

## Brazilian Securities Series 2001-1

### CLOSING DATE:

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### PRELIMINARY RATING

Description	Amount (R\$)	Payment		Expected Final		Preliminary National Rating
		Frequency	Coupon	Maturity		
Class A Notes	3,404,249.60	Monthly	IGPM <sup>1</sup> +12%	11/15/10		<b>Aa1.br</b>
Class B Notes	560,699.88	Monthly	IGPM + 12%	11/15/10		NR
Certificates	40,049.00	n.a.	n.a.	11/15/10		NR

<sup>1</sup> IGPM (General Market Price Index), a Brazilian inflation indicator.

### OPINION

Moody's Investors Service has assigned a preliminary national rating of **Aa1.br** and a preliminary local currency rating of **Baa3** to the Brazilian Securities ("Issuer") Series 2000-1 Class A Notes. Interest and principal on the notes are payable from the assets of Brazilian Securities, a newly-created Brazilian securitization company whose sole objective is to issue notes backed by real estate assets.

Brazilian Securities was established under a new regulatory system called SFI<sup>1</sup> (Sistema Financeiro Imobiliario), which has been put in place to institute a secondary mortgage market in the country, through the issuance of long-term instruments.

The preliminary **Aa1.br** rating assigned to the Class A Notes was based primarily on the following factors:

- The 15% credit enhancement provided by the subordination of the Class B Notes and the certificates;
- Availability of reserve accounts to cover shortfalls in interest and principal payments;
- High credit quality of the issuer assets, consisting primarily of a mortgage loan portfolio secured by residential property in São Paulo, Brazil;
- Strong mortgage origination practices of Rossi Residencial, (the originator) a construction company;
- Solid underwriting standards at Brazilian Securities;
- Sound capability of SFI (servicer) as a servicer and custodian;
- No commingled risk between the originator and the servicer. Mortgage payments flow directly from obligors to issuer, on behalf of the investors; and
- Well-established Brazilian laws and regulations relating to mortgage securitization.

<sup>1</sup> SFI was created in November 1997 with the passage of law 9514. The law established conditions for securitization.



## INTRODUCTION

Brazilian Securities is a special purpose company created for the sole purpose of acquiring Brazilian real estate assets and issuing CRIs (Mortgage Backed Securities or “*Certificados de Recebiveis Imobiliarios*”), backed by these mortgages or the real estate. The issuer is co-owned by Group Ourinvest<sup>2</sup> and Group Rossi. The Notes will be initially bought by Inter-American Investment Corporation (IIC)<sup>3</sup> which will be investing in up to US \$10 million of the securities to develop the secondary mortgage market.

In Brazil a housing shortage of six million units is creating great demand for mortgages and a need for new financing alternatives. Currently, the only source of financing comes from saving & loans banks. Despite new SFI legislation, there has not been a mortgage securitization in Brazil that was sold directly to investors.

## RATING SUMMARY

### Transaction Overview

#### **Description of the Notes**

Brazilian Securities, the issuer, will issue two classes of floating-rate notes — Class A and Class B — and one certificate for a total issuance amount of R\$4.0 million. The Class A notes constitute 85% of the note balance, the Class B notes 14% and the certificate 1%. Moody’s did not rate the subordinate Class B notes or the Certificate.

#### **Interest Payments and Principal Payments**

On each monthly payment date, interest and principal will be paid pro rata to Class A and B investors. The principal amount of the securities is backed by an equal principal on the underlying mortgages. Beginning in the third year after the closing, Class B investors will be entitled to monthly payments of interest and principal. During the first two years, the difference between the underlying mortgage payments and the principal and interest payable on the Class A notes, will be deposited in a reserve account. The subordinate certificate will not bear interest, and principal will be paid at the legal final maturity.

If an amortization event occurs, the structure becomes sequential pay. Interest will be paid to holders of the Class B notes following interest payments to the Class A investors. Principal will be paid after interest is paid to Class A and Class B investors. Principal to holders of Class B will be paid following the total principal payment on Class A. A detailed description of the flow funds or priority of payments is presented in *Table 1*. An amortization event includes any one of the following:

- The three-month rolling average delinquency ratio (contracts more than 90 days delinquent divided by aggregate principal balance) exceeds 5%;
- The cumulative default rate of defaulted contracts exceeds: (1) 4% for the first six months after closing, (2) 8% for the seventh through the twenty-fourth month, and (3) 11% for the twenty-fifth month and any month thereafter. A defaulted contract is any contract that is delinquent more than 180 days; and
- Occurrence and continuation of an indenture event of default.

