coronavirus Aid, Relief, and Economic Security (CARES) Act, Grinnell received \$1.2 million in relief funds, half of which was designated as direct aid to students and the remaining half can be used by the institution to offset expenses relating to COVID-19. In addition, Grinnell received \$503,860 in employee retention credit. Management indicates about \$952,000 of the CARES funding and the full amount of the employee retention credit has been recognized in fiscal 2020, for which we've made one-time adjustment to include in total adjusted operating revenue. The college ended fiscal 2020 with a healthy surplus of 3.9% mainly due to cost savings from

reduced expenditures on auxiliary activities and other program expenses as well as government funding relating to COVID-19.

The college used a planning framework for 2020-2021 built on a public health foundation and using the best tools, knowledge, and guidance available. The 2020-2021 academic year consists of four 7.5-week terms spread out over the traditional fall and spring semesters. The college welcomed 350 first-year students to campus for spring term 1 in addition to those in continuous residence. Capacity on campus was very low density with classes delivered virtually. The teaching mode is supported by significant investment of the college in connectivity and infrastructure, including but not limited to providing computers and cellular hotspots for students and adding technology to classrooms to support remote and hybrid teaching. Given the teaching modes, occupancy rate at college housing has declined materially in fall 2020. However, auxiliary revenues typically accounted for less than 10% of total operating revenue, and therefore we believe the impacts from the pandemic on auxiliary revenue should be manageable. For fiscal 2021, due to a decrease in net tuition and auxiliary revenues, the college budgeted and is currently forecasting a modest operating deficit despite continued cost containment measures (hiring freeze, no salary increase, limited travel, and delayed capital projects). The college is allocated \$1.8 million in Higher Education Emergency Relief Fund (HEERF) II funding, although management is unsure whether the full amount can be received and recognized during fiscal 2021. Management expects to use liquid reserves to support operations in fiscal 2021. In our view, robust reserves provide a liquidity cushion for any short-term disruption during this transition period. As of fiscal year-end 2020, the college has \$124 million daily liquidity in its endowment and liquid reserves.

Credit overview

Grinnell's enterprise profile was assessed as very strong based on good demand, a geographically diverse student body, and strong competition for students. The financial profile is also very strong, characterized by overwhelming available resource ratios, and healthy operating margins in the last couple of years driven by supplemental endowment spending. Combined, these factors lead to an indicative stand-alone credit profile of 'aa.' The college's significant cash and investments to debt, exceptional expendable resources to operating expenses and debt, and solid endowment per FTE student relative to those of peers in the 'AA' and 'AAA' categories continue to support a 'AAA' rating.

The 'AAA' long-term rating reflects the college's unsecured general obligation pledge, supported by our view of the college's:

- Impressive endowment of approximately \$2.1 billion at June 30, 2020, which is about \$1,221,946 per FTE student;
- Superior available resource ratios relative to the 'AAA' rating, with expendable resources of \$1.98 billion as of June 30, 2020, equal to about 8.7x pro forma debt and 10.4x operating expenses;
- Stable enrollment, with good student quality and a national and international student draw; and
- Healthy demand metrics, although they are slightly weaker than those of 'AAA' rated peers.

The above factors are partially offset by the above-average debt burden, with pro forma maximum annual debt service (MADS) of about 7.1% of fiscal 2020 expenses.

The stable outlook reflects our expectation that the college will stabilize its enrollment, maintain good demand metrics, sustain robust available resource ratios, and maintain at least close to break-even operating performance on a GAAP

basis.

Founded in 1846, the college is a private, undergraduate liberal arts institution on an attractive 190-acre campus in Grinnell, about 60 miles east of Des Moines. We view enrollment as fairly stable historically, although full-time undergrad headcount declined to 1,493 for the fall 2020 semester mainly due to the pandemic impacts. Most students lived on campus prior to COVID, and almost all attend full time. The college has a healthy demand profile, in our view, demonstrated by stable enrollment, selective admissions, and a solid matriculation rate given the strong national competition for its high-quality students.