#### **Assets Consist of Brazilian Securities Loans and Reserve Funds**

The assets of the issuer consist primarily of Reais-denominated, floating-rate mortgage loans secured by residential real estate located in Brazil. Because there is no excess spread in this deal, the reserve funds provide additional support for the Class A Notes.

<sup>2</sup> Banco Ourinvest S/A, founded in 1968.

<sup>3</sup> The Inter-American Investment Corporation is a multilateral organization. It began operations in 1989 to promote the economic development of its Latin American and Caribbean member countries by financing small and medium sized private enterprise. IIC is part of the IDB (Inter-Development Bank) Group.

### Collateral Exchange can Vary Quality

The issuer has the option to exchange one or more contracts that become delinquent (90+ day past-due) for other current contracts for up to 10% of the lesser of the total note balance or the total mortgage loan balance. It has the option of modifying up to 5% of the lesser of the total note balance or the total mortgage loan balance.

The collateral exchange of contracts in the pool may add variability to the quality of the pool, as contracts with lower credit quality may be added. These additions could, potentially, result in a higher default rate. In addition, the composition of property type may change, which could change the rate of recoveries. The impact of the collateral exchanges should be insignificant because all new contracts in case of substitution have to be current and the issuer must comply with certain eligible contract criteria. The following will not be permitted:

- An extension by more than 24 months of the maturity date on the loans;
- A decrease in the principal balance of the loans;
- An extension of payments on the notes to a date beyond the legal final maturity;
- A change in the mortgage rate on the loan; and
- A reduction in the monthly payments and addition of the difference as bullet payment.

The underwriting standards and procedures applied to contracts exchanged will be consistent with those used to underwrite the initial contracts in the pool.

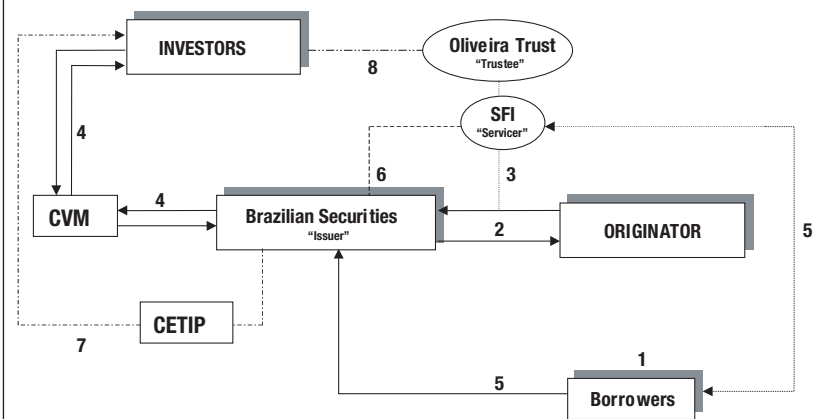
### Reserve Account Protects Senior Class

During the first two years, the difference between the underlying mortgage payments and the payments of interest and principal on the Class A Notes will be deposited in a reserve account, and may be used to make interest and principal payments exclusively on the Class A notes for delinquencies higher than 30 days.

### Liquidity Account Covers Potential Shortfalls

Proceeds related to the one-month gap between payments made by the obligors and payments due to the investors will be kept in the liquidity account to cover potential liquidity shortfalls related to delinquencies lower than 30 days, as there are no servicer advances.

Chart 1  
Transaction Structure



### The Flow of Funds and Servicing Practices Leave Little Room for Lapses

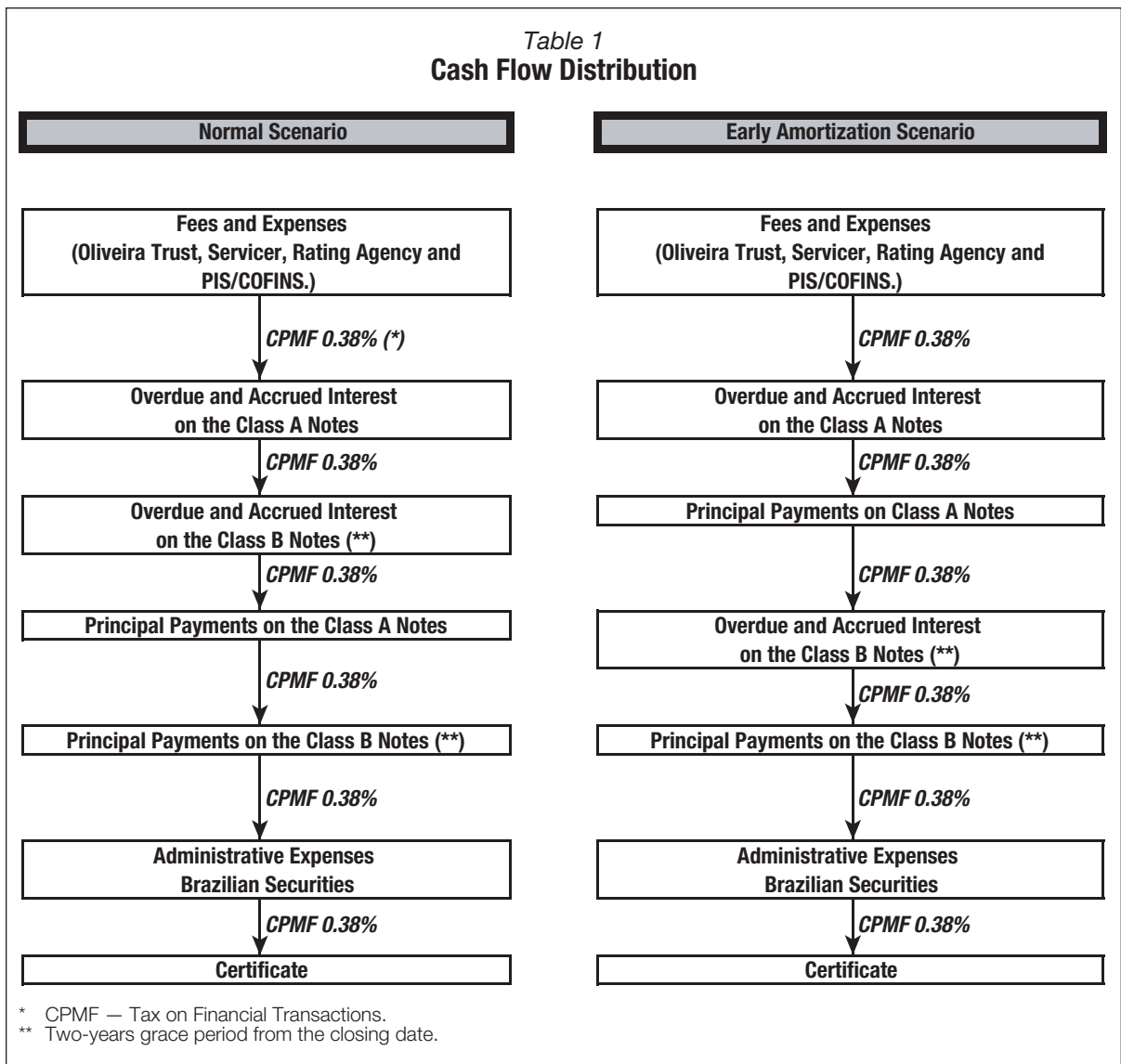
The loans are generated and serviced in a manner that leaves little room for lapses. Loans are handled as follows:

- 1) The mortgage loans were originated by Rossi, the originator, during the construction stage. During the construction period, which can vary from 18-36 months, the obligors make payments directly to Rossi;
- 2) When the construction stage is completed, the remaining balance of the mortgage loans is purchased by Brazilian Securities according to their own underwriting guidelines;
- 3) SFI, the servicer, has re-underwritten 100% of the portfolio according to Brazilian Securities' guidelines;
- 4) Investors purchase the mortgage-backed notes issued according to CVM<sup>1</sup> regulations;
- 5) The obligors make monthly payments to the Issuer through any bank in Brazil. The servicer sends a payment statement, with the Issuer's name and account number by mail to each obligor, who directly pays to the Issuer's account. Ninety percent of the payments are due before the 15th of each month. There is no grace period for late payments;
- 6) On a daily basis, the servicer reconciles the Issuer's account. Every time an obligor makes the payment, the bank system automatically — on line — remits all the information to the servicer's system;
- 7) The Issuer will use the proceeds from the mortgage loans and, to the extent needed, from the Reserve Fund, to make payments on the Class A and Class B notes through a system called CETIP<sup>2</sup> (similar to DTC). Payments to the investors are to be made on the 15th of each month; however, there will be a one-month lag between the amounts received and the amounts paid. This extra cash flow will be used to cover any liquidity shortfalls, since there are no servicer advances; and
- 8) Oliveira Trust (Trustee), acting on behalf of the interests of the investors, is responsible for making sure that all payment procedures are followed. In case the servicer does not perform its responsibilities or breaches any covenants, the Trustee is responsible for making sure that the back-up servicer performs the servicing function or to find another servicer, if needed. In case the Issuer goes bankrupt, the Trustee has the responsibility to administrate the assets of the trust.