Grinnell's revenue bonds are rated above the sovereign because we believe the institution can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria, "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions," U.S. colleges and universities are considered to have moderate sensitivity to country risk. Grinnell's revenue is the sole source of security on the bonds, the institutional framework in the U.S. is predictable with institutions like Grinnell having significant autonomy, independent treasury management, and no history of government intervention. The large endowment, which has a substantial market value and is invested globally, a relatively low debt level, and the largely serial amortization of the debt portfolio, provide financial flexibility.

Environmental, social, and governance (ESG) factors

In our view, higher education entities face elevated social risk due to uncertainty on the duration of the COVID-19 pandemic and the uncertainty around its total effect on the university's operations. We view this as a social risk under our ESG factors. We believe management has taken prudent actions regarding the health and safety of students, faculty, and staff, through options for remote instruction and work. Despite elevated social risk, we consider Grinnell's environmental and governance risks in line with our view of the sector.

Stable Outlook

Downside scenario

We could consider a negative rating action during the outlook period if enrollment continues to decline materially, if available resource ratios weaken substantially, or if the college issues significant debt without commensurate growth in available resources. Further unforeseen pressures from the pandemic, which cause material weakening of demand, finances, or the trajectory of the college's plan to mitigate the effects of the COVID-19 outbreak, could also result in a negative rating action.

Credit Opinion

Enterprise Profile

Economic fundamentals

In our view, the college has good geographic diversity, drawing students nationally and internationally. Over 93% of students come from outside of Iowa. Therefore, our assessment of Grinnell's economic fundamentals is anchored by the U.S. GDP per capita.

Market position and demand

Full-time undergraduate headcount was 1,459 in fall 2020, which declined by 14% from last year's level. In our view, student quality is very good, the geographical draw is national and international, and the demand profile is good, although slightly weaker than those of other 'AAA' rated peers. We expect that in the next few years, the college's enrollment levels and demand profile will rebound to levels similar to those prior to fall 2020.

Overall admissions remain selective, with improved selectivity of 19.2% applicants accepted in fall 2020, which is better than in the last few years. The fall 2020 matriculation rate was healthy at 23.3%, consistent with previous years. These demand metrics are solid considering the highly competitive national market in which Grinnell operates. The college has broad geographic diversity, typically with less than 50% of its student body coming from the Midwest, and only about 7% from Iowa. Grinnell's main competitors are Carleton College (Minn.), Oberlin College (Ohio), and Macalester College (Minn.).

Student quality is consistently high, with fall 2020 freshmen reporting average SAT and ACT scores of 1440 and 32, respectively. The college had a tuition discount rate of about 61% in fiscal 2020, a mix of need- and merit-based scholarships. This is consistent with Grinnell's long-standing need-blind admissions policy, representing its commitment to meeting 100% of demonstrated needs. In response to the financial hardship that many families are experiencing because of the pandemic, Grinnell will eliminate student loans in financial aid packages and replace them with scholarships. This no-loan initiative endorsed by the board will be effective fall 2021 for all new and continuing students eligible for need-based financial aid and is intended to lower the debt burden on students. The tuition discount is funded through the college's generous endowment.

The college does not have a strong history of fundraising. Until now, it had only one comprehensive capital campaign, which ended in 2005 and raised \$89 million in gifts and pledges, in excess of the original goal of \$75 million. In October 2018, the college launched the public phase of its comprehensive campaign with an original goal of \$175 million. The college exceeded the \$175 million goal in June. So far, \$187 million in commitments has been raised, and the college expects to end the campaign in June 2021. Current fundraising efforts are largely targeted at the annual fund, scholarships and financial aid, individually advised teaching and learning, the Institute for Global Engagement, Center for Careers, Life and Services, and world-class facilities with a goal of building infrastructure and a culture of giving among current students, alumni, and friends. The college raised about \$8.7 million in annual giving for operations and \$8.7 million to capital and endowed funds in fiscal 2020, which was better than previous years. We would view improved fundraising as a positive factor with regard to revenue diversity.