1 Comissão de Valores Mobiliários, equivalent to the SEC in the US.

2 CETIP Brazilian Center for Custody and Clearing House.

*Table 1*  
**Cash Flow Distribution**



## RATING RATIONALE

### The Mortgage Loan Portfolio

#### **Origination Practices Strong**

Brazilian Securities will not be financing the construction stage. During this period, Rossi's future home owner will finance Rossi through payments totaling 25-30% of the property value. Only those mortgage loans secured by a property in which construction has been completed will be purchased by Brazilian Securities. Rossi has three different mortgage programs, Plano 100, Vida Nova and Inteiro Ambiente.

Loan origination practices are strong. The origination of mortgage loans at Rossi is made through realtors, who sell future units during the construction stage. This helps to ascertain future cash flows. The loan packages offered to potential obligors are standardized. Realtor relationships are maintained by Rossi-employed relationship coordinators who are responsible for keeping realtors informed of Rossi's mortgage products. The realtor refers the obligor to Rossi but does not to process any part of the loan application. Loan applications are randomly assigned to a credit officer. Rossi has a very well designed internal credit scoring system, in which the permitted loan amount is defined.

### **Underwriting Practices Very Reliable**

Brazilian Securities does not have specific mortgage program practices as, for example, Banco Hipotecario in Argentina does, but it does have clear and well-thought out underwriting guidelines. Brazilian Securities re-underwrites 100% of the mortgage loans, according to its standards, through the servicer. In addition, Brazilian Securities will dedicate 6 individuals who will focus on the management of the securities. Other functions such as the appraisals, monitoring, surveillance and collections will be outsourced to third parties including an appraisal company and a servicer. The following factors contribute to Brazilian Securities' high underwriting standards:

**Strict Eligibility Criteria:** Brazilian Securities' underwriting guidelines require borrowers to have been continually employed or self-employed for at least the prior 12 months. All salaried borrowers must provide a recent pay stub, a letter from the employer stating the length of employment, and verification of employment.<sup>4</sup> Self-employed borrowers must provide income tax returns and the last six bank statements. Moreover, the obligor cannot have any payment and credit history problems for the last 24 months, with the exception of two late payments less than 60 days past due.

**Rigorous Credit Screening:** Access to credit information is limited compared to the standards of the U.S., but financial institutions in Brazil nonetheless impose strict screening to recipients of a credit line. Credit bureaus in Brazil, like those in the US, do report negative information. However, in Brazil, the negative information disappears from the records when any overdue amount is paid. This makes it difficult to track obligors' credit behavior.

Offsetting this, however, individuals in Brazil do not have easy access to credit lines (as they do in the U.S.) In fact, only 15% of the population has credit cards.

The lack of credit bureaus with information comparable to that in the U.S. is mitigated by the fact that only a small percentage of the population has access to credit lines. Furthermore, the credit line application process is subject to very strict underwriting procedures. Brazilian Securities is using SERASA<sup>5</sup> as its credit bureau. SERASA maintains one of the country's largest credit databases.

**All Properties are Appraised:** Brazilian Securities always performs an appraisal of the property, including a review of the market in general. Appraisals are performed by qualified engineers who are regulated by the Brazilian Engineering Association — “Conselho Regional de Engenharia e Arquitetura”, and who are therefore obliged to adhere to specific, and rigorous technical norms. The appraiser will provide a written report for each appraisal.

In Brazil there are three types of appraisals: expedited, normal and rigorous. The quality of the appraisal depends on the level of the appraisal, but in general, all three types are very comprehensive.

Brazilian Securities will use the “expedited” appraisal, which takes into consideration at least five comparable factors in accordance to the norms of the IBAPE<sup>6</sup>. The appraisal includes interior and exterior pictures of the property, a description of the most important characteristics of the property, a description of the quality of the materials used, the location, the market value, and the infrastructure of the neighborhood (for example, the presence of schools, supermarkets, and transportation among others).

**Loan Approval Includes Quality Control:** After the servicer receives the loan-by-loan file, either from the Brazilian Securities or Rossi, each loan file is verified. If discrepancies are discovered between the underwriting guidelines and the loans, the loan will not be funded. This level of quality control reduces the risk of data error as well as the risk that loans which are not in compliance with the Brazilian Securities underwriting guidelines could be approved by mistake.

4 According to Brazilian labor law, each employee must be registered with the Ministry of Labor.

5 SERASA was created in 1968 by financial institutions to centralize all credit information. SERASA, has more than 300,000 clients, and is able to provide more than 1 million verifications per day. SERASA is the biggest database in Latin America, containing 8.9 million records, for which 5.3 million are related to individual credit.

6 Instituto Brasileiro de Avaliações e Perícias de Engenharia.

### **Servicer is Highly Qualified**

SFI — Serviços Financeiros Imobiliários is a firm that specializes in providing servicing for the financial and real estate markets. SFI distinguishes itself for its technology system, which efficiently addresses all requirements of the mortgage market in Brazil.

SFI's duties and processes as a servicer can be compared, to a certain extent, to those of a servicer in the U.S., except that collections in Brazil are much different than in the U.S.. In Brazil, the servicer sends obligors, a monthly invoice detailing the amounts owed. The obligor pays at any bank to the account of Brazilian Securities. No money passes through the servicer; eliminating the risk associated with a servicer bankruptcy. The servicer is responsible for tracking the collections. At SFI, this is handled through a very sophisticated computer system which reports which accounts have been paid on a daily basis.

Unlike in the US, Brazilian servicers do not make advances if there is a liquidity shortfall. Any liquidity issues resulting from delayed payments will be covered by the liquidity reserve.

SFI underwrites loan applications to Brazilian Securities' guidelines, prepares portfolio performance reports for management and collects and forecloses on any defaulted loans to minimize credit losses.

### **Back-Up Servicer**

JCB is the back-up servicer in this transaction. In its role as back-up servicer, JCB will receive monthly reports from the servicer and will be available, if needed, to take on the all of servicer responsibilities for the same fees.

## **PORTFOLIO CHARACTERISTICS AND PERFORMANCE SUMMARY**

### **Mortgage Loans are High Quality**

The mortgage loans are Reais-denominated, floating-rate loans secured by first lien mortgages on residential properties located in Brazil. The loans feature strong characteristics such as a

low average loan-to-value ratios (LTV), obligors with low average debt-to-income (DTI) ratios, and a low weighted average maturity (*Table 2*).

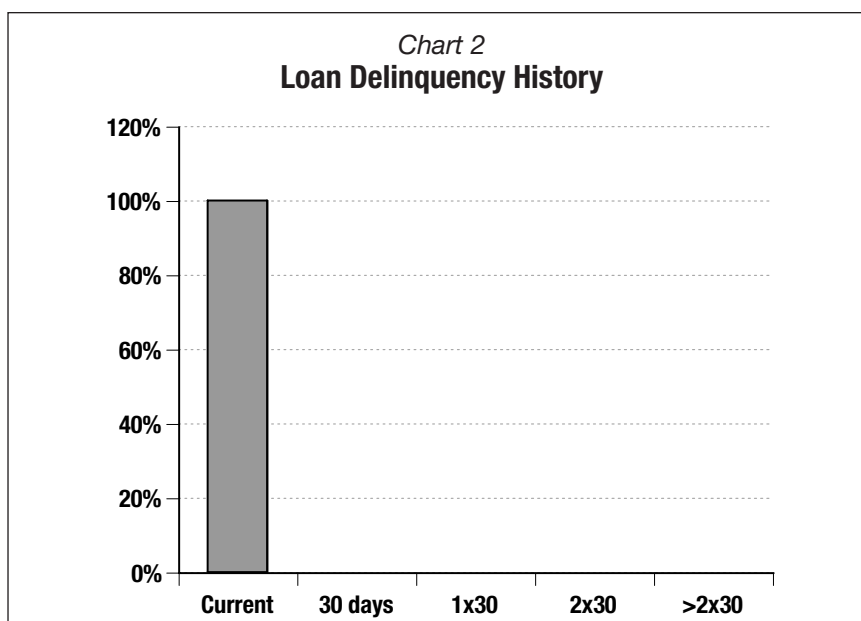
The loans were made to obligors with clean credit histories at the time of origination, none of the loans have experienced delinquencies in the past twelve months (see *Chart 2*). All of these factors were taken into consideration in analyzing the Class A Notes and the credit support appropriate for the preliminary **Aa1.br** rating.