Management and governance

The college has seen several changes in senior management during the past few years. Dr. Anne F. Harris, who was the former dean and vice president (VP) of academic affairs of Grinnell, became the 14th president in July 2020 following the departure of the former president. Dr. Elaine Marzluff, a member of the college's faculty since 1997, was named interim dean and VP for academic affairs in July 2020. The college welcomed its new vice president for finance and treasurer in July 2018, following the retirement of its previous chief financial officer. In addition, a new vice president for development & alumni relations and a new chief investment officer started in 2018. The college expects the senior management team to remain stable in the near term.

Overall, the college has conservative practices, although management does not budget for full depreciation. We would view a change in this practice positively. Management reports that the college does fund its facility maintenance expenses through a combination of the operating budget and two reserve funds, and the funding demand is projected on a one-year, five-year, and 20-year outlook that is updated at least once annually.

The college adopted a strategic plan in June 2012 that focuses on six core priorities, spanning the lifecycle of an individual's experience with Grinnell, from prospective student to alumni, supported by strategic deployment of necessary infrastructure. Portions of this plan include implementation of an enterprise risk management system, and strategic hires in communications, development, and enrollment to identify opportunities to improve net student revenue and fundraising. The strategic plan is funded through a combination of the operating budget and a strategic reserve fund supported by the endowment draw.

In 2021, President Harris initiated development of a new strategic plan based on the five strategic principles of community; educational excellence and continuity; diversity, equity, and inclusion; health and well-being; and financial sustainability. Management expects strategic planning to articulate the framework within which Grinnell lives its mission in this next chapter of the college's history, and to collectively make decisions about the priorities and initiatives that will shape and define the college's direction.

In fiscal 2016, the board approved the administration's proposal to create and fund a portfolio of reserves with a combined target value of \$100 million to mitigate risks and also support strategic initiatives. Management reports that three of the reserves already existed, but that the balances will be supplemented to higher target levels. Two new reserves were created to provide added risk mitigation and agility in response to opportunities. Approximately \$45 million has been funded in the five liquid reserves held outside of the endowment as of fiscal 2020, and management reports that a \$72.7 million in endowment reserve has been established per board approval.

Financial Profile

Financial management policies

The college has formal policies for endowment, investments, and debt. It operates according to an actively managed, ongoing strategic plan, and has a formal reserve and liquidity policy. The college meets standard annual disclosure requirements. The financial policies assessment reflects our opinion that, while there may be some areas of risk, Grinnell's overall financial policies are not likely to negatively affect its future ability to pay debt service. Our analysis of financial policies includes a review of the college's financial reporting and disclosure, investment allocation and liquidity, debt profile, contingent liabilities, and legal structure and a comparison of these policies with those of comparable universities. We consider many of the college's policies best practices and view management as conservative.

Financial performance

Grinnell's operating performance has improved since fiscal 2016 from the historical operating deficits on a full-accrual basis, partially driven by extra endowment spending. The college has posted operating surpluses of \$8.1 million (4.9% margin) in fiscal 2016, \$13.5 million (7.8% margin) in fiscal 2017, and \$11.6 million (6.6% margin) in fiscal 2018, mainly driven by increased endowment spending. To support the implementation of the college's strategic plan as well as the

increased debt service for the additional debt, the board has approved a special endowment distribution of about \$9.3 million per year, on top of the regular endowment spending, for the period from fiscal 2016 through 2021--a total of \$56 million in extra endowment spending. A relatively weaker surplus of \$2.1 million (1.1% margin) was seen in fiscal 2019, primarily driven by increases in instructional, institutional support, and auxiliary expenses. The level of surplus was higher in fiscal 2020 at \$7.5 million, despite refunding over \$3 million in room and board revenue and incurring substantial pandemic related costs. For fiscal 2021, due to a decrease in net tuition and auxiliary revenues, the college budgeted and is currently forecasting a modest operating deficit.

The college has moderate unrestricted revenue diversity, with 45.6% of revenue coming from tuition and fees, 41.9% from endowment and investment income, 7.9% from auxiliaries, 2.7% from other sources, and only 0.9% from unrestricted gifts. Relative to its 'AAA' peers, the diversity is rather limited, given that 96% of revenue is derived from student-generated or investment-related revenue. Although management is making efforts to improve fundraising, the mix of revenues is unlikely to change over the two-year outlook period.

Despite a very high discount rate of 61% in fiscal 2020, total net tuition revenue increased modestly from the previous year. Management's key focus is to maintain continued growth in net tuition revenue over the next few years to manage the downside risk of the college's relatively high reliance on endowment spending for operating revenue. Although we believe that the college has a strong financial profile, we would view stronger revenue diversity and GAAP surpluses positively.

Financial resources

Available resource ratios are excellent and well above the 'AAA' rating category medians due to the college's large unrestricted endowment and conservative endowment spending rate. Expendable resources for the fiscal year ended June 30, 2020, were \$1.98 billion, an impressive 10.4x adjusted operating expenses and 8.7x of pro forma debt. Cash and investments were similarly superior at \$2.17 billion, equal to 11.3x operating expenses and 9.5x of pro forma debt. We expect available resource ratios to remain exceptionally strong, and still well in excess of those of many 'AAA' peers.

Grinnell's endowment is largely unrestricted, and management indicates its growth during the past two decades is due largely to the college's investment strategy, planning, and budget discipline, rather than fundraising. The endowment's market value as of June 30, 2020, was \$2.1 billion, of which approximately \$1.4 billion was unrestricted. As of December 31, 2020, the preliminary endowment asset allocation was about 28.6% equities, 14.4% absolute return/hedged, 46.7% private equity, 8.5% cash and fixed income, 1.7% real assets, and 0.1% other. We noticed a modest shift in asset allocation from equities to private equity during the past two years, and management does not expect a material change in near future. The investment portfolio provides sufficient liquidity for its size, in our view. Management estimates that approximately 15.6% of endowment could be liquidated in 30 days. We understand that unfunded capital commitments as of June 30, 2020, are about 13.5% of the portfolio, which we consider conservative relative to that of peer institutions with similar-sized endowments.

Debt and contingent liabilities

The college issued about \$104 million in additional debt in 2017 to provide funds to partially finance the constructing, renovating, expanding, equipping, and furnishing of the Alumni Recitation Hall and Carnegie Hall to create a new

Humanities and Social Studies Center on campus; to create, equip and furnish a new admission/student financial services center; to develop and partially implement a comprehensive campus landscaping plan; and to pay bond issuance costs.

The outstanding debt totaled \$166.7 million at June 30, 2020. Including the series 2021 debt issuance, total pro forma debt amounts to \$227.7 million. All debt is fixed rate with no swap contracts. We believe this fixed-rate debt profile is conservative and eliminates put and interest-rate risk. Available resource ratios relative to pro forma debt remains above-average for the 'AAA' rating category, and we would expect that to remain stable. Since the series 2021 bonds are expected to be structured with a bullet structure with an expected final maturity in 2051, we've smoothed total debt service over 30 years' period. The pro forma MADS burden after smoothing is an above-average 7.1% of fiscal 2020 operations.