*Table 2*

#### **Mortgage Pool Characteristics**

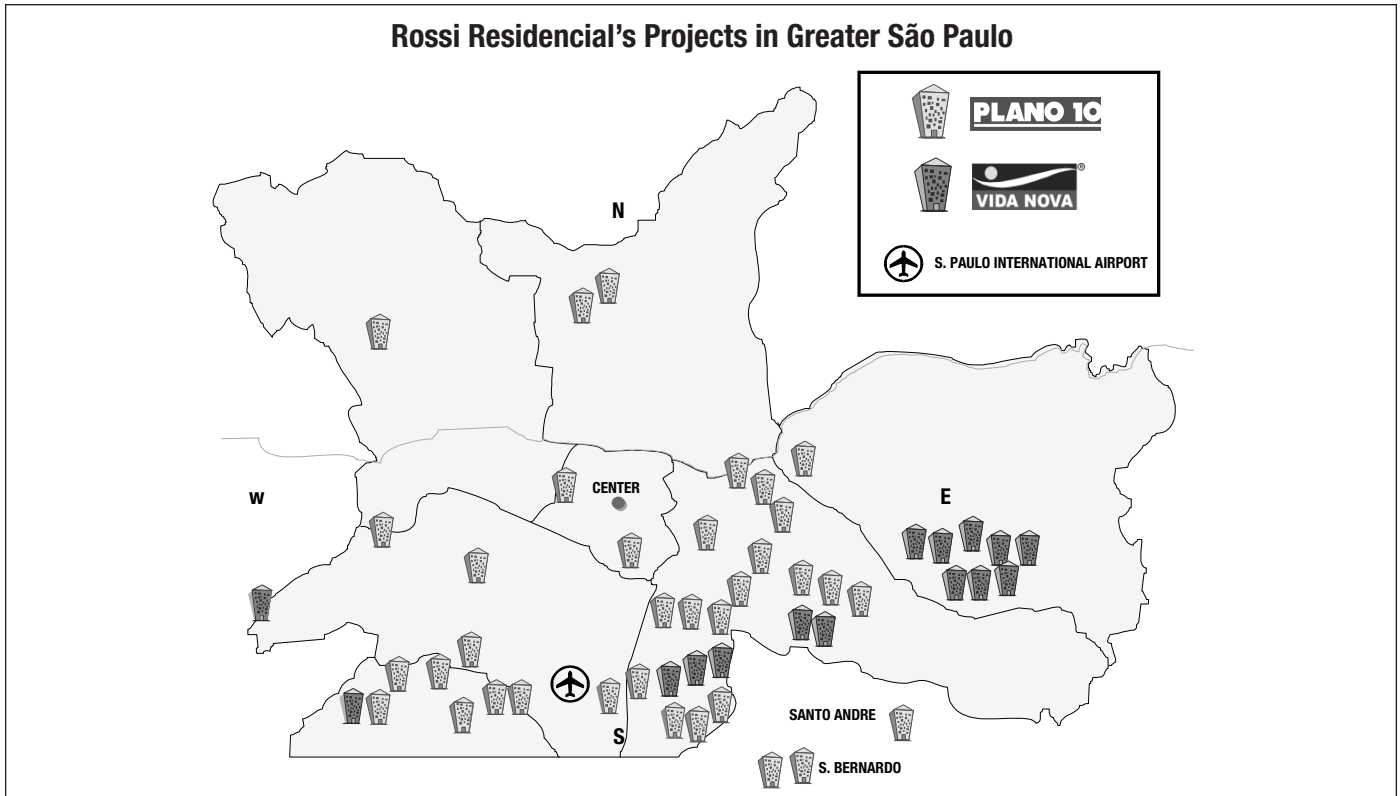
Loans	93
Balance	R\$4,004,999.48
Share	100%
Coupon	IGPM+12.68%
1st Liens	100%
Average Balance (O/S)	R\$43,064.51
WA Orig. LTV	Na
WA Cur. LTV	59%
Cur.LTV=70%	21.2%
Cur LTV=>75%	11.6%
DTI	20%
Single Family	0%
Condo	100%
Townhouse	0%
Full Documentation	100%
Owner	100%
Purchase	100%
Home Improvement	0%
Rate Term	0%
New Construction	0%
WA Term to Maturity	69
Property Insurance	100%
Credit Life Insurance	100%
Geographic Distribution:	
- São Paulo	100%
Seasoning	21 months

*Chart 2*  
**Loan Delinquency History**



**Highly Liquid Properties**

The securitized pool has a high percentage of condos, which in the case of São Paulo, is a positive, as — for this level of obligor — these homes are highly liquid when compared to single family homes. Loans are concentrated in São Paulo as shown in the map below. This concentration does not have a negative impact because the city is economically robust and diversified.

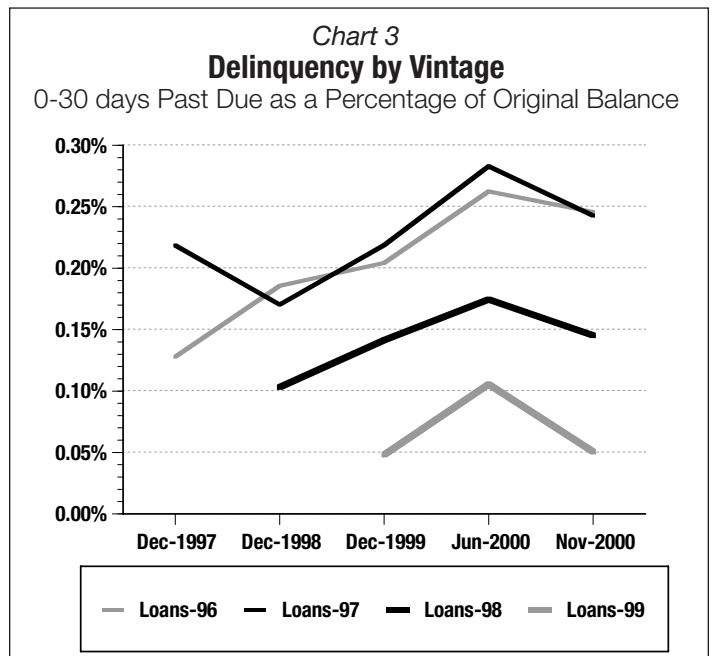


**No Significant Risk Associated with the Index-Denominated Mortgage Loans**

The fact that the loans are denominated in Reais and indexed to IGPM, while the obligors' incomes are denominated in Reais but not indexed to IGPM, is a potential risk. Moody's assessed whether, if Brazilian interest rates go up, the obligors' payment obligations under the mortgage loans could increase significantly, putting financial pressure on the obligor and possibly increasing the frequency of default in the portfolio. The very low average DTI ratio of the obligors, the high percentage of "A quality borrowers" (zero times delinquent in the last 12 months), and the credit support partially offset the risk impact of high interest rates.

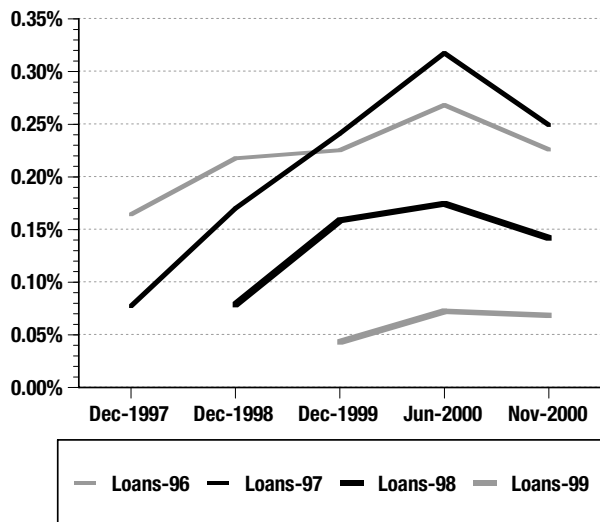
**Strong Historical Performance**

The historic performance of Rossi's mortgage loan portfolio has been fairly strong. To date, no losses have occurred on the portfolio and delinquencies, thus far, are low (see *Charts 3, 4 and 5*). The absence of loss experience in the portfolio is primarily attributable to Rossi's real estate purchase and sale agreements with the borrowers. This contract is a promise to sell the property to the borrower after the borrower makes the full payment. If the borrower fails to perform the payment obligation, Rossi has the right to evict the borrower quickly and resell it to someone else.



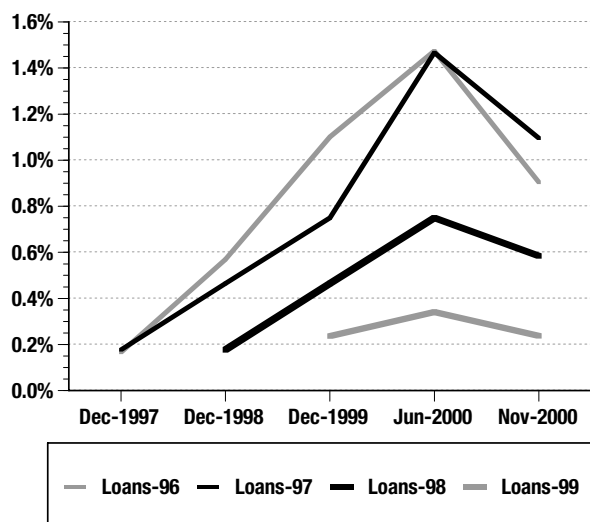
**Chart 4**  
**Delinquency by Vintage**

31-90 days Past Due as a Percentage of Original Balance



**Chart 5**  
**Delinquency by Vintage**

91 + days Past Due as a Percentage of Original Balance



The faster foreclosure process under the new law will significantly decrease the severity of loss associated with a defaulted loan by reducing the interest costs of carrying the loan, minimizing any deterioration in the condition of the property and reducing the time the property is exposed to declining real estate markets.

In addition, Moody's considered factors specific to Brazil, including the possibility of an increase in interest rates and the likelihood and duration of any future economic downturn. The analysis centered on the effect these variables could have on the ability of the obligor to make scheduled interest and principal payments; and thus on the performance of the issuer's portfolio.