Grinnell College, Iowa--Enterprise And Financial Statistics

	--Fiscal year ended June 30--					Medians for 'AAA' rated private colleges & universities
	2021	2020	2019	2018	2017	2019
Enrollment and demand						
Headcount	1,493	1,733	1,716	1,712	1,699	MNR
Full-time equivalent	1,470	1,711	1,691	1,678	1,671	9,877
Freshman acceptance rate (%)	19.2	23.1	24.4	28.9	20.2	6.5
Freshman matriculation rate (%)	23.3	24.9	25.8	26.5	27.8	MNR
Undergraduates as a % of total enrollment (%)	100.0	100.0	100.0	100.0	100.0	50.0
Freshman retention (%)	81.0	94.0	92.0	96.0	93.0	97.7
Graduation rates (six years) (%)	87.0	89.0	84.0	86.0	86.0	MNR
Income statement						
Adjusted operating revenue (\$000s)	N.A.	198,788	193,150	185,811	187,253	MNR
Adjusted operating expense (\$000s)	N.A.	191,313	191,028	174,253	173,716	MNR
Net operating income (\$000s)	N.A.	7,475	2,122	11,558	13,537	MNR
Net operating margin (%)	N.A.	3.91	1.11	6.63	7.79	2.70
Change in unrestricted net assets (\$000s)	N.A.	9,661	60,248	82,094	161,088	MNR
Tuition discount (%)	N.A.	61.0	60.2	58.7	60.0	47.9
Tuition dependence (%)	N.A.	45.6	44.9	44.5	42.6	MNR
Student dependence (%)	N.A.	53.6	54.6	54.1	51.9	31.1
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	0.7	0.0	0.4	0.4	MNR
Endowment and investment income dependence (%)	N.A.	41.9	42.3	42.3	44.5	MNR
Debt						
Outstanding debt (\$000s)	N.A.	166,675	172,575	178,475	184,375	2,347,296
Proposed debt (\$000s)	N.A.	61,000	N.A.	N.A.	N.A.	MNR

Grinnell College, Iowa--Enterprise And Financial Statistics (cont.)

	--Fiscal year ended June 30--					Medians for 'AAA' rated private colleges & universities
	2021	2020	2019	2018	2017	2019
Total pro forma debt (\$000s)	N.A.	227,675	N.A.	N.A.	N.A.	MNR
Pro forma MADS	N.A.	13,517	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	7.20	7.36	8.23	6.42	MNR
Current MADS burden (%)	N.A.	7.00	7.21	8.07	8.26	6.20
Pro forma MADS burden (%)	N.A.	7.07	N.A.	N.A.	N.A.	MNR
Financial resource ratios						
Endowment market value (\$000s)	N.A.	2,090,750	2,069,953	1,991,605	1,871,046	14,260,033
Cash and investments (\$000s)	N.A.	2,167,564	2,153,364	2,119,240	2,043,049	MNR
Unrestricted net assets (\$000s)	N.A.	1,595,011	1,585,350	1,525,102	1,443,008	MNR
Expendable resources (\$000s)	N.A.	1,984,079	1,979,196	1,940,887	1,879,086	MNR
Cash and investments to operations (%)	N.A.	1,133.0	1,127.3	1,216.2	1,176.1	865.4
Cash and investments to debt (%)	N.A.	1,300.5	1,247.8	1,187.4	1,108.1	949.4
Cash and investments to pro forma debt (%)	N.A.	952.0	N.A.	N.A.	N.A.	MNR
Expendable resources to operations (%)	N.A.	1,037.1	1,036.1	1,113.8	1,081.7	638.2
Expendable resources to debt (%)	N.A.	1,190.4	1,146.9	1,087.5	1,019.2	683.6
Expendable resources to pro forma debt (%)	N.A.	871.5	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	17.2	18.3	21.0	19.6	12.6

N.A.--Not available. MNR--Median not reported. MADS--Maximum annual debt service. 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 debt service burden = 100*(current debt service expense/adjusted operating expenses). Current MADS burden = 100*(maximum annual debt service expense/adjusted operating expenses). Cash and investments = cash + short-term and long-term investments. Expendable resources = unrestricted net assets + temp. restricted net assets - (net PPE- outstanding debt). Average age of plant = accumulated depreciation/depreciation and amortization expense.

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

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