The performance of the transaction depends greatly on the performance of the Brazilian economy as well as on the stability of the interest rates in Brazil. Currently Moody's Sovereign area rates Brazil's foreign currency debt obligations **B1**, and local currency debt obligations **B1**. This rating indicates that the Brazilian economy and the interest rates could be subject to

Furthermore, these pools were able to endure significant stress resulting from the effects of the Russian and Asian crises in 1998 and the Brazil devaluation in 1999.

In general, Rossi's low loss experience can be attributed to its superior servicing expertise and its ability to work out defaulted loans. Rossi's superior servicing expertise results from the company's strong niche position in the mortgage and construction market.

There can be no assurance that the performance of the securitization will reflect the performance of Rossi's current portfolio because of the changing economic and political environment. Thus, to estimate an expected loss of this securitization, an analysis of the delinquent contracts in the portfolio was performed and a probability of default was assigned. Moreover, all contracts in the securitization were exchanged to new contracts under the SFI system (please see *Legal Considerations* section).

### **Credit Enhancement**

#### **Evaluation of Expected Mortgage Loan Performance Reveals Stability for Class A in a Downturn:**

In assigning the preliminary rating to the Class A Notes, Moody's had to determine the expected loss for the portfolio of mortgages. To determine the expected loss, which is a measure of probability of default and expected recovery, Moody's analyzed the historical performance of the issuer's portfolio as well as performance indicators common to all mortgage loan transactions.

These include:

- Geographic distribution of obligors;
- Property type;
- DTI;
- LTV;
- Distribution by contract rate;
- First Lien; and
- Historical recovery rates and time to foreclosure.

significant variation over time. However, Moody's determined that the low LTVs of the mortgages, the conservative underwriting standards used by the originators, the low DTI ratios, and the 15% subordination are sufficient to protect Class A investors from adverse performance in the Brazilian economy or its housing markets.

Also contributing to the available credit support is the reserve and liquidity account.

## **LEGAL CONSIDERATIONS**

### **True Sale**

Law 9514 provides that the transfer of the loans to the securitization company will be, under certain defined circumstances, a "true sale." This means that the bankruptcy of the originator or seller will not have an effect on the securitization company. Therefore, the assets of the securitization company will be legally insulated from any claims by the creditors of the bankrupt seller/originator.

### **Dedicated Payments Avert Risk of Involuntary and Voluntary Bankruptcy**

The mortgage loans backing each note will not be subject to any claims or liens by either the creditors of the securitization company or the creditors of other notes issued by the same securitization company. Each note clearly defines which pool of mortgages are backing it, and those mortgages can pay only those notes. This mitigates the risk that creditors of the bankrupt seller/originator, in this case, Rossi's creditors, could try to claim those mortgages.

### **Creation of a First Priority Perfected Security Interest**

To become effective against third parties, a filing has to be made with the public registry in the jurisdiction where the obligor is domiciled. The investor will own the title of the property and the right to receive the mortgage payments and any proceeds of any insurance policy covering the property. To assure the first priority the notary public gives notice to the public registry that an agreement has been entered into. Such notice serves, as an application to obtain a no-lien certificate and is effective for 30 days. This protects the property from any additional registered liens.

The above-mentioned step assures to investors that they are able to seize the property and convert it to cash if the obligor defaults.

### **Foreclosure Procedures Improved**

A significant change introduced by new law is the ability to seize and liquidate the property in a more timely and efficient manner should the obligor default. Earlier mortgage loans were not attractive to lenders because of the obstacles to foreclosing on defaulting obligors, which sometimes delayed foreclosure for as long as seven years.

Under law 9514 the foreclosure process takes the form of a trustee sale (allowed under the *alienação fiduciária* or *deed of trust form of mortgage*) that allows the creditor to take possession of the property in a timely manner if a obligor defaults. Procedures to recover the credit are extrajudicial (out of court) and therefore easier to effect, as compared with the previous judicial foreclosure procedure.

Under the *alienação fiduciária* the property is held in the name of investors. It is estimated that the new law will reduce the expected time to foreclosure from an average of three years to 90 days. While these reforms are an important step forward, it remains to be seen how well the foreclosure procedure will work in actual practice. The analysis assumes a much more stressful scenario of foreclosure of around 30 months.

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## STRUCTURE SUMMARY

### Structure

Issue Size: R\$4,004,999.48  
Originator: Rossi Residencial  
Issuer: Brazilian Securities  
Servicer: Serviço Financeiro Imobiliário  
Back-up Servicer: JCB  
Trustee: Oliveira Trust Distribuidora de Títulos e Valores Ltda.  
Custodian: Serviço Financeiro Imobiliário

